Sierra Leone

EPA Impact Study

Project # 112 – Sierra Leone

DRAFT FINAL REPORT

February 2006

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SIERRA LEONE EPA IMPACT STUDY

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Executive Summary

Introduction and brief Context of the study

The Cotonou Partnership Agreement foresees setting up free trade, Economic Partnership Agreements (EPAs), between ACP states in various regions, and between the EU and regional ACP configurations. Consequently, the preferential system for ACP export products entering the EU market will be replaced by a trade agreement based on reciprocity. The EPAs are envisaged to include mutual access to each others' markets, liberalisation of trade in services, a regulatory agenda to promote investment and competition, and institutional provisions to facilitate trade as well as related technical and financial assistance for trade and development. ACP countries therefore will have to progressively open up their markets to European imports, including agricultural products. The liberalisation process will be guided by the principles of asymmetry and flexibility in terms of product coverage and tariff dismantlement periods. Moreover, EPAs will also encompass trade-related issues such as technical barriers to trade, sanitary and phytosanitary (SPS) measures. Negotiations are also foreseen on more controversial issues such as trade facilitation, competition policy, government procurement, investment and intellectual property rights, which the EU argues will help reinforce ACP regional integration.

The overall objective of the project is to facilitate the preparation of Sierra Leone for its effective participation in the EPA negotiations and to build appropriate and corresponding capacity within the Government, the private sector and civil society. The project has contributed to this process through the conduct of an impact assessment study and the organisation of a validation seminar. The purpose is to help the country determine its negotiation strategies and the appropriate flanking policies that will have to be put in place. Indeed, with the advent of the EPA, the Government will have to manage the adjustments that would result from trade liberalisation with the EU while at the same time pursuing its national development goals.

The data on Sierra Leone trade and productive sectors are not sufficiently robust to allow detailed economic modelling of the trade and economic effects of the proposed EPA. An attempt has been made to estimate these effects. This is the first study on EPA impact involving Sierra Leone that has provided quantitative estimates of EPA impact on Sierra Leone. For data limitation, the quantitative part of the study focused mainly on the direct trade effect of an EPA – without embracing trade related aspects, possible accompanying policies and measures, adjustement cost and other broader (ie, dynamic) effects on Sierra Leone Economy. Hence the study provides only partial assessment of the ultimate impacts of EPA as data unavailability and quality prevent the use of dynamic models.

Main Findings

Key Features of the Economy

After experiencing an average annual growth rate of 4 percent in the 1960s, the Sierra Leone economy experienced two decades of progressive decline mainly due to external shocks, poor economic management, unsustained economic reforms and poor governance. By 1990, over 80 percent of the population lived below the poverty datum line. This was the precursor of the 1990s decade of civil war which compounded the adverse legacies of the previous two decades of economic decline and mismanagement. Destruction from the eleven-year war (1991-2002) combined with two decades of pre-war economic mismanagement, had left the country in total ruin. Most of Sierra Leone's economic and physical infrastructure was destroyed by the war. Mining, was halted, farms abandoned, tree crop plantations and lowland rice fields returned to bush or mangrove. Most of the rural social infrastructure virtually stopped functioning, with large-scale destruction of education and social infrastructure. The result was that at the end of the war, the basic infrastructure (physical, institutional, socio-political, and human) within which institutions and enterprises operated were either inadequate or in most cases non-existent. This then became the major obstacle to investment, especially the pervasiveness of poor and deteriorating road infrastructure, inadequate and unreliable communication systems, and water and electricity supplies breakdowns.

The current post-conflict situation is characterised by a depleted infrastructure, a depressed economy, a deeply traumatised population by the atrocities of the predatory war, and a lack of basic social services resulting in a fragile social security. GDP per capita estimated at $237 in 1990, declined to about US$130 in 2003 in real terms, Sierra Leone is well below the average for sub-Saharan African countries. Furthermore, it ranked last in 2004, for the fourth consecutive year, among the 147 countries surveyed in the United Nations' Human Development Index.

A distinct feature of the current structure of Sierra Leone's production sector is the lop-sided (irregular?) nature of its patterns and size of production, consumption and trade.

Currently, Sierra Leone's economy is based on natural resources related to traditional exports, mainly minerals, with a potential for fish products exports. It is, expected that this picture will remain the same until Sierra Leone develops and expands non traditional, mainly agro-based exports and achieve some degree of diversification of manufactured products.

In the agricultural sector which accounts for up to 50 percent of the GDP[1], efforts are being made to strengthen production of rice, the country's major staple and most important food crop and other edible products, e.g. piassava and palm oil. The factors behind low productivity of agricultural products include insufficient funds for research, poor road network, lack of modernised farming practices and the poor extension services resulting in slow rate of dissemination of research technologies to the farming communities. There is potential for increasing the production of the two major export crops, cocoa and coffee.

Trade Policy

Sierra Leone's trade policy is part of its more general strategy of poverty reduction and in line with its ECOWAS commitments. A key feature of the government's efforts to increase and sustain growth rates is through the establishment of a liberalised trade regime. Trade policy development and instruments have taken into account fiscal and reform-related priorities such as: (i) the consolidation of regional economic integration; (ii) the restarting of exports of mineral resources; (iii) the diversification of agricultural output and exports (e.g., rice); and (iv) the creation of an industrial free zone.

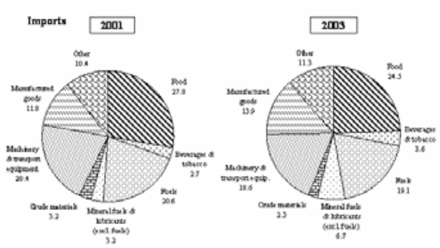
Sierra Leone's trade policy must address the issue of the country's excessive reliance on a few exports, which makes it highly vulnerable to external shocks. Increasing and diversifying the production and export of non-traditional goods, are

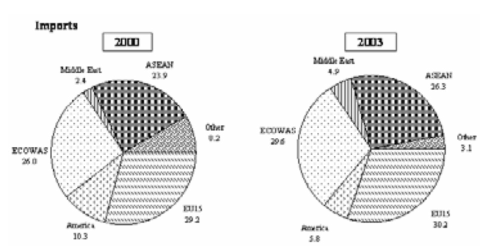
[1] Saccoh and Pessina (2005), p. 35.

therefore priority goals for the country if it is to maximise the potential benefits from deeper integration into the world economy. Sierra Leone is confronted by a wide range of constraints and capacity gaps in its effort to pursue effective trade policy formulation and exercise its rights and obligations in international and regional trade.

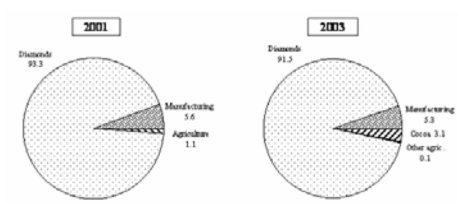
Trade flows

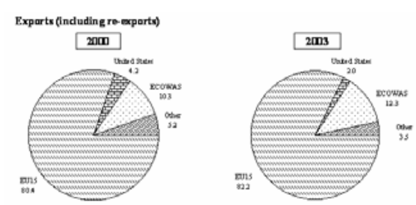
With an underdeveloped manufacturing sector, Sierra Leone imports manufactured products and exports commodities. It is a price-taker in international markets. Sierra Leone's export base is highly concentrated in a few primary commodities, with very little processing or manufacturing. Sierra Leone imports a wide array of items, with heavy concentration in petroleum, machinery and transportation equipment, chemicals, and foodstuffs. For Sierra Leone to make a dent on the poverty situation, it needs to revive existing exports, work towards export diversification, and create a supportive environment for local entrepreneurs to invest in competitive industry.





Sierra Leone's direction of trade is concentrated on a few external markets. Partly for historical reasons, the EU is Sierra Leone's largest single trading partner, buying an average 80% Sierra Leone's merchandise exports and providing 30% of its merchandise imports. The trade relationship between Sierra Leone and the EU is thus important for the region's development, and proposed free trade agreements (FTAs) under the planned Economic Partnership Agreements between the EU and ECOWAS could have a significant impact on Sierra Leone.





In contrast, trade between Sierra Leone and the EU is much less important for the EU than it is for Sierra Leone because the EU's economy is much larger than the economy of the Sierra Leone. Sierra Leone accounts for only 0.04% of the EU's total merchandise exports and 0.04% of its merchandise imports.

Thus, the impact on the EU of free trade arrangements with Sierra Leone (via ECOWAS) is likely to be quite limited and much easier for the EU to adjust to than for Sierra Leone. The differences in economic size and the relative importance of EU-Sierra Leone trade to the two sides would give the EU a much stronger bargaining position than Sierra Leone if the negotiations were conducted strictly on commercial terms.

Sierra Leone is eligible for non-reciprocal preferential treatment from several industrialised countries. In particular, Sierra Leone is eligible to preferences into the EU market for all ACP countries and those awarded under the Everything But Arms (EBA) initiative. It appears that the impact of the civil war, the focus of the productive sectors on meeting the local demand and the lack of market information have led to a very low rate of utilisation of the existing preferences.

Impact on trade

Based on a partial equilibrium model which allows highly detailed studies of the impact of trade policy changes to be made, the estimation of trade creation and diversion and the changes in import duties, this study has been conducted at the two-digit HS level.

In the case of the proposed EPA, a major impact on Sierra Leone export is not likely, since most Sierra Leone exports already enter the EU market duty free, so that any improvement in market access that may be agreed will apply only to a relatively limited range of products. The main effect is therefore likely to be on Sierra Leone imports from the EU. In other words it is reasonable to say that the trade effect of the EPA on Sierra Leone would be felt more on the import side rather than exports. This is because the country already has unutilised trade preferences with the EU. Thus, the EPA will place European imports as a major competitor against domestic production as well as put EU imports at an advantage relative to non-EU trading partners. In other words, there are potential trade creation and trade diversion effects from the EPA.

		Trade creation		Trade diversion		Total trade effect	
	Scenario	millions. US$	% of preferred imports	millions. US$	% of preferred imports	millions. US$	% of preferred Imports
Sierra Leone	Low	8.4	2.8%	2.2	0.8%	12.9	4.4%
	Mid	12.5	4.2%	4.1	1.4%	21.3	7.2%
	High	16.5	5.6%	6.0	2.0%	29.4	10.0%

Sources: Computation

Fiscal Impact

First, the country runs a significant budget deficit of almost 12 per cent of GDP. Second, in Sierra Leone, import duties as a percentage of total government revenue is 46.6 per cent and import duties as a share of GDP is 5.8 per cent. As evidenced by these two indicators, the country is highly dependent on import duties to finance government expenditure.

Third, import duties become more apparent if the relative magnitude of imports and protection levels of Sierra Leone vis-à-vis imports from the EU are taken into account. 30% of Sierra Leone's purchases came in 2003 from the EU and the share of EU imports in GDP is 10.5%. This indicates a moderate dependency on EU imports compared to other ECOWAS member countries where on average, one half of total imports are from the European Union. In The Gambia for example the share of EU imports in GDP is about 36.4%.

Fourth, the import-weighted tariff rate for EU imports, which give an impression of the protection levels of the country vis-à-vis total imports and EU imports with respect to tariff barriers, is 16.7 per cent, indicating high levels of tariff protection.

	Government deficit (-) / surplus (+)		Import duties		Imports from the EU		Tariff rate	
	(incl. grants) % of GDP	(excl. grants) % of GDP	% of GDP	In % of government Revenue[1]	% of GDP	% of total imports	total imports %[2]	EU imports %[2]

Sierra Leone	-11.4	-18.6	5,8	46,6	10.5	30	16.9	16.7
Ecowas	-4.6	-8.9	2.5	14.7	16.3	49.3	12.0	12.0

Sources: World Bank (2004b), UNCTAD (2004), ITC (2004), WTO Trade Policy review (2005) and own calculations.
Notes: 1 Excluding grants.

Import revenue constitutes a significant proportion of fiscal revenue. The country is heavily dependent on tariff revenues as import tariffs amount to 5.8% of GDP and account for over 46% of government revenues.

The simulation reveals, as indicated in the table below, that Sierra Leone will be particularly affected with an estimated decline in total government revenue ranging from 31.3 per cent, in the low scenario to 34.2 per cent in the high scenario. As a share of GDP, the percentage figures amount to 1.8 per cent (low scenario) and 2.0 (high scenario). In absolute terms, the decline in import duties ranges from US$ 18.0 million in the low scenario to US$ 19.7 million in the high scenario.

	Decline in import duties			
Scenario	mill. US$	% of total import duties	% of total government revenue	% of GDP
Low	18.0	31.3	14.6%	1,8%
Med	18.8	32.6	15.2%	1,9%
High	19,7	34.2	16.0%	2,0%

The projected revenue loss for Sierra Leone is relatively large largely due to the combination of many factors including: (i) significant budget deficit; (ii) high dependence on import duties to finance government expenditure; (iii) the relative magnitude of imports and protection levels of Sierra Leone vis-à-vis imports from the EU; (iv) high import-weighted tariff rate for EU imports; (v) high concentration index of import revenue in Sierra Leone.

Impact on Poverty

Trade liberalisation (tariff reduction) will affect poverty through its impacts on government revenue, the prices of products and the income of households. When tariffs are lowered government import tax revenue is reduced. As the government's ability to render service depends on its revenue, this will negatively affect government's capital and recurrent expenditure.

Sectoral Impact

As a LDC Sierra Leone is conferred to "differential and more favourable treatment" in the form of longer compliance periods and EBA, her main productive sectors and especially agricultural products will be affected by EPAs, through the loss of competitiveness thereby reducing the much-needed foreign currency in the economy

Recommendations / Conclusions

Like other ECOWAS countries, Sierra Leone faces an enormous challenge in view of the likely impact of the EPA with the EU and considering the alternative policy options available. A final decision has to be taken under a high degree of uncertainty.

This is mainly due to severe analytical restrictions in balancing economic and non-economic costs and benefits. It appears that the commitment to structural adjustment for the country, as well of the regional grouping as a whole, plays a decisive role in decision making. There are less challenging alternatives to an EPA, like taking further advantage of unilaterally granted EU preferences. This would sustain full autonomy as to the size and depth of trade liberalisation and related structural adjustment measures. On the other hand, an EPA could be considered as a historic chance to lock in economic reforms, which are required anyway as integration into the word economy is part of the development strategy.

Thus, an EPA would provide an impetus to implement such a policy effectively. However, lessons from other regional integration initiatives including the European case illustrate the need for a gradual and country-specific approach in trade liberalisation and a proper sequencing of complementary, compensatory and institutional measures to counter possible negative repercussions of integration. Trade liberalisation is not necessarily the first step, but should be well prepared and perceived as a part of an overall package of reforms.

1. Purpose and Approach of the Study

1.1 Background

The Cotonou Agreement provides for transitory trade agreements, which entail continuation until December 2007 of the non-reciprocal preferences accorded to the ACP countries under the 4th ACP-EU Convention. Conceptualised as vehicles to promote development while bringing EU-ACP trade relations into compliance with WTO rules, the EPAs in ACP would have as their centrepieces negotiated reciprocal preferential trading arrangements between regional trading blocks and the EU. The ACP Group and the EU have agreed to negotiate new WTO compatible Economic Partnership Agreements (EPA) between September 2002 and December 2007. These will provide for the progressive removal of barriers to trade between the two parties and the enhancement of cooperation in all areas related to trade.

The rationale for a new approach aimed at altering the trade relation between the EU and ACP countries was based on the following observations:

- The longstanding system of non-reciprocal trade preferences under successive Lomé conventions since 1975 has not promoted the sustainable development or the integration of the ACP into the world economy as intended by the Cotonou Agreement. Over the past few decades, the ACP countries' share of world trade has continued to drop.

- Supply side constraints have prevented the ACP countries from taking advantage of the preferential market access granted to them by the EC and the other developed countries.

- WTO rules do not allow the indefinite continuation of the existing trade arrangements (Annex V of the Cotonou Agreement "trade regime applicable during the preparatory period referred to in Article 37:1") which are covered by a waiver and due to expire at the end of December 2007.

- The potential offered by national, regional and non-EU international markets have not been integrated into the EU-ACP trade cooperation strategy. The need to broaden the ambitions of the new agreement through further product and market diversification has been acknowledged by both parties.

- As a result of the globalisation of markets, tariffs have been losing their trade significance while non-tariff measures such as standards, veterinary, sanitary and phytosanitary rules or environmental protection measures are gaining prominence. To effectively support the integration of the ACP into the world economy, future EU assistance programme must include interventions aimed at ensuring that exports by the ACP are not constrained by these technical requirements.

- Economic and trade cooperation must be designed as a tool to enable sustainable development and hence contribute to the goal of poverty reduction in the ACP countries.

The EPA, which is the instrument developed to deliver the new approach to EU-ACP economic and trade co-operation, is based upon four principles.

I. **Partnership -** The Agreement is for bilateral free trade with rights and obligations on both sides. These include the need for the ACP states to implement appropriate policies to strengthen their supply side capacity and to reduce transaction costs in order to improve on the competitiveness of their production systems.

II. **Regional Integration -** This approach is seen as a powerful stepping-stone to foster integration into the world economy. The general principle is hence that the EPA will be concluded with existing regional free trade areas.

III. **Development -** EPAs must above all be a tool for development. They should be designed with the flexibility to take account of the economic, social and environmental constraints of the ACP countries as well as their capacity to adapt to the new trading environment.

IV. Link to WTO - Given that EPAs are intended to act as stepping-stones for the ACP's integration into the world economy, they must be WTO-compatible.

The above entails that the ACP countries will have to progressively open up their markets to European imports, including agricultural products. The liberalisation process will be guided by the principles of asymmetry and flexibility in terms of product coverage and tariff dismantlement periods. Moreover, EPAs will also encompass trade-related issues such as technical barriers to trade, sanitary and phytosanitary (SPS) measures. Negotiations are also foreseen on more controversial issues such as trade facilitation, competition policy, government procurement, investment and intellectual property rights, which the EU argues will help reinforce ACP regional integration.

The EPAs could, if designed and implemented in their most development-friendly form, have a profound positive impact on trade – and incomes – in ACP countries. If the EPAs provide enhanced market access to the EU, tear down external and intra-regional trade barriers in the regional EPA groupings, and reduce institutional frictions to trade, the development gains could be great. Realising the potential of this substantial development stimulus, however, requires surmounting some important obstacles.

1.2 State of Play of the Negotiations

As an LDC entitled to the Everything but Arms (EBA) initiative[2], Sierra Leone has opted to negotiate an EPA as part of the ECOWAS group of countries. The new agreement should come into force by 1st January 2008 and the timeframe for its implementation will be defined in the negotiation. As stated in Article 37.3 of the Cotonou Agreement:

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[2] The EBA Initiative is part of the EU's General System of Preferences (GSP) and is compatible with WTO's enabling clause as it grants special preferences to a permissible grouping of countries; the LDCs. It grants quota-free and tariff-free access to the EU market for all products except arms without the LDCs' having to give preferential access to the EU in return. Implementation of full market access is immediate except for transition periods for bananas, rice, and sugar, for which tariff-rate quotas restricting LDC exports of these products to the EU are to be phased out over the next eight years. In contrast to the EU's broader GSP, which is revised every three years, the EBA Initiative runs for an unlimited period and is not subject to periodic reviews. Market access is thus more secure under the EBA Initiative than under GSP and is presumably more likely to encourage investment in new exports for this reason.

> "The preparatory period shall also be used for capacity-building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as for infrastructure upgrading and development, and for investment promotion."

The first phase of the EPA negotiations was conducted at the all-ACP level and addressed horizontal issues of interest to both parties (technical standards, SPS, customs tariff, services etc.). On 2 October 2003 the ACP Council of Ministers and the then EC Commissioners for Trade and Development declared the results of the first phase satisfactory in view of the high degree of convergence achieved[3]. The main point of divergence was over requests for additional funding beyond the EDF's allocations and the sequencing of support to build the required capacity. The second phase of negotiations for West Africa[4] (i.e. ECOWAS plus Mauritania) was launched in Cotonou on 6 October 2003. The work planned for 2006 should lead to the endorsement of the text of the agreement by the ministerial meeting scheduled for the end of the year. It is also foreseen that the negotiations for the liberalisation of trade in goods will be launched while the schedule and priority sectors for liberalisation of trade in services will be decided. The manner in which the above issues are resolved will have important implications for the development impact of the EPAs.

1.3 The Objective and Methodology of the Project

The overall objective of the project is to facilitate the preparation of Sierra Leone for its effective participation in the EPA negotiations and to build appropriate and corresponding capacity within the Government, the private sector and civil society. The project has contributed to this process through the conduct of an impact assessment study and the organisation of a validation seminar. The purpose is to help the country determine its negotiation strategies and the appropriate flanking policies that will have to be put in place. Indeed, with the advent of the EPA, the Government will have to manage the adjustments that would result from trade liberalisation with the EU while at the same time pursuing its national development goals.

Critical to the impact assessment process was the consideration of Sierra Leone's current socio-economic situation and the numerous supply-side constraints the country's productive sectors are faced with.

[3] In fact, there appears to have been little agreement on many key issues between the ACP and the EU and even disagreement on some issues within the ACP itself. Issues that were still under discussion at the end of Phase I included: WTO-compatibility; the definition of the parties to the EPAs and the treatment of non-LDCs not entering into an EPA; rules of origin; technical barriers to trade (TBT) and sanitary and phyto-sanitary (SPS) issues; safeguards, anti-dumping, and dispute settlement; commodity protocols; an ACP-EU framework agreement on fisheries; the fiscal, economic, balance of payments, and social implications of EPAs;

[4] A FTA has been adopted by the ECOWAS members, but its implementation has been very limited thus far. ECOWAS plans to create a customs union, with the non-UEMOA countries adopting a 3 rate CET similar to UEMOA's CET by 2008, when the EPAs are supposed to come into effect, and thus in principle can negotiate a common EPA. However, Nigeria's economy is larger than that of all of the other ECOWAS countries put together, its trade policy is currently much more restrictive than that of the UEMOA, and it is an open question whether Nigeria will implement the ECOWAS CET any time in the near future. If full implementation of the ECOWAS customs union is substantially delayed, negotiation of the West Africa EPA could be more complicated than currently envisaged.

The methodology (See Annex 5 for more detail on the methodology) of the study included the following:

- In-depth interviews with stakeholders from the public and private sectors and civil society[5].
- A desk-review of studies and reports already completed[6].
- Collection and analysis of socio-economic data at the sectoral and national levels.
- A detailed analysis of trade and tariff data to identify products in which market access may change as a result of the EPA. This analysis has been carried out to the extent possible given the limitation on well documented trade data. Where possible, currently traded goods and those that might start to be traded as a result of the tariff cuts have been identified. The consultants have used a partial equilibrium model to estimate the fiscal impact, the trade creation and diversion effects.
- A survey of a sample of firms that might be affected by the EPA in order to identify their expectations of the likely impact.

Specifically, the activities of the study have been designed to help identify:

- the ways in which fiscal and other socio-economic adjustments need to be carried out;
- the amount of fiscal revenue likely to be foregone and trade-offs between socio-economic costs and benefits;
- the measures and resources that are required to ensure that the private sector operates in a more competitive environment; and
- the type of industries/sectors or sub sectors that need to be developed taking into account the comparative and potential competitive advantage of the country.

A validation seminar has been organised on 18 January 2006 to present the report of the impact study including key recommendations and more importantly to obtain feedback from stakeholders for incorporation into the final report.

[5] A list of the people consulted during the study has been included in Annex 3.

[6] A bibliography has been provided in Annex 1.

2. Economic Environment and Outlook

2.1 Key Features of the Economy

After experiencing an average annual growth rate of 4 percent in the 1960s, the Sierra Leone economy experienced two decades of progressive decline mainly due to external shocks, poor economic management, un-sustained economic reforms and poor governance. By 1990, over 80 percent of the population lived below the poverty datum line. This was the precursor of the 1990s decade of civil war which compounded the adverse legacies of the previous two decades of economic decline and mismanagement. Destruction from the eleven-year war (1991-2002) combined with two decades of pre-war economic mismanagement, had left the country in total ruin. The current post-conflict situation is characterised by depleted infrastructure, a depressed economy, a deeply traumatised population by the atrocities of the predatory war, and a lack of basic social services resulting in a fragile social security. GDP per capita estimated at $237 in 1990, declined to about US$130 in 2003 in real terms, Sierra Leone is well below the average for sub-Saharan African countries. Furthermore, it ranks last among the 147 countries on the 2004 United Nations' Human Development Index[7], being ranked last for the fourth consecutive year.

Table 1: Poverty and Social Indicators of Sierra Leone and ECOWAS

Country	HDI[a] value2001	Population mid-year (mill.) 2002	GNI per capita (US$)2002	Poverty[b] (%) 1993-2000	Life expectation at birth (years) 2001	Infant mortality (per 1000) 2001	Illiteracy rate[c] (%) 2002
Sierra Leone	**0.275**	**5.2**	**140**	**57**	**34.5**	**182**	**-**
ECOWAS Average[d]	**0.430**		**314**	**49**	**49.7**	**109**	**53**

Sources: World Bank (2004ab), UNDP (2003).

Notes: [a] *Among the 15 poorest countries in the world, measures by GNI per capita, five are from the West African Region (Guinea-Bissau, Liberia, Mali, Niger and Sierra Leone). Also, the Human Development Index (HDI) for West Africa is among the lowest in the world. If low life expectancy rates, high poverty, infant mortality and illiteracy rates are taken into account as well, the relatively low levels of development of the region becomes even clearer.*

[b] *Percentage of population living under US$ 1 a day.*

[c] *Percentage of population 15 years of age and above that is illiterate.*

[d] *Unweighted averages, except GNI per capita, which is weighted by the population*.

The evolution of Sierra Leone's current economic features is grounded on the government's efforts to turn around the country's economic misfortunes. This has been based on a wide range of comprehensive economic and structural reforms aimed at stabilising the economy and laying a sound basis for sustainable economic growth. However, the country's slowly emerging economy, particularly its real sector is characterised by heavy dependence on a narrow product range of primary sector production, the mainstay of which are the agricultural, minerals and fisheries products.

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[7] Sierra Leone: Selected Issues and Statistical Appendix, 2004 International Monetary Fund – IMF Country Report No. 04/420, December 2004, p.5.

The distinct feature of the current structure of Sierra Leone's production sector is the lop-sided nature of its patterns and size of production, consumption and trade. The private sector plays a major role in the economy of the country, but it is dominated by small groups of foreign based communities and is concentrated on trading activities rather than manufacturing. There is a small import substitution oriented manufacturing activities, with very little exports thus making the country heavily dependent on imports for its survival.

Sierra Leone has built a long and sustained record of trade liberalisation and unilateral tariff reforms aimed at simplification of its tariff structure and reduction in rates. Though playing a major role in the economy, the private sector has not responded to the country's trade liberalisation efforts. A major reason for this inertia may lie in the character of the country's private sector, particularly its domination by small groups of locally entrenched but foreign-oriented business communities and its concentration on trading rather than manufacturing activities.

Sierra Leone's key players in the private sector are the Chamber of Commerce, Industry and Agriculture (SLCCIA) and the APEX whose associate members are: the Indian Mercantile Association, the Sierra Leone Indigenous Business Association (SLIBA), the Lebanese Community, the Fullah Community, the Sierra Leone Manufacturers' Association, and the Sierra Leone Importers Association. Though historically fraught with these mainly non-indigenous interest groups, recent attempts by the private sector to unify its positions regarding the key issues facing the sector are encouraging as seen by the recently formed 'Private Sector Forum'[8], which seeks information in order to form strategies on key issues such as:

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- Infrastructure
- Administrative barriers
- Taxation
- Banking and finance, and
- Governance, corruption and political stability.

Quite unlike developments in capitalist economies which are increasingly being organised in a variety of different business systems and global commodity chains approaches, building on distinctive institutional contexts and through co-ordination of economic activities across national boundaries, the majority of Sierra Leone's productive sectors, particularly industrial production, are still predominantly producing in isolation of each other even at the domestic level.

Sierra Leone has not yet come up with a comprehensive private sector development policy framework that addresses trade and investment issues, and enables companies to streamline and focus their production, concentrating on high value products and higher margin activities. Elsewhere in Africa, it was under this rationale, that in response to changes in the international market for sugar, Mauritian companies were encouraged to adopt strategies to meet their export quotas. This was achieved by using less land and grouping small planters to raise productivity, by increasing productivity and effectiveness and introduction of high-yielding cane varieties. Three of Sierra Leone's key sectors can go through this route of innovation and export diversification. Trade and industrial policy should aim at encouraging innovative firms operating in the agricultural, mining and fisheries sectors to adopt diversification strategies so that they could produce a wider range of products and services, which are of higher quality.

In its efforts to go along this route, the government has initiated the privatisation of the former Railways Workshop at Cline Town into a multi-purpose complex

[8] Press release by the Private sector representative led by the SLCCIA

established by Gouji Investment and Development Company Limited for the manufacture and repairing of import commodities like generators, tractors, agricultural equipment, building materials, spare parts and household equipments. However, without a comprehensive industrialisation strategy supported by a comprehensive stakeholder involvement, this development can remain an isolated project. There is, therefore, urgent need for the establishment of a national PPP body to spearhead the development of Sierra Leone's industrialisation efforts.

2.2 Recent Developments and Prospects

At the general level, Sierra Leone's economy has in the last two years (2004-2005) been characterised by improved business confidence which stimulated agriculture, mining, construction and service sectors. The foundation of this development, though not yet as solid and predictable enough, is based on positive development in two main fronts, namely:

a) The Government's consistency in emphasising the maintenance of macro-economic stability, poverty reduction and addressing of development issues for long term economic growth; and

b) The continued strengthening of peace, security and good governance and conclusion of the disarmament, demobilisation and reintegration of former combatants.

The government's policy objectives of achieving food security by 2007 and growing of exports have been given a boost with the rise of production of food crops and achievement of real GDP growth of 7.4 percent in 2004 and an estimated of 7.5 percent in 2005. Exports also manifested strong growth especially diamond exports and the prospects for restart of the mining operations of the rutile.[9]

During the first half of 2005, developments in the external sector indicated a worsening in the trade deficit by 17.5 per cent. This was a result of the significant expansion of 19.8 per cent in the total import bill for the period which outweighed the increase of 21.7 per cent in export receipts.[10] This is an indication of an extremely vulnerable economy because of its poor trade performance resulting from dependence on primary production and resource-based sectors, and its narrow export bases as shown below.

Like other African countries, Sierra Leone faces a number of complex constraints while trying to achieve a stronger trade performance, export and market diversification; amongst them:

a) Inaccurate information and lack of effective consultation with the private sector and civil society to develop a clear understanding by all major stakeholders of their interests, the risks and opportunities arising from expanded trade and integration;

b) Lack of analytical resources and expertise to identify the constraints;

c) Weak ownership of the process of trade policy formulation and low capacity to elaborate trade policies that balance risks and opportunities;

d) Trade policy not mainstreamed in the development strategy;

e) Weak coordination of the implementation of trade strategies with all

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[9] BSL – Annual Report and Statement of Accounts for The Year ended 31 December, 2004, pp 1-3.

[10] BSL Bulletin, January-June 2005, p. 2

stakeholders and foreign partners.

Currently, Sierra Leone's economy is based on natural resources related to traditional exports, mainly minerals, with a potential for fish products exports. It is, expected that this picture will remain the same until Sierra Leone develops and expands non traditional agro-based exports and diversification of manufactured products.

2.3 Public Debt

Sierra Leone's total public debt stock which comprises of both domestic and external debt stood at US$2,085.3 million as at end December 2004 having increased by US$19.2 million during the preceding twelve months.

Table 2: Total Public Debt 2003-2004 (in US$ Million)

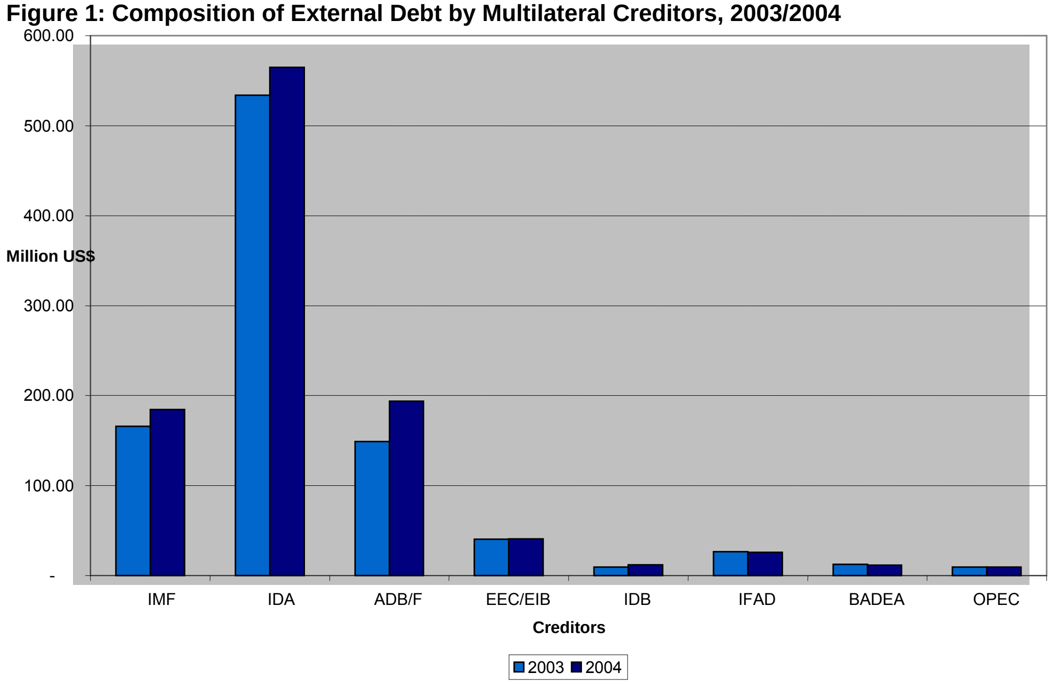
	2003	2004
External	1,637.8	1,712.8
Domestic	428.3	372.5
Total	2,066.1	2,085.3

Source; MoF, Economic Bulletin

External Debt

There was an increase of 4.6% in the external debt stock between 2003 and 2004. This was primarily due to drawings from multilateral facilities to fund rehabilitation and reconstruction projects; the depreciation of the US Dollar also contributed to the increase but this was to a lesser extent. The graph below depicts the contribution of the multilateral creditors to the stock of external debt.

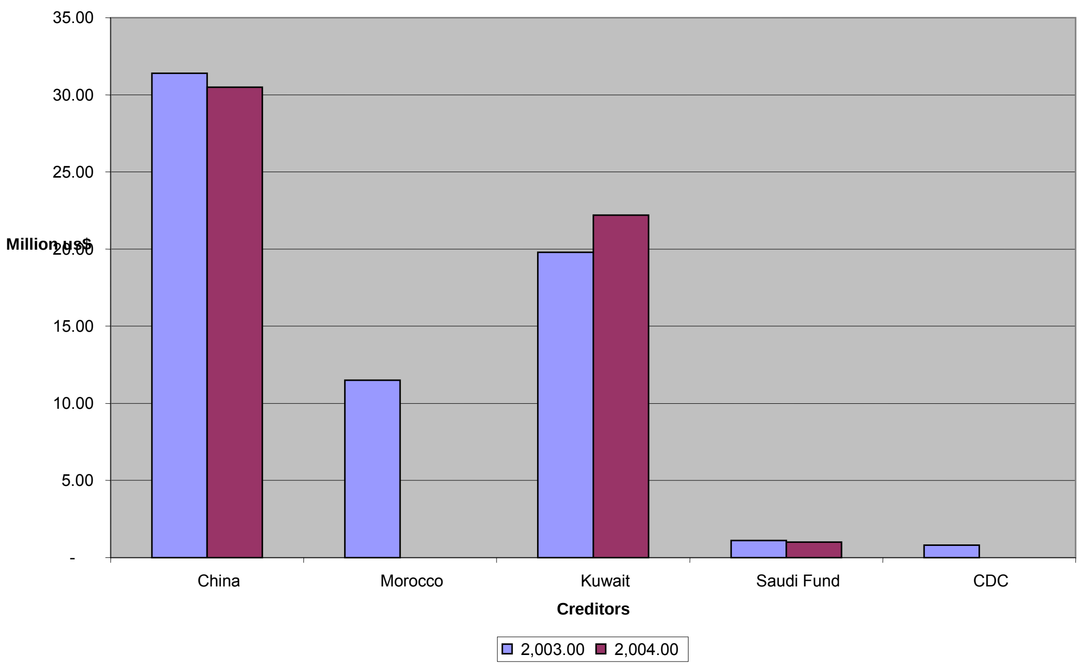
Figure 1: Composition of External Debt by Multilateral Creditors, 2003/2004



Source: MOF, Economic Bulletin 2005

As of December 2004, debt owed to bilateral creditors amounted to US$415.7 million of which the Paris Club Creditors accounted for US$362. The other bilateral non-Paris Club Creditors included China, Kuwait, Saudi Arabia and CDC. In 2004, Morocco and the former CDC granted some debt relief to Sierra Leone. This lead to a reduction in the overall stock owed to this group of creditors. Debt owed to Commercial creditors stood almost unchanged at US$253.6 million in 2004.

Figure 2: Other Bilateral Creditors, 2003/2004



Source: MOF, Economic Bulletin, 2005

Debt Service

As it can be seen from the table below, total external debt service payments (i.e. amortization plus interest payment), fell to US$22.86 million in 2004 from US$ 23.99 in million 2003. This resulted from a reduction in external debt amortization which more than offsets a parallel increase in interest payments.

Table 3: External Debt Service 2003-2004 (in US$ Million)

Debt Service	2003	2004
Amortization	15.88	13.64
Interest	8.11	9.22
Total	23.99	22.86

Source: MoF and BSL

Domestic Debt

Government's domestic debt comprises mainly of 91 days treasury bills, 365 days treasury bearer bonds and Ways and Means Advances. It was estimated at Le 435.9 billion as at end 2004 compared to Le 413.7 billion as at end year 2003. Given this large stock of domestic debt, it is not surprising that corresponding interest payments averaged 25% of domestic revenues in the last two to three years.

External Debt Management and Prospects

According to the budget speech for the fiscal year 2006, the Debt Sustainability Analysis (DSA) undertaken by the Government and the World Bank in April 2005, indicates that Sierra Leone's external debt appeared to be sustainable over the medium to long-term. Furthermore Sierra Leone is expected to reach HIPC Completion Point in the second half of 2006 at which point it is expected that all the country's creditors will commit to further debt relief. Also, Sierra Leone will become eligible to the new G-8 Debt Relief Initiative, which will provide an average annual debt relief of around US$35-40 million from the beginning of Fiscal Year 2007. Interim debt relief delivered to Sierra Leone from March, 2002 to October, 2005 amounts to US$131.3 million.

3. Current Trade and Investment Regime

3.1 Formulation and Practices of Trade and Investment Policies

Trade policy formulation and development

There is now evidence that trade is a powerful engine for growth, and maximising the gains from trade largely depends on the nature of incentives created for domestic producers, as well as on the degree to which Sierra Leone exports can access markets abroad.

Sierra Leone's trade policy is part of its more general strategy for poverty reduction and is in line with its ECOWAS commitments. Sierra Leone's development policy, set out in the National Recovery Strategy (NRS), is captured in VISION 2025. The general economic policy is to promote a stable macro economy, in order to reverse the trend of economic decline caused by the poor security situation, and to ensure an economic recovery. The main objectives of the macroeconomic framework have been to significantly reduce and maintain a low inflation rate, while allowing for the recovery of economic activity and accumulation of gross external reserves. In maintaining a stable macroeconomic environment, poverty reduction and long-term development issues are the government's priorities. A key feature of the government's efforts to increase and sustain growth rates is through the establishment of a liberalised trade regime. Since 2002 there is free movement of goods and services throughout Sierra Leone, which has resulted in linking previously isolated internal markets. The effect is greatly improved resource allocation, beneficial development and growth opportunities.

Responsibility for trade (policy formulation and implementation of WTO, EU, regional trade agreements, compliance with its international obligations etc.) lies mainly with the Ministry of Trade and Industry (MTI).

Effective trade policy has yet to be formulated. However in view of getting a balance between its internal needs and its external obligations, the MTI expects the country's policy objectives to include:

- Encouragement of a robust and competitive private sector for employment generation and wealth creation;
- Development of value-added chains in the production of quality products, and value-added activities in the use of raw materials;
- Development of a vibrant and innovative service sector;
- Reduction of import dependency and enhancement of foreign exchange; and
- Compliance with international agreements including the WTO

Trade policy development and instruments have taken into account fiscal and reform-related priorities such as: (i) the consolidation of regional economic integration; (ii) the resumption of exports of mineral resources; (iii) the diversification of agricultural output and exports (e.g., rice); and (iv) the creation of an industrial free zone.

Sierra Leone's trade policy must address the issue of the country's excessive reliance on a few exports, which makes it highly vulnerable to external shocks. Increasing and diversifying the production and export of non-traditional goods, are therefore priority goals for the country if it is to maximise the potential benefits from deeper integration into the world economy. Sierra Leone confronts a wide range of constraints and capacity gaps in its effort to make effective trade policy formulation and exercise its rights and obligations in international and regional trade. The obstacles include:

- The absence of a consistent and recent series of trade data in national and international databases (IMF, World Bank, UNSD Comtrade, ECOWAS). In April 2004 the Ministry of Trade and Industry established a Policy, Planning and Research Division to coordinate the analysis of data for the Ministry and the collection of data from government sources. The MTI is also seeking further resources for the establishment of a statistical database. Statistics Sierra Leone (SSL) has a Foreign Trade Statistics Section, which processes the data after collection from the NRA.
- Limited knowledge, skills and resources to negotiate effectively, implement trade agreements, meet ongoing trade obligations and defend its trade-related rights. Deficiencies in trade-related expertise, analytical skills and negotiating skills are a result of a limited personnel, limited resources for hiring and retaining talented people, training, and inadequate experience.
- The effectiveness of trade policy-making is also constrained, by limited government and private sector access to information on international trade developments, issues and agreements. The problem is aggravated by the growing international gap in access to information technology. The government lacks reliable mechanisms for ensuring that trade-related information is distributed to all relevant officials or private sector actors.
- There is no formal machinery for consultation on trade issues. The involvement of the private sector in policy deliberations is “largely ad hoc and limited” as there is no established process for permanent dialogue and exchange of information between the public and private sectors on trade issues. Private exporters and the various institutions representing their interests have a limited capacity to independently identify obstacles to their competitiveness that stem from macro-economic policies or to assess the risks and opportunities associated with the country’s participation in regional, Cotonou, NEPAD and multilateral negotiating fora. In particular, the weakness of the enterprise sector and civil society interlocutors is an impediment to policy dialogue. Business associations, Labour unions, NGOs and other civil society groups have limited staff, are poorly funded and lack expertise, advocacy skills and access to information.
- Weak Trade policy co-ordination. To take a coordinating approach to trade policy and trade agreements a National Coordinating Committee on Trade (NCCT) was established in May 2004. The NCCT is made up of senior staff from line ministries, other agencies of government, academia and the private sector. The NCCT brainstorms on policy issues, ensures active policy coordination, and provides strategic direction on negotiation positions in various regional and international processes.

Trade policy instrument: Tariffs

The customs tariff is Sierra Leone’s principal trade policy instrument as well as its main source of government revenue. The tariff comprises seven rates: zero, 5%, 10%, 15%, 20%, 25% and 30%. As was identified in the recent trade policy review of Sierra Leone conducted by the WTO and broadly endorsed by Sierra Leone authorities, the average effective applied MFN rate (including a 30% excise tax on certain imports and the 0.5% ECOWAS levy on imports from third countries) is 14.9%. All tariff lines are bound, imparting a degree of predictability to market-access conditions; nevertheless, the large gap between average bound and applied MFN tariff rates (33.6 percentage points) provides significant scope for increasing applied tariffs within binding levels. The average customs duty on agricultural (WTO definition) products (16.5 %) is higher than the average duty on industrial products (13.5 %).

Sierra Leone's customs tariff is being harmonized with those of other ECOWAS members that now apply the UEMOA CET.

Export taxes are levied on cocoa and coffee (2.5%), and diamonds (3%). As from 2004, a flat rate diamond export-licence fee has been applied.

A Note on Availability and Quality of Trade Data

Detail appraisal of developments in Sierra Leone's foreign trade is currently impeded by the absence of consistent and comprehensive series of trade data in national and international databases (IMF, World Bank, UNSD Comtrade, and ECOWAS). To address this critical shortcoming, the Ministry of Trade and Industry established a Policy, Planning and Research Division in April 2004 to coordinate the analysis of data among its other responsibilities. The Ministry is also seeking further resources for the establishment of a statistical database. Statistic Sierra Leone (SSL) has a Foreign Trade Statistics Section, which has recently started processing trade data after collection from the NRA. Technical assistance has been provided by the ECOWAS Executive Secretariat to procure and install a new version of Eurotrace Software. However, hands-on-training is required for the full utilisation of the new software particularly in the areas of trade data capturing, analysis and reporting. The planned computerisation of the Customs Administration should help improve the quality and coverage of data once the project has been completed.

3.2 The Institutional Framework

The institutional framework governing Sierra Leone’s regional and international trade is anchored on key government institutions led by the Ministry of Trade and Industry (MTI). The other key government ministries involved in trade policy development and facilitation are the Ministry of Development and Planning (MODEP) and Ministry of Finance (MoF). The other important players are sectoral ministries, namely: Agriculture, Forestry & Food Security; Mining & Energy; Fisheries and Marine Resources; and the Non-State Actors in both the private sector and civil society.

The Ministry of Trade and Industry (MTI): in particular the Directorate of International Trade, is the focal point for trade and external trade relations. MTI is responsible for trade policy formulation and implementation, and represents Sierra Leone in various trade negotiating fora for as well as coordinates inputs from various stakeholders. To this end, the GOSL is currently setting up various inter-institutional committees which the MTI is expected to coordinate and direct as part of its mandate. The MTI also has the responsibility of informing and educating the stakeholders on the implications of changes in trade conditions and in the validation of the national negotiating policies and strategies. In its role as a bearer of trade policy, the MTI is expected to improve dialogue between the Ministry, other Government and non-public institutions. This was done through the creation and co-ordination of a National Coordinating Committee on Trade (NCCT). This function needs to be strengthened in view of the on-going and evolving EPA negotiations and linking these with the various developments in the world-trading system. MTI established two new divisions (Policy, Planning and Research; and International Trade) to strengthen its capacity to deal with trade issues. These institutional arrangements are to improve transparency, consultation, and coordination/coherence in trade and trade-related policy making in several key areas (e.g., regional integration, customs valuation, sectoral development).

In order to achieve its goals and mandates, however, the MTI has to urgently address its manpower shortages and lack of skilled personnel in the ministry. At present there are 5 main departments of the MTI. The MTI is also responsible for the Sierra Leone Standards Bureau and the Sierra Leone Export Development and Investment Corporation (SLEDIC). The Petroleum Unit (PU) also reports to the MTI. Currently the ministry has two main categories of staff: technical (or professional) staff and administrative staff. Technical staff are employed in the Departments of Trade and Industry, while administrative staff include those in the Permanent Secretary's office, correspondence and finance.

Mis en forme : Non Surlignage

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Over recent years, there has been a steady erosion of the MTI's responsibilities for trade and industry issues to other ministries or government agencies. This combined with a lack of sufficient manpower resources with the required expertise and skills have exacerbated the deficiency in capacity faced by the ministry. For the MTI to be able to play its role as facilitator of the development of the private sector, a restructuring process has been initiated. It is proposed that a new post of Director General (DG) is created. The incumbent will be responsible for the technical work of the ministry while the Permanent Secretary will deal with administrative matters. At present all departments report to the Minister via the PS or Deputy Permanent Secretary.

Other key recommendations which form part of the restructuring exercise include :

- The need for the MTI to prepare a strategic plan;
- The review of the role and functions of the staff in the Trade and Industry divisions to ensure definition of responsibilities and clarity of purpose;
- The re-activation the Senior Management Committee's meetings;
- The completion as soon as possible of a training needs analysis to be used as a basis for developing a training policy and plan for the ministry.

Ministry of Development & Planning (MODEP): contributes to trade and regional integration through the setting of development plans, projects and programmes in conformity with national and regional development goals and objectives. The MODEP, *inter alia*, coordinates:

a) National and sectoral development planning and employment strategies;

b) Regional economic integration planning, design and coordination of regional programmes, e.g. it currently co-ordinates the ECOWAS common external tariff (CET) negotiations; and

c) International aid resource mobilisation, including coordination of non-governmental activities.

Even more importantly, the MODEP provides the necessary linkages between Government Ministries in their efforts towards contributing to growth and development objectives, primarily poverty reduction through the development policies enunciated in the PRSP.

Ministry of Finance (MoF): plays a pivotal role of ensuring that fiscal policy aims at promoting macroeconomic stability and medium-term debt sustainability and that it is consistent with the medium-term fiscal strategy embedded in the PRSP. In pursuance of efforts to promote trade and regional integration, measures are being taken to bring certain tax rates in line with those in neighbouring countries. In addition, through the MoF, measures are being taken to harmonise custom duties with the ECOWAS common external tariff (CET).

The MoF is also a key facilitator in trade and regional integration through the National Revenue Authority (NRA)'s Directorate of Customs and Excise. The NRA provides customs administration, plans and collects import revenue. The Ministry is also a key actor in foreign trade relations through taking a central part in policy research related to development policies in general, and trade and regional economic integration matters through policy research activities of the Economic Policy Research Unit (EPRU).

Sectoral Ministries: Agriculture, Forestry & Food Security, Mining and Energy, Fisheries and Marine Resources coordinate sectoral policies and strategies, which facilitate development of their respective sectors taking advantage of export opportunities arising from market access. These sector ministries provide policy and infrastructure support for production of the country's key current and potential exports: minerals, fisheries and agricultural products. They also coordinate the development of appropriate technologies and interventions such as pilot projects and credit protection. In this context, the sector ministries have to proactively ensure appropriate links with the private sector to enable them to put forward robust negotiating positions in various multilateral and regional integration fora.

Other key government ministries are: Ministry of Works, Transport and Communication which set the policy framework. This framework should be consistent with Sierra Leone's regional and international obligations for transport service providers; and facilitates the movement of goods and people both on national, regional and international trade routes.

Non State Actors (NSAs): One serious threat to the success of the process is the lack of effective and synchronized coordination and involvement of Public-Private Partnerships (PPPs) in trade and regional integration. Conversely, the involvement of PPPs may prove to be a powerful tool in the utilisation of opportunities offered by regional integration and global openings in the direction of trade facilitation and promotion efforts. The active NSAs in the area of trade and regional integration include the SLCCIA and its business associations, representing the interest of industrial and commercial actors, e.g. the Indian Mercantile Association, the SLIBA, the Lebanese Community, the Fullah Community and the Sierra Leone Manufacturers' Association.

The private sector representative organisations play important roles in the country's trade and regional integration processes. They represent the interests of their members through advocacy and lobbying for an enabling environment through influencing policy and legislative debates, and providing relevant services for facilitating business growth and development.

On the other hand, civil society bodies play a crucial role for the success of negotiations. They take advantage of opportunities and counteract threats that are likely to emanate from these negotiations and cooperation arrangements. It is important that the NSAs view this impending cooperation as something that will provide effective assistance to achieve the objectives and priorities which these groups have set themselves in the context of national, regional integration, and intra-ACP cooperation. It is relevant that the impending cooperation shall be positively assessed on how it will:

a) accelerate economic cooperation and development both within and between the regional States, e.g. within the ECOWAS;

b) foster the gradual integration of the ACP States into the world economy;

c) promote the free movement of persons, goods, services, capital, labour and technology among ACP states;

d) accelerate diversification of the economies of the ACP states; and coordination and harmonisation of regional and sub-regional cooperation policies;

e) promote and expand inter and intra-ACP trade and with third countries.

3.3 Trade Agreements and Arrangements

The Constitution of Sierra Leone sets the promotion of sub-regional, regional and inter-African cooperation and unity among the main foreign policy objectives. Sierra Leone is a member of one Regional Economic Community (REC), namely, ECOWAS, one sub-REC, the Mano River Union (MRU) and at the continental level, it is member of the African Union (AU).

3.3.1 ECOWAS

Sierra Leone is a member of ECOWAS[11], whose Treaty was revised in 1993 in order to revive the economic integration process. Following this revision, the institutional framework of ECOWAS comprises the following, in addition to the Conference of Heads of State and Government: the Council of Ministers, the Parliament, the Economic and Social Council (being established), the Court of Justice, the Executive Secretariat, the Bank for Investment and Development, the Central Bank (being established) and technical commissions.

The 1993 revision of the Treaty also set the objective of a Customs Union in 2000 and envisaged the creation of an Economic and Monetary Union in 2004. The main objectives of the ECOWAS are: (i) the convergence of economic performance and policies of member states through a multilateral monitoring procedure; (ii) adoption of a common external tariff; (iii) creation of a common market; (iv) creation of a monetary union; and (v) harmonisation and coordination of national policies. The timetable for the Customs Union has not been adhered to, except regarding the liberalisation of trade in unprocessed products and handicrafts (although some member countries do not respect the relevant provisions), in particular, the single Trade Liberalisation Scheme (TLS) covering industrial products[12].

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[11] The Treaty establishing ECOWAS was signed on 28 May 1975. ECOWAS currently comprises 15 countries: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo

[12] Decision A/Dec./6/7/92. In order to be eligible for preferential treatment, industrial products must be approved by the Executive Secretariat. According to the ECOWAS Executive Secretariat (2000a):

In 2000, the Executive Secretariat noted that "the non-application of the trade liberalisation scheme constitutes a most glaring failure for ECOWAS" and indicated that intra-community trade only accounted for 11 per cent of members' total trade. In order to turn the situation around, the economic integration process was given renewed impetus in 1999 through the gradual elimination of tariff barriers to industrial products originating in ECOWAS. The new timetable for the TLS includes the creation of a "free-trade zone" as of 1 January 2004.

The steps taken include the creation of a mechanism to compensate for the loss of customs revenue caused by the preferential regime[13] and the adoption of rules of origin harmonised with those of the UEMOA. The harmonization measures also cover definition of value added, approval procedures and related documents (for example, certificates of origin). In June 2004, 774 enterprises and 2,433 products had been approved under the TLS[14].

Sierra Leone is one of the ECOWAS member countries outside the franc zone involved in the establishment of the West African Monetary Zone (WAMZ), which has been deferred until 1 December 2009 in view of the poor performance by member States to achieve the convergence criteria.

According to the ECOWAS programme, the customs union will come into effect in 2007, in line with the timetable for the Economic Partnership Agreement (EPA) with the EU on the basis of an ECOWAS CET. In principle, ECOWAS member states which do not belong to the WAEMU must introduce a customs tariff harmonised with the WAEMU's CET as of 2005, and Sierra Leone has not fully done this yet. The convergence of the national customs tariffs of ECOWAS members towards a CET is planned for the period 2005-2006. Sierra Leone is gradually adjusting its tariffs towards the agreed Common External Tariff (CET) of ECOWAS to achieve tariff harmonisation by January 2007. Parliament has ratified the West African Monetary Zone (WAMZ) and the West African Central Bank (WACB) Statutes. Progress in convergence by member countries is accelerating the integration within the second monetary zone and the planned introduction of a single currency by 1st January 2008.

3.3.2 Mano River Union (MRU)

The MRU is an economic community originally set up by Liberia and Sierra Leone in 1973 and then expanded to include Guinea in 1979. Due to the situation in the sub-region, the MRU's activities were virtually frozen in 1994, but it would appear that the stability of the situation could lead to a revival of the MRU in a broader context, with the participation of Côte d'Ivoire and Mali.[15] The MRU was reactivated in May 2004, following the restoration of peace and security in the sub-region. Currently, trade among the three countries appears to be unrestricted in an informal manner, pending progress in the ECOWAS integration process.

"Eight countries [out of 15] have lifted tariff barriers in respect of unprocessed products under the TLS, namely, Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. However, only Benin has removed tariff barriers to trade in industrial products [from Ghana, Nigeria and Togo]".

[13] Protocol A/P.2/01/03. The Fund's resources consist of a community solidarity levy (0.5 per cent of the value of imports from outside ECOWAS) paid by members to the compensation fund established by ECOWAS.

[14] "Panel on ECOWAS trade scheme set up", 30 June 2004. Available at: http://www.nigeriafirst.org/ article_2607.shtml [28 December 2004]".

[15] Cinq dirigeants ouest-africains pour la renaissance de l'Union du fleuve Mano", 22 May 2004, in *L'Intelligent.* Available at: http://www.conakryonline.com [25 January 2005].

The original Declaration establishing the MRU provided for the gradual creation of a CU and the promotion of community development projects in all sectors, including services. However, under the current ECOWAS CET agreed way-forward and the pending EPAs negotiations, all the members of the MRU are now going to conclude the FTA and eventually their CU under ECOWAS which is the REC in the region. But as a sub-REC the MRU is expected to continue to play a leading role in development projects among its member states.

3.3.3 African Union

The achievement of African unity is one of Sierra Leone's fundamental objectives. Sierra Leone is a founding member of the African Union (AU), which succeeded the Organisation of African Unity (OAU). Ultimately, the AU will be an economic and monetary union with the following institutions in addition to the Conference of Heads of State and Government and the Council of Ministers: the Peace and Security Council (Protocol being ratified), the Commission (created in July 2003), the Pan-African Parliament (Protocol being ratified), a Central Bank, a Monetary Fund, the African Investment Bank, the Court of Justice (Statute prepared), the Economic, Social and Cultural Council (Statute prepared) and technical commissions.

The New Partnership for Africa's Development (NEPAD), adopted at the summit in Lusaka (Zambia), is an AU programme administered by ECOWAS at the sub-regional level. NEPAD seeks to encourage internal reform within African countries through a peer review system, and to mobilise additional debt relief and donor support to fund poverty alleviation programmes.

The ultimate objective of regional economic integration is to help with speeding up the process of African economic integration as foreseen under the African Economic Community (AEC) Treaty. This objective is further enhanced in the African Union Commission's (AUC) Strategic Plan which has enhanced the capacity of the AUC to follow adequately the process of the negotiations on EPAs being undertaken by African RECs such as ECOWAS in close collaboration with sub-RECs like UEMOA and MRU in West Africa.

4. Assessment of Trade Flows

4.1 Openness of the Economy

4.1.1 Introduction

With an underdeveloped manufacturing sector, Sierra Leone imports manufactured products and exports commodities. It is a price-taker in international markets. Sierra Leone's export base is highly concentrated in a few primary commodities, with very little processing or manufacturing. Sierra Leone imports a wide array of items, with heavy concentration in petroleum, machinery and transportation equipment, chemicals, and foodstuffs. For Sierra Leone to make a dent on the poverty situation, it needs to revive existing exports, work towards export diversification, and create a supportive environment for local entrepreneurs to invest in competitive industry. Section 4.1.2 and 4.1.3 highlight the structure and performance of exports and imports, respectively.

Sierra Leone's direction of trade is concentrated on a few external markets. Partly for historical reasons, the EU is Sierra Leone's largest single trading partner, buying an average 80% Sierra Leone's merchandise exports and providing 30% of its merchandise imports. The trade relationship between Sierra Leone and the EU is thus important for the region's development, and proposed free trade agreements (FTAs) under the planned Economic Partnership Agreements between the EU and ECOWAS could have a significant impact on Sierra Leone.

In contrast, trade between Sierra Leone and the EU is much less important for the EU than it is for Sierra Leone, which accounts for only 0.04% of the EU's total merchandise exports and 0.04% of its merchandise imports.

Thus, the impact on the EU of free trade arrangements with Sierra Leone (via ECOWAS) is likely to be quite limited and much easier for the EU to adjust to than for Sierra Leone. The differences in economic sizes and the importance of EU trade to Sierra Leone would give the EU a much stronger bargaining power than Sierra Leone if the negotiations were conducted strictly on commercial terms.

4.1.2 Structure and Performance of Exports

Export composition. Sierra Leone's export performance depends heavily on the price of commodity exports of diamonds and minerals, its major exports. Its other exports include to some extent cocoa and coffee. Domestic exports (excluding re-exports) were US$83.9 million in 2003.

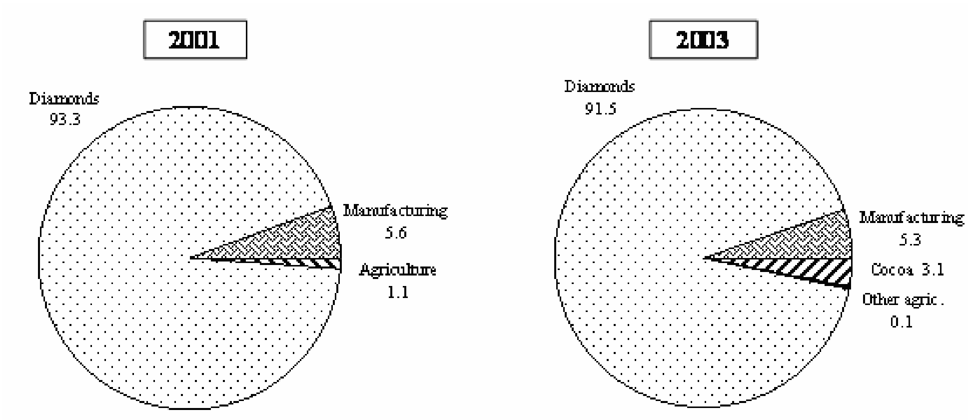
Supprimé : (Table)

The country's export performance continues to rely heavily on the diamond sector which accounts for over 90% of total exports amounting in 2004 to US$158 million including unrecorded diamond exports estimated from partner-country data[16].

In terms of commodity composition exports (see graph below) diamonds and minerals accounted for about 90% of total exports; manufactured goods accounted for 5.1% and agriculture represented only 3.2% (with 3.1% for cocoa and under 0.1% for the other agricultural export products) in 2003.

[16] IMF, 2005

Graph 1: Commodity Composition of Exports, Sierra Leone



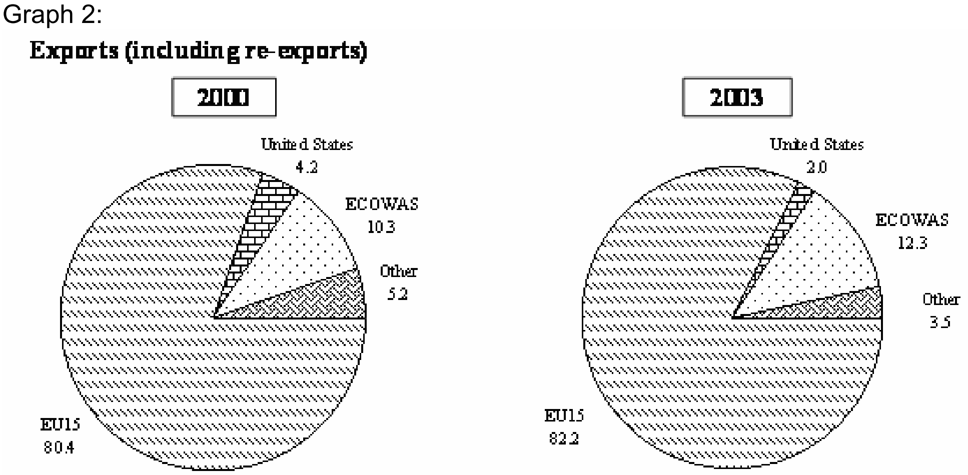
Re-exports were US$8.4 million in 2003 and is mainly made up of food, plywood, and some other building materials to Liberia and of scrap metals to Guinea. There was also a surge in the re-exportation of scrap metals to Guinea during the same period.

Overall, the government's desire to promote exports of non-traditional products has not led to a noticeable diversification of the export structure.

On average, the country exports of non-factor services were about 1/5 the level of merchandise exports, accounting for an additional 5% of GDP; but no data were available on the share of Sierra Leone's non factor service exports going to the EU.

Export concentration. As shown on the graph below, the majority of Sierra Leone's exports go to industrialised countries in Europe. Diamond is the main export to these markets. Sierra Leone dependence on the European Communities (EC), especially as a destination for exports, is very high. Exports to the EC made up more than 80% of Sierra Leone's exports in 2003 in slight improvement over the year 2000. Belgium remains Sierra Leone's largest export market, accounting for 77.5% of total merchandise exports, followed by ECOWAS trading partners (12%) against 10.3% in 2000.[17]

Graph 2:



[17] Government Gold and Diamond Office, Customs and Excise department.

On an individual basis, Belgium, the United Kingdom and the United States of America are Sierra Leone's main export markets.

Diamond: the Export Base[18]. The world diamond business is a massive enterprise. In 1998, the industry produced an estimated 115 million carats of rough diamonds with a market value of US $6.7 billion. At the end of the diamond chain, at the level of the consumer, this was converted into 67.1 million pieces of jewellery worth close to US $50 billion. De Beers dominates the diamond industry unequivocally. De Beers produces 50 per cent of the world's gem diamonds (by value), from its own mines in South Africa and in partnership with the governments of Botswana, Namibia and Tanzania. In addition, it purchases diamonds from 'outside markets' and in turn markets them through its CSO. The total of De Beers own mining output plus diamonds purchased from the 'outside market' results in De Beers selling each year, on average, 70 to 80 per cent of the world's diamond output. De Beers acknowledges its monopolistic appearance, but argues that its approach benefits everyone from the miner on the ground to the consumer who purchases diamond jewellery. 'Control' is necessary in the industry. De Beers' policy is to maintain price stability by tailoring supplies to the cutting centres to meet prevailing demand while continuing to buy from producing nations and on the open market. For several historical reasons, today Antwerp annually processes more than half the world's consumption of rough, polished and industrial diamonds.

From 1930 to 1998 approximately 55 million carats were mined (officially) in Sierra Leone. Sierra Leone has one of the richest mother lodes of diamonds in the world. Over the years, the ramifications of diamond extraction in Sierra Leone have intrigued the international community, spawning numerous articles and books. One of the factors which eases larger scale diamond smuggling and inhibits the tracking of diamond movements is the manner in which the HRD documents the industry. The HRD records the origin of a diamond as the country from which the diamond was last exported. Certificates of origin are not usually in use, (except for example in a cursory manner for Angola). Therefore, diamonds produced in Sierra Leone, say, may be officially imported and registered as originating in Liberia, Guinea, Israel or the UK, depending on their journey from one trading centre to another. The two following tables illustrate the problem:

Table 4: Diamond Production in West African Countries for Selected Years (000 carats)

Country /Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sierra Leone	78	243	347	158	255	213	270	104	8.5
Liberia	100	100	150	150	100	150	150	150	150
Guinea	127	97	153	167	381	365	205	205	205
Ghana	650	700	656	591	740	632	715	830	800
Ivory Coast	12	15	15	15	84	75	302	307	307

Source: Ian Smillie, Lansana Gberie, Ralph Hazleton (2000).

18 This section is based on "The Heart of the Matter: Sierra Leone, Diamonds and Human Security" by Ian Smillie, Lansana Gberie, Ralph Hazleton (2000)

Table 5: Antwerp Imports of West African Diamonds Selected Years (000 carats)

Country /Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sierra Leone	331	534	831	344	526	455	566	803	770
Liberia	5,523	658	1,909	5,006	3,268	10,677	12,320	5,803	2,558
Guinea	287	374	526	1021	875	780	439	533	596
Ghana	597	675	689	526	498	643	608	531	n.a.
Ivory Coast	825	946	868	683	605	1614	2214	885	n.a.

Source: Ian Smillie, Lansana Gberie, Ralph Hazleton (2000)

Comparison of the two tables shows that the production figures for Ghana and the HRD import statistics from Ghana are similar, as might be expected. For all the other West African countries, there are startling discrepancies. For example:

- while the Government of Sierra Leone recorded exports of only 8,500 carats in 1998, the HRD records imports of 770,000 carats;
- while the estimates of Liberian diamond mining output are between 100,000 and 150,000 carats in Table 5 (and there are no estimates anywhere of a capacity exceeding 200,000 carats per annumi), the HRD records Liberian imports into Belgium of over 31 million carats between 1994 and 1998 - an average of over six million carats a year;
- Ivory Coast, where the small diamond industry was essentially closed in the mid 1980s, exported an average of more than 1.5 million carats between 1995 and 1997.

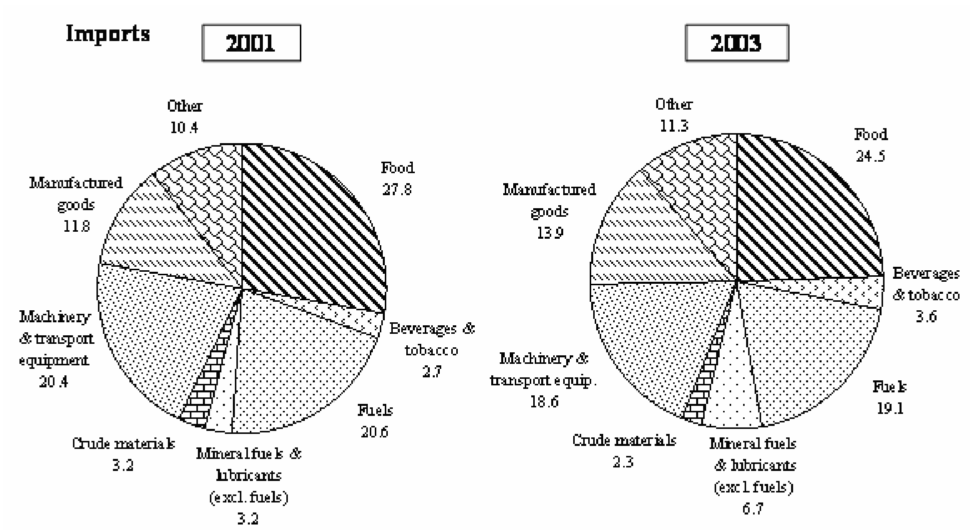
Among other things, these figures suggest either massive international fraud, or massive bureaucratic incompetence.

Where Sierra Leone is concerned, the discrepancy between what the HRD says is imported from Sierra Leone and what Sierra Leone officially produces and exports may be an indication of what is illicitly mined and exported to Belgium. But this is only a minimum figure, as the data does not include diamonds which travel from Sierra Leone to India, Israel, Lebanon, New York and the De Beers CSO, and then to Belgium.

4.1.3 Structure and performance of imports

Composition. Food, fuel, machinery and transport equipment, manufactured goods, beverage and tobacco, and crude materials dominate Sierra Leone's imports (See graph below). They account for 82% of total imports.[19] This commodity composition largely reflects the lack of domestic manufacturing and of fuel resources, In 2003 mineral fuel and lubricants were the greatest import, accounting for 25.8% of total imports and a value of US$ 78.2 million, foods with a value of US$74.5 million are large components of the country's total imports (24.5%). (Rice accounts for 36.7% of food imports, i.e. 9.0% of the total value of merchandise imports)

[19] Ministry of Finance (2004)



Because most of these are essential goods, their demand tend to be inelastic; moreover both their volume and value are expected to continue to expand over the medium term as the reconstruction programme progresses.

The table below shows the changing composition of Sierra Leone's imports pattern that accompanied the developments of the two decades. There is a significant shift in the composition of the imports basket from a fairly balanced pre-war mix of consumer items and intermediate and capital goods, to a situation where the imports bill is dominated by an overwhelming proportion of consumption expenditure consisting largely of food and fuel.

Table 6: Evolution of Sierra Leone's Imports by Category

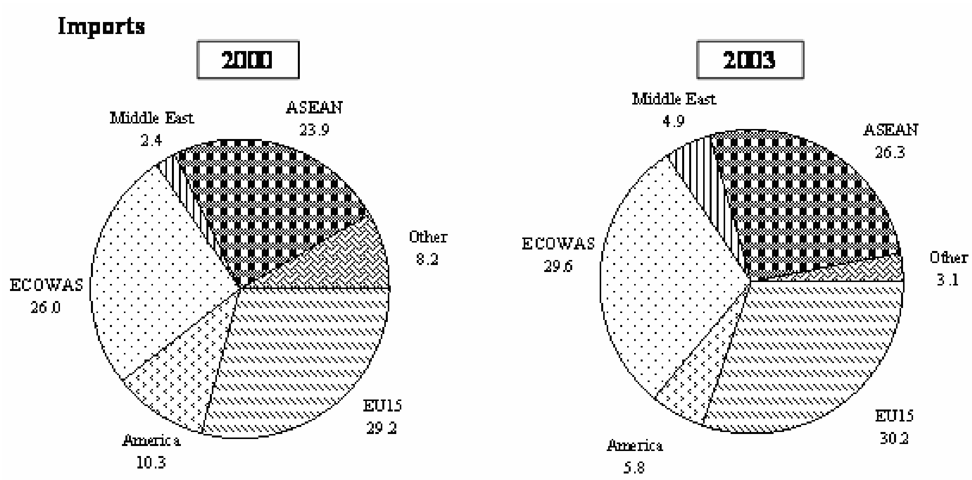
	1980/81	1984/85	1989/90	1992/93	1996	2000-02	2003
Food, and Beverages and Tobacco	22.1	26.7	33.0	50.7	52.0	37.5	28.1
Mineral Fuels and Lubricants	16.8	29.3	14.1	8.7	11.0	24.8	25.8
Manufactured Products	18.3	13.4	12.4	5.1	6.9	10.9	13.9
Machinery and Transport Equipment	24.6	19.7	27.8	15.3	11.4	13.4	18.6
Other Imports	18.2	10.9	12.7	20.2	18.7	13.4	13,6
All imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance, Freetown

Despite the high cost of fuel, there was a marked reduction in total imports in 2004. This resulted from one-off events which include: the phased withdrawal of UNAMSIL forces, the relocation of some NGOs to neighbouring Liberia and the delay in the restarting of rutile and bauxite mining which meant that fewer imports of capital goods were recorded in 2004.

Imports of non-factor services amounted to an additional 10% of GDP in Sierra Leone; but, as with exports of non-factor services, no data were available on the share of imports of non-factor services coming from the EU.

Concentration. European Union countries, in particular UK, are the major sources of Sierra Leone's imports. In 2003 as indicated in the graph below the EC was Sierra Leone's main supplier (30%), followed by ECOWAS trading partners (29%) as well as ASEAN countries (26%), North and South America (6%), and the Middle East (5%)



Regional trade

Although they have common external tariffs, there is no pooling of customs revenue, member countries maintain customs barriers at intra-CU borders, and intra-CU trade is subject to restrictive rules of origin.

Substantial obstacles to internal free trade and country deviations from the common external tariff remain. As long as the CET is not fully implemented by all member countries, protected domestic producers are going to seek restrictive RoO and other protectionist measures to prevent imports from entering on more favourable terms through other CU member countries.

Inefficiencies and corruption in customs administration, cumbersome and costly transit arrangements, and informal road blocks and "tolls" on key transit routes are additional obstacles that need to be addressed under the rubric of intraregional trade facilitation.

4.1.4 Outlook

Sierra Leone like other least-developed countries (LDCs), has very little influence over developments in world markets. Sierra Leone is a potential beneficiary of trade preferences granted by various trading partners including the EU, the US, Canada, and Japan. Nevertheless, Sierra Leone encounters obstacles in the form of rules-of-origin provisions, standards, sanitary and phyto-sanitary rules, and tariffs. The country also frequently faces the threat of anti-dumping measures by other countries. These issues will be further explored in Chapters below.

4.2 Trade Balance (goods and services)

Economists generally discount bilateral trade balances as an appropriate issue of concern in trade negotiations. Countries will normally run merchandise trade deficits with some partners and surpluses with others. Overall merchandise trade deficits may be offset by “invisibles” receipts from services trade and remittances. An overall current account deficit may not be a cause for concern if it can be comfortably financed by capital inflows and the latter are being put to sound use.

Nevertheless there are striking contrasts between the country' s bilateral balances with the EU on the one hand and with ECOWAS, USA and ASIA on the other, as illustrated in the table below. This shows the actual bilateral balances, together with the corresponding trade ratios. Sierra Leone has bilateral trade surpluses with the EU, with the ratio of exports to imports standing at 2.93:1. By contrast, Sierra Leone registered bilateral deficits with ECOWAS and the rest of the world, with the ratio of imports to exports respectively of 2.41:1 for ECOWAS and 400:1 for the rest of the world.

Graph 1: Sierra Leone’s Trade balance

As illustrated in graph above, Sierra Leone’s trade balance has deteriorated in the past few years in total value and also in terms of GDP. The chronic deficit in the trade balance on goods and services has risen, mainly due to exchange-rate depreciation, increased import costs (petroleum products, rice), and a strong demand for manufactured goods for reconstruction activities.

4.3 The Effects of Preferences in Sierra Leone and Lessons Learned

Sierra Leone is eligible for non-reciprocal preferential treatment from several industrialised countries[20]. In particular, as a signatory of the Cotonou Agreement and a LDC, Sierra Leone is eligible to preferences into the EU market for all ACP countries and those accorded under the Everything But Arms (EBA) initiative

20 Trade preferences allow products of LDC such as Sierra Leone to enter industrial-country markets with lower import duties than are applied to other countries’ products under the importing country’s MFN tariffs.

respectively. According to the WTO Trade Policy Review (2004) no accurate figures are available on Sierra Leone's benefits from GSP treatment. Moreover, Sierra Leone is not a participant in the Global System of Trade Preferences among Developing Countries (GSTP).[21]

The Everything But Arms (EBA) Initiative

Sierra Leone exports to the EU, its largest market, under preferences available through the arrangements generally available to ACP countries. The introduction of the EU's Everything But Arms Initiative[22] in March 2001, which nominally has more extensive preferences than ACP preferences, did not change this pattern. The EBA extends duty-free and quota-free access to imports of all products other than arms originating in 49 LDCs. The EBA will be extended gradually to include bananas as from January 2006, sugar as from 2009 and rice as from September 2009. Duty-free tariff quotas on rice and sugar have been introduced in 2002/2003 and are subject to annual increases.[23]

In many LDCs the EBA did not appear to have triggered significant additional exports to the EU. Some of the reasons for this situation are directly related to the EBA rules of origin which are more restrictive than those obtained under Cotonou. In the few LDCs who have exported under the EBA, information dissemination on the new regime has facilitated the assessment by the exporters of the benefits they could derive from the EBA. In Sierra Leone at present, there is virtually no knowledge of the EBA as any dissemination/sensitisation work has yet to be undertaken to expose exporters to this trade arrangement.

The Cotonou Agreement

The Cotonou Agreement maintains most non-reciprocal trade preferences granted by the EU to ACP States under the Lomé Convention. At the Doha Ministerial Conference, WTO Members granted a waiver from the obligations under Article I: 1 of GATT 1994 (MFN treatment). By December 2007, new trading arrangements, which are WTO-compatible, are to be concluded that will progressively remove barriers between the parties and enhance cooperation in all areas relevant to trade, including the formation of free-trade areas within a transitional period. The implementation of the tariffs liberalisation is expected to commence by January 2008 at the latest.

Under the Cotonou Agreement, the EU grants non-reciprocal trade preferences to most imports originating in ACP states, subject to a safeguard clause and rules of origin.[24]

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[21] The GSTP Agreement seeks to foster and sustain trade, and economic cooperation among developing countries, through the exchange of concessions.. The GSTP provides for the negotiation of tariff preferences on trade among its members and for the possibility of negotiating non-tariff preferences.

[22] EC Regulation No. 416/2001 of 28 February 2001 and Council Regulation (EC) No. 2501/2001.

[23] EC Regulations No. 1381/2002 and 1401/2002 for sugar and rice quotas respectively (European Commission, 2004 update).

[24] The rules of origin require that qualifying products be either "wholly obtained or significantly worked or processed" in one or more ACP States. The latter definition is based on the product being sufficiently modified in the ACP State for it to be classified under a different four-digit HS tariff line.

For certain products (bananas, beef and veal, and sugar), the EU provides special market access under "commodity protocols", for which Sierra Leone is not a beneficiary.

African Growth and Opportunity Act (AGOA)[25]

Sierra Leone became eligible for AGOA's benefits following a review conducted by the Government of the United States in 2002. Countries eligible for AGOA preferential treatment are granted GSP status in the U.S. market until September 2008 and qualify for an expanded list of GSP products. They are entitled to unlimited duty-free and quota-free access to the U.S. market for apparel made from U.S. fabric, yarn or thread[26]. LDCs including Sierra Leone may use non-U.S. fabric and yarn[27].

The Trade Act of August 2002 extended duty-free and quota-free access to certain types of apparel products previously excluded, specifically "knit-to shape" articles and "hybrid" apparel articles – that is, articles containing both U.S. and sub-Saharan Africa beneficiary components and/or articles containing both fabric and knit-to-shape components.

Within the terms of AGOA, the United States granted trade preferences to 37 countries until the end of September 2008[28]. In 2003 Sierra Leone exported US$75,000 of products under AGOA and its GSP provisions, slightly more than 1% of total exports to the United States.[29] According to the national authorities, production of ginger, cashews, textiles and garments are currently being developed for export under the AGOA.

Lessons Learned

In Sierra Leone, it appears that the impact of the civil war, the focus of the productive sectors on meeting the local demand and the lack of market information have lead to a very low rate of utilisation of the existing preferences. Clearly, Sierra Leone is one of the ACP countries where very little impact has been experienced as the result of the preferences in the EU and other OECD markets. It is true that in practice, only a handful of countries (such as Mauritius, Fiji, and a number of Caribbean countries) have managed to gain significant market shares as the result of the preferential trade access to the EU, the US and Japan for instance and this has been only for a limited range of products such as sugar. However, in view of Sierra Leone's good export performance of the 1980s, the medium-term export potential is strong and it could actually be realised if the right policies are designed and implemented.

Supprimé : Sierra Leone?

[25] http://www.agoa.gov.

[26] The list of manufactured goods (some 1,800 tariff lines) covered by AGOA includes products such as footwear, luggage, handbags and watches.

[27] Botswana and Namibia were accorded less developed country status under AGOA II. The possibility of using non-U.S.-origin yarn was introduced under AGOA II.

[28] U.S. Trade and Development ACT of 2000, modified by the Trade Act of August 2002.

[29] http://www.agoa.gov

5. Competitiveness of Domestic Production

5.1 Structure of Production

The competitiveness of a country's domestic production is normally shaped by the recent outcome and expected future development of factors operating at the following three level spheres:

- political / government level,
- macroeconomic level, and
- meso level.

These are the three most important factors that influence the growth and diversification of the country's structure of production and particularly its industrialisation. In the case of Sierra Leone, these factors will be crucial in influencing the outcome of its economic policy environment as well as the incentives / regulatory policy instruments that directly impact on the competitiveness, diversification and performance of its economic sectors and enterprises.

The macroeconomic factors are at the centre in providing linkages with the rest of the economy. They either provide the basis for domestic industries to pursue competitiveness or deny them to do so. In short, consistent and sound macroeconomic economic policies, coupled with fiscal prudence provide and nurture the availability and growth of basic factors of production, which are essential for the growth of exports.

In the case of Sierra Leone, the end of the civil conflict has led to some remarkable progress resulting in broad-based economic recovery with an average growth of 7.5 percent during 2004 and 2005. In June 2005 the IMF staff revised its projected output growth down to 7.5 percent in 2005, from 9.4 percent, envisioned in the staff report for the Article IV consultation.[30] Mining, agriculture, manufacturing, and services were expected to drive this continued growth into 2006, particularly on the back of the restarted production and export of rutile and bauxite, which were expected to begin in late 2005.

Centrally to policy direction is the government and political sphere, which encompasses the nature of the state, governance and the level of participation of non-state actors. In Sierra Leone, these institutional elements are still at their sprouting stage and all parties must play positive roles in nursing them, with the central role and responsibility lying on the shoulders of the government. It is incumbent upon the government to embrace all the parties through strongly based PPP bodies at national and sectoral level of participation.

The second tier macroeconomic factors are the fiscal, social and regulatory policies, as well as trade policies, which should be supported by the meso level policy instruments, namely: science and technology, education, infrastructure and labour policies. These influence the structure and performance of companies and firms operating at sector levels: primary, secondary and tertiary. As shown above, the current structure of Sierra Leone's production relies on four extremely narrow based sectors: minerals, agriculture, manufactured goods and services. The only sub-sector that has been producing and exporting is the diamond sub-sector, to be followed by the rutile, and bauxite, Imenite and gold.

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[30] Sixth Review Under the Poverty Reduction and Growth Facility, IMF Country Report, No. 05/194, June 2005

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In the agricultural sector which accounts for up to 50 percent of the GDP[31], with rice being the country's major staple and most important food crop, efforts are being made to strengthen production of rice and other edible products, e.g. piassava and palm oil. The factors behind low productivity of agricultural products include insufficient funds for research, poor road network, lack of modernised farming practices and the poor extension services resulting in slow rate of dissemination of research technologies to the farming communities.[32]

There is potential for increasing the production of the two major export crops, cocoa and coffee, whose current low productivity is due to factors mentioned above and prevalence of fungicidal diseases presently not controlled due to a number of features, including:

a) inability to purchase insecticides and fertilizers;

b) lack of funds to enable produce inspectors to inspect produce and grade them according to international standards;

c) below international level processing standards resulting in poor quality cocoa and coffee beans; and

d) poor and unfair market prices due to collusion by transporters, produce buying agents and exporters.

Consequently a variety of policy distortions that often result in the lack of competition such as soft budgets for state owned enterprises and agency problem that allow managers of enterprises to operate inefficiently are barriers preventing enterprises from operating efficiently as competition should be a central feature of industrial restructuring strategies[33]. The result is price distortions which are a disincentive to many export producers resulting in low production.

5.2 Infrastructure

Most of Sierra Leone's economic and physical infrastructure was destroyed by the war. Mining, was halted, farms abandoned, tree crop plantations and lowland rice fields returned to bush or mangrove. Most of the rural social infrastructure virtually stopped functioning, with large-scale destruction of education and social infrastructure. The result was that at the end of the war, the basic conditions for infrastructure (physical, institutional, socio-political, human) with which institutions and enterprises exploit technology were either operating at very low levels or in most cases non-existent. This then became the major obstacle to investment, especially the pervasiveness of poor and deteriorating road infrastructure, inadequate and unreliable communication systems, water and electricity supplies breakdowns.

There is also the lack of proactive policy measures to deal with the countries' basic infrastructures in urban areas (commercial stands, communication facilities and electricity), and in rural areas (water, roads, communications, etc). However, with the restoration of security in the country, economic recovery has been facilitated, with post war macroeconomic management being widely acclaimed for maintaining stability and achieving growth. However, as poverty is pervasive, and there is wide

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31 Saccoh and Pessina (2005), p. 35.

32 Ibid. p.36.

33 AfDB Report, Human Capital Development, 1998, 49.

national determination that policy should aim at eradicating poverty, infrastructure should be paramount in this endeavour. Since infrastructure forms a crucial base for any forms of development, it is important that the GOSL policy makers put much emphasis on its development.

For purposes of regional integration and cooperation under the EPAs, there is also the need for regional infrastructure to improve. In this context, consented efforts at both the MRU and the ECOWAS levels should be used to leverage financial resources and expertise to improve infrastructure should be a priority.

5.3 Productivity of Labour

Deficiencies in the structure of production mentioned above, bottlenecks in infrastructure and lack of skilled labour that allows for specialisation and efficiency are factors that militate against labour productivity in the country. The growth of capital formation has been severely hampered by the lack of skilled labour that allows for specialisation and efficiency in both public and private enterprises. Another factor militating against productivity is the availability and access of capital which are important factors in determining productivity. Sierra Leone's banks are under-capitalised to the extent that they are barely able to issue both long-term and short-term finance.

The above factors have been a major drawback in improving levels of exports, bearing in mind that in the context of globalised economic environment, which is knowledge-based, the conventional comparative advantage of raw materials and unskilled labour is increasingly becoming insignificant. Sierra Leone lost a significant amount of skilled personnel during the war period to the point that there is currently a shortage of high quality services such as accounting, management, production engineering, design, packaging, processing, quality control etc. all of which are crucial for export survival.[34]

National economic performance and productivity were also expected to be enhanced by bringing three public enterprises to the point of sale at the end of 2003. A divestiture plan was completed in September 2003 with work initiated on a number of enterprises in 2004. These included the National Power Authority, the Sierra Leone Ports Authority, the National Workshop, the Sierra Leone Produce Marketing Board, the Sierra Leone Daily Mail, the Forest Industries Corporation, the National Development Bank and Rokel Commercial Bank. It was also proposed that the Sierra Leone Road Authority be restructured[35].

[34] Many African countries have invested a lot in human capital yet only to lose this precious productive factor through brain drain to the more advanced economies, mainly due to poor working conditions and extreme deterioration in real wages and salaries.

[35] Interview with the officials of the National Commission for Privatisation Sierra Leone (NCP) See also, NCP - Revised Privatisation Strategy (2004-2010)

6. The Evolving EU Policies and Context

As part of ECOWAS, Sierra Leone is engaged in the EPA negotiations with the EU. It is therefore essential that information is continuously gathered on the evolution of the EU context and policies, which closely relate to the EPA. The following review only deals with a limited sample of the issues most likely to influence the EU's negotiating stance.

6.1 Enlargement of EU Membership

On 1 May 2004, ten new countries joined the EU, increasing the total membership to 25. These so called "accession countries" (ACs) are Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia. Overall, this enlargement will bring into the EU some 75 million new consumers, four million new farmers and a fast growing purchasing power, twice the pre-May 2004 level in the EU. Thus, internally it is to be expected that enlargement would have major implications for the socio-economic situation of these new member countries and the new "EU-25" as a whole. For the rest of the world, including Sierra Leone, the ripple effects of the enlargement would originate in the changes in trade and investment flows within the EU, development assistance resources, migration patterns and the additional agricultural issues linked to the enlargement.

According to the EC[36], the broad effects of the EU's enlargement are expected to be as follows: "From a trade perspective, enlargement has already taken place, in the 1990s, with liberalisation of trade stemming from the Europe Agreements" and further "patterns are largely stabilised and enlargement will not disrupt trade with third parties".

The EC has estimated that the enlargement will result in a decrease in average tariffs in the ACs from nine percent to four percent. Impact assessments undertaken by the United States Department of Agriculture (USDA) indicate that in addition to this, in the agricultural sector, the eastward expansion of the EU will result in duty increases in some countries and in specific sectors - mainly those concerning beef, poultry meat, barley, rice, margarine, sugar, apple juice and palm oil.

However, the aforementioned rise in duties would not affect the majority of the ACP countries, and in particular, not ones such as Sierra Leone, who have the EBA type preferential access to the EU. As regards new export opportunities, the increase in the EU's membership would result in a reduction of tariffs for products such as tobacco, groundnuts, grape fruit juice, dried fruits and dry beans. For LDCs the direct implications would be in terms of erosion of duty free preferences. In the case of Sierra Leone, this will only matter if for instance the authorities intend to encourage the production and export of groundnut. Even in this eventuality the recurring issues of improving market opportunities would have more to do with meeting European food safety standards rather than duties per se.

The EU-15 has about 130 million hectares under agriculture employing four percent of the labour force. In the ten ACs with about a third of the EU-15's agriculture acreage, farmers form more than 13 percent of the labour force. From 1 May 2004, the Common Agricultural Policy (CAP) covered products and higher prices were automatically extended to the ACs. It has been estimated that this move would result in agricultural income increasing by 30 percent.

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[36] EC Memorandum (Memo/04/23-04/02/2004).

It is anticipated that the enlargement will lead to an increase in the overall surplus of cereal in the EU. Assuming that this drives down the price of wheat, the export competitiveness of European wheat-based value-added food products would be enhanced.

Of great relevance to Sierra Leone is the EU's cereals-sector reform, which is expected to result in a 50 percent reduction of the EU intervention prices. This would translate into rice market prices falling gradually from 34 percent to 41 percent over the medium-term.

The EU's export of bulk dairy products is likely to be sustained at a higher level than would have been the case without enlargement. The trade effects on the ACP will depend on the respective national and regional policies with regard to trade in dairy products and dairy sector development.

For sugar the enlargement is expected to have only a marginal impact on import patterns. What is more critical is the EU's sugar sector reform programme. On the one hand this will lead to a substantial reduction in the EU's intervention price; on the other there are new export opportunities being made available to LDCs such as Sierra Leone under the EBA.

Projections for the poultry sector suggest that production will increase by some 10 percent to 11.9 tonnes in the EU-25. Consumption will expand even faster, and the marketable surplus was expected to decline from 700,000 tonnes in 2004 to 400,000 tonnes by 2010 according to the medium term prospects computed by the EC. Given the trend of growing exports of poultry meat by some of the new EU members to the EU-15 countries, it is likely that the competition in the EU-15 for poultry product will be higher than it has been during the past few years. These projections do not take into account the restrictions on imports/exports to and from the EU due to the recent bird-flue outbreak.

6.2 Reform of the Common Agricultural Policy

The CAP was initiated in the context of the reconstruction efforts of the 1950s in Western Europe since World War II had damaged the European economy and in particular agriculture had been crippled and food supplies could not be guaranteed. The original CAP reflected the need to rapidly increase food production.

As it turned out, the CAP became very successful after a couple of decades. By the 1980s, the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported with the help of subsidies and others which had to be stored or disposed of within the EU. These measures did not only have a high budgetary cost but they distorted some world markets and did not always serve the best interests of farmers. Eventually they became unpopular with both consumers and taxpayers.

In more recent years environmental objectives, landscape preservation, the viability of rural economies and their cultural heritage, food quality and animal health and welfare standards have become prominent issues. Globalisation of trade, concern over the budgetary cost of supporting farmers and the need to accommodate new Member States signified that the EU had to revisit the CAP.

The current CAP takes consumers' and taxpayers' concerns fully into account, while giving EU farmers the freedom to produce what the market demands. The bulk of the aid is now paid independently of the volume of production. This is unlike in the previous arrangement in which the more farmers produced the more subsidy payments they received. Under the new system, direct income payments (based on previous production levels) will be linked to compliance with environmental, food safety and animal welfare standards. The de-linking of subsidies and production is expected to make EU farmers more competitive and market-oriented. However, in order to ensure that land is properly managed, farmers will have to maintain it in good agricultural and environmental condition and comply with European standards in the fields of environment, food safety, and animal health and welfare.

The current CAP has a well-established policy targeted towards organic food and farming. Organic farmers use a range of techniques that help sustain ecosystems and reduce pollution. The aim is to give guarantees to consumers about the quality and reliability of the organic produce they buy. Under the EU's agro-environment scheme, incentives for organic farming are granted. These developments should be integrated into any plan by Sierra Leone to boost its exports of horticultural products to the EU.

6.3 Rules of Origin

Rules of origin (RoO) define what goods can or cannot be given duty free access under a preferential trade arrangement. The main purpose of the rules of origin is to ensure that the country benefiting from preferences is the one that was intended in the trade agreement. Typically, origin rules would prevent third countries that do not enjoy preferential access from simply routing export products through preferred trading partners. RoO specify what proportion of the final product must have local content which is generally sector and product specific particularly for those considered sensitive by the parties. RoO may form a barrier to trade especially when they are made too onerous and thus possibly result in the beneficiaries receiving zero actual benefit.

In general, rules of origin impose administrative requirements on exporters who have to ensure that the supporting documentation is in order. In the latter case the risk of access being constrained, denied or subjected to the standard Most Favoured Nation (MFN) import duties is minimised.

Due to methodological difficulties, the analysis of the rules of origin and their impact on exports from preferred countries invariably involves some speculation from opposing views. However, a comparison between for instance the Lomé/Cotonou Regime and the AGOA for LDCs clearly demonstrates that more liberal rules of origin for the latter countries have enabled exports to emerge when previously these were constrained by those contained in the GSP.

In principle, the EBA grants full duty, special levy and quota free access to the EU for all products "originating" in least developed countries, except arms, ammunitions and, on a transitional basis, sugar, rice and bananas (with free access for sugar, rice and bananas by 2009). Nevertheless, a number of reasons could be advanced for the limited impact of the EBA initiative to date, notably the:

- far stricter rules of origin under the EBA in comparison with those retained under the Cotonou Agreement;
- restrictive nature of the requirements of the EBA initiative for meeting the "sufficient processing" criteria; and
- costs and difficulties of providing the necessary supporting documentation.

As part of their negotiations strategy, the ECOWAS member states, including Sierra Leone should not lose sight of taking advantage of improving the prevailing RoO at the regional level and negotiating that these should be in line with those to be agreed under the EPAs. In order to make a dent on industrialising, as small LDC country, eligible to EBA, Sierra Leone should be allowed full cumulation with any third country provided certain minimum levels of processing are achieved.

A second best is for a country like Sierra Leone to have full cumulation across Africa. This would mean that all EPA eligible countries and associate members of EPAs (e.g the Euro Med countries and South Africa) would be allowed to cumulate with each other. The Africa wide cumulation is already envisaged under NEPAD, whose progression will be an Africa wide FTA. This, therefore, obliges the Cotonou to support Africa wide regional integration by allowing cumulation across the continent.

6.4 Food Safety and Regulations

Over recent years, food and feed safety have become a prominent priority of the European Union. The aim is to protect European consumers through an integrated approach "from stable to table" or "from the farm to the fork" by increasing controls for products of plant and animal origin (that is, fruit, fish, meat, vegetables, feedstuff, etc).

A new regulation (COM/2003/0052) is scheduled for application to third countries as of January 2006. It will typically require the streamlining and reinforcing of the control systems in the countries concerned. For those who export to the EU, the new regulation proposes to demand each Government to present its own national export control system for feed and food products of animal and horticultural origin. The EC would then assess the performance of the national systems, mainly through the undertaking of audits.

Given that the national authorities of many developing countries already struggle to meet the existing EU food safety standards, the importance of these issues for trade cannot be overstated. In March 2004, the EU Health and Consumer Protection Commissioner, at the time, David Byrne, pointed out that: "Unless there is a serious effort to …strengthen the capacity of developing countries to meet the food-safety standards of the developed world, the opportunities presented by trade liberalisation in the food area may prove illusory".

The practices and evidence to date indicate that there are a series of problems that stem from the SPS requirements in the EU and the developed world in general. For LDCs in particular, these regulations constitute a major challenge as they tend to:

- skew the distribution of gains from international trade,
- form onerous challenges for exporters, particularly the smaller ones, and
- change too often and rapidly.

6.5 EU Trade Agreements Relevant to the EPA[37]

In recent years, the EU has concluded at least ten free trade agreements (FTAs) with developing countries. The review of these FTAs provides an insight into the evolution of the EU trade agreements and the approaches adopted by the EU in negotiating these agreements. Such a review could therefore be of peculiar interest to the future

[37] For a comprehensive review of EU FTAs, refer to ECDPM Inbrief 6A; September 2004.

ECOWAS EPA. For the purpose of this impact assessment we have limited the review presented in this section to agriculture and a sample of those agreements.

Agriculture in EU Free Trade Agreements

In the recent FTA concluded by the EU with developing countries, agricultural liberalisation has been relatively limited when compared to that of industrial products. Typically, in agriculture, the extent of liberalisation is reduced by several exceptions. Where advanced concessions are granted, they are product and country specific. In all the agreements concluded by the EU with developing countries such as South Africa, Mexico and Chile, six instruments are used to offer trade preference to third parties beyond the WTO MFN status.

I. ***Tariff concessions*** are in the form of either complete or partial tariff reductions. In the case of products subjected to both ad valorem and specific duties, usually a complete or partial cut is achieved by removing the ad valorem component. For the EU, the tariff cut is generally in respect of the WTO MFN rates. For the trading partners, the tariff cut refers to actually applied tariffs, which could be lower than the maximum (bound) tariffs agreed in the WTO.

II. ***Tarrif rate quota concessions*** for defined quantities of specific products are tailored to the individual needs of the partner countries through seasonal limitations of favoured imports. Quantities may be adjusted by a fixed annual growth rate or by a rate to be decided based on annual reviews.

III. ***Safeguard clauses*** can be common to all products or special safeguards may be determined for agriculture and applicable to both imports and exports.

IV. ***Specific rules of origin*** for agricultural products are spelt out to ensure the exclusivity of the preference benefits to the parties to the FTAs. This calls for the definition of criteria in respect of "wholly obtained product", the "import content" rule, "originating" products, etc.

V. ***Options for flexible adjustments*** to a partner's market access are offered by two clauses: the review clause commits the parties to consider further liberalisation in agriculture and the flexibility clause allows the parties to amend the agreement if one of them changes its domestic agricultural policies.

VI. ***Other specifics*** summaries the topics that are not common to all agreements.

No domestic-support related provisions are found in the EU's agreements since these are not part of the FTAs. In the agreements, the pattern of product coverage of liberalised imports into the EU is based on and reflects the degree of EU domestic protection and the risk, or existence, of internal surpluses for specific products.

In general, the EU's approach to negotiation is guided by the following considerations:

- high domestic protection implies low willingness to tariff cuts as these could undermine high domestic prices;
- high domestic protection coupled with risks of internal surpluses implies additional restriction on imports; and
- existing high surpluses lead to the EU's interest in seeking to expand access to the partner's market.

Within the EU's strategic agricultural products the following two categories can be distinguished:

- high domestic protection for: bovine animals and beef, domestic swine, poultry, dairy, cereals, sugar, some fruits and vegetables, olive oil, citrus, fruit and grapes, flowers and rice; and
- high domestic protection coupled with high surpluses for: meat, dairy, cereals and sugar.

From the FTAs concluded by the EU with developing countries in recent years, it appears that national interests invariably set a limit to the extent of trade liberalisation in agriculture as important agricultural products are commonly excluded from free trade.

In so far as the EPA negotiations are concerned, their specificity comes from the fact that it is the first time that the EU will negotiate FTAs with partners who are mostly LDC, ECOWAS being a case in point.

7. Assessment of Likely Trade, Fiscal and Economic Impacts of EPA

7.1 Trade Impact - Trade Creation and Trade Diversion

7.1.1 Qualitative assessment of trade creation and trade diversion

The effect of the removal of trade barriers between Sierra Leone and the EU in a preferential trade agreement such as the proposed EPAs will be divided between a fall in the prices paid for imports and an increase in the prices received for exports in Sierra Leone.

Both effects lead to some increase in trade between the partners. The extent of the increase in trade will depend on a number of factors, including:

- the size of the trade barriers being removed
- the responsiveness to price changes of import demand and export supply
- the competitiveness of producers relative to the margins of preference created in their favour or removed to their disadvantage
- the degree of substitutability between products (those of existing suppliers), taking into account product characteristics, consumer preferences and other impediments such as transport costs and frequencies.
- whether and to what extent tariffs are replaced by alternative non-discriminatory taxes such as VAT, since this will cushion the price effect of the tariff reductions.

The increase in trade will benefit the country by allowing it to make more efficient use of its resources. This is called the trade creation effect and is defined as the change in imports from the EU and consists of the consumption effect, that is, the increase in overall consumption due to lower prices, and the displacement of domestic production. More generally trade creation effects capture the increase in imports by donor countries (exports by beneficiaries) resulting from the tariff cut and the corresponding decrease in domestic prices (which are assumed fully reflect the tariff changes).

Some of the increase in trade however will not represent new trade but rather trade diverted from existing suppliers who are lower-cost producers but are no longer able to compete in the face of the margins of preference created in favour of the EU. This is called the trade diversion effect, and it represents an economic cost to the country. More generally, trade diversion measures the extent to which imports from preference-receiving countries will substitute current imports from third countries.

The new preferential trade arrangements will deliver net economic benefits as long as trade creation effects outweigh the trade diversion effects. As a general rule trade diversion effects are likely to be greater, the higher are the tariffs that are being eliminated, since this is likely to result in the creation of larger margins of preference. The risk of trade diversion can be reduced by lowering tariffs on imports from third countries.

While an increase in trade may be beneficial in the medium and long term, in the short term it is likely to be accompanied by adjustment costs, as producers face increased competition from the EU, causing some to reduce their production and some even to shut down completely. The prospect of a large increase in trade give rises to concern at the likelihood of correspondingly large adjustment costs, even though the economic gains may also be expected to be larger in the longer term.

In the case of the proposed EPA, a major impact on Sierra Leone export is not likely, since most Sierra Leone exports already enter the EU market duty free, so that any improvement in market access that may be agreed will apply only to a relatively limited range of products. The main effect is therefore likely to be on Sierra Leone's imports from the EU. In other words it is reasonable to say that the trade effect of the EPA on Sierra Leone would be felt more on the import side rather than exports. This is because the country already has unutilised trade preferences with the EU. Thus, the EPA will place European imports as a major competitor against domestic production as well as put EU imports at an advantage relative to non-EU trading partners. In other words, there are potential trade creation and trade diversion effects from the EPA. These deductions about likely trade and economic effects are drawn from data on existing trade flows as describe earlier.

Furthermore although the data on Sierra Leone trade with the EU is not sufficiently robust to allow detailed economic modelling of the trade and economic effects of the proposed EPA, an attempt has been made to estimate these effects.

7.1.2 Background note on the methodology for a quantitative assessment

The quantitative analyses of the impact of an EPA on trade flows are typically performed in either a partial or general equilibrium framework. By their very nature, partial equilibrium models allow highly detailed studies on the impact of trade policy changes to be made. In contrast, general equilibrium models attempt to describe the effects of discriminatory tariff preferences on the economy as a whole and the intersectoral linkages in particular. In most cases, general equilibrium models are thus more suitable to analyse the overall trade and welfare effects. Yet they require a so-called social accounting matrix with detailed information on the economies, such as sectoral production data or substitution elasticities.

Since the required data is not available for Sierra Leone, an appropriate partial equilibrium model must be relied on. More specifically, the model of Verdoorn (1960) is used to estimate the impact on trade flows and budget revenue.

Despite its age, it has been shown that the model of Verdoorn is a simplified version of the more general partial equilibrium model of Clague (1971, 1972). (See Busse (1996) and Busse and Koopmann (2002)). It is therefore a suitable partial equilibrium model for the analysis of trade flows in the proposed EPA.

In the spirit of the "Armington assumption" (Armington 1969), this model assumes product differentiation between supplying countries. Imported goods from different countries are considered to be imperfect substitutes in use. This assumption seems reasonable, since the majority of Sierra Leone imports consist of manufactured goods (see section 4 above). Verdoorn's model is based on the normal assumptions of partial equilibrium analysis, such as no repercussions on exchange rates or incomes due to changing trade flows, iso-elastic import-demand functions, and infinite supply elasticities. The latter assumption, frequently applied in models of international trade, seems appropriate in the case of the European Union, since the EU is relatively large and its exports to Sierra Leone account for only less that 0.1 per cent of total EU exports, or other major exporters, such as the United States. Yet it might be some cause for concern for other African export nations. In reality, their elasticities of supply are less than infinite. Yet the share of exports to other African countries in domestic production is not very large. For these reasons, expected changes in total domestic production are likely to be small and the assumption of horizontal supply curves seems appropriate. The assumption implies that total imports are substituted equally for domestic production. By using import demand elasticities, we can thus employ import data without having to rely on domestic production data. This particular assumption is not only convenient, but rather necessary. To include domestic production in the calculations, highly disaggregated data at the four-digit level, which is not available for Sierra Leone, would be required. We have thus as suggested by other studies excluded domestic production in the following analysis of the effects of the EPA on Sierra Leone. Tariff and trade data, on the other hand, are to some extent accessible. See Annex 6 for model description.

7.1.3 Quantitative assessment - Empirical results

In that line, in a recent study, Busse and Grosmann (2004) examined the trade effects of EPA on ECOWAS countries using a partial equilibrium models at the four-digit HS level. Three scenarios reflecting different assumptions about elasticity of trade substitutions were used to test the results for sensitivity to underlying assumptions. But due to lack of data, Sierra Leone was not included in the analysis.

In this study, the estimation of trade creation and diversion and the changes in import duties has been conducted at the two-digit HS level. In comparison to an estimate at a more disaggregated level, this highly aggregated approach does not ensure an accurate estimation of trade effects, since it does not take – in the case of trade diversion – competition from various countries at an appropriate level into account. Also, it does not allow the identification of the commodities that are most likely to be affected by the EPA.

To estimate the trade creation and trade diversion effects, the model uses a number of variables from different databases.

Estimation of trade creation and trade diversion in the differentiated product model requires estimates of import demand and substitution elasticities. Reliable estimates for both elasticities for Sierra Leone countries at the two-digit HS level are not available. As a remedy, values for these elasticities were assumed from the literature[38]. More specifically, following Busse and GroBmann (2004), three scenarios were set up: low, mid and high. The scenarios differ with respect to the assumed elasticities. Data unavailability resulted in an inability to address differences in elasticities that are based on the degree of homogeneity of the products, and therefore not differentiated between agricultural products, raw materials and manufactured goods as in particular, raw materials are more likely to be substituted, as they are more similar in comparison to manufactured or agricultural goods. In contrast to the import demand elasticities, the assumed values for the elasticity of substitution are higher, because imports from, for instance, the United States and the EU are more likely to be substituted than EU imports and domestically produced goods. From our perspective, the mid scenario is the most likely outcome of the EPA. The low and high scenarios, on the other hand, provide lower and upper bound estimates of the trade and budget effects of the EPA.

[38] Recent estimates of trade elasticities are provided by Gallaway et al. (2003) and Kee et al. (2004).

Table 7: Assumed Values for the Elasticities, Total Imports,

	Import demand elasticity			Elasticity of substitution		
	low	mid	high	low	Mid	high
Total imports	0.5	0.7	0.9	1.3	2.0	2.5

Table 8: Trade Effects of EPA on Sierra Leone

		Trade creation		Trade diversion		Total trade effect	
	Scenario	US$ millions.	% of preferred imports	US$ millions	% of preferred imports	US$ millions	% of preferred imports
Sierra Leone	Low	8.4	2.8%	2.2	0.8%	12.9	4.4%
	Mid	12.5	4.2%	4.1	1.4%	21.3	7.2%
	High	16.5	5.6%	6.0	2.0%	29.4	10.0%

Sources: Computation

This confirms that for Sierra Leone, trade creation exceeds trade diversion in absolute levels.

The results are consistent with those for ECOWAS[39] as a whole where trade creation effect dominates trade diversion effect. Trade creation leads to an increase of EU imports into the sub-region by US$647.9 million or 9.62%. Trade diversion effects will displace non-EU imports in favour of EU imports by US$390.8 million or 5.77% of non-EU imports. Total trade effects were estimated at US$1,038.9 million or an increase in EU imports by 15.35%.

7.2 Revenue and other Fiscal Effects

An important fiscal issue posed by EPAs is the impact on government revenues of preferential reductions in Sierra Leone tariffs on merchandise imports from the EU.

Apart from the impact on trade flows, the EPA lead tariff elimination will lead to a decline in import duties and, hence, total government revenue. Since tariffs are levied primarily for revenue-raising purposes in Sierra Leone, as noted above, the loss of tariff revenue as a result of entry into free trade arrangements is potentially a major cause for concern. This concern and responses to the concern can in turn be broken down into four two further elements:

- the size of the potential revenue loss
- the potential impact of the revenue loss on government revenue

7.2.1 The size of the potential revenue loss

In general, customs revenue consists of import and exports duties and other statistical fees, taxes and surcharges related to trade. With respect to the EPA, only

[39] Specific effects vary from country to country

import tariffs vis-à-vis EU imports will be eliminated. The following analysis will, hence, only concentrate on import duties collected.

As indicated in the table below, the country runs a significant budget deficit of almost 12 per cent of GDP. If capital grants are excluded, the weak ability of Sierra Leone to fund its activities from its own revenue becomes more visible as the budget deficits are much larger (almost 19%), indicating the dependency of the country on foreign grants.

Secondly, the table shows that import duties as a percentage of total government revenue is 46.6 per cent and import duties as a share of GDP is 5.8 per cent in Sierra Leone. Based on these two indicators, the country is highly dependent on import duties to finance government expenditure.

Thirdly, import duties become more apparent if the relative magnitude of imports and protection levels of Sierra Leone vis-à-vis imports from the EU are taken into account. 30% of Sierra Leone's imports in 2003 originated from the EU and the share of EU imports in GDP is 10.5%. This indicates a moderate dependency on EU imports to the country compared to other ECOWAS member countries where on average, one half of total West African imports are from the European Union. In Gambia for example the share of EU imports in GDP is about 36.4%.

Fourth, the import-weighted tariff rate for EU imports, which give an impression of the protection levels of country vis-à-vis total imports and EU imports with respect to tariff barriers, is 16.7 per cent, indicating high levels of tariff protection. This compares favourably with the average import tariff rate for all ECOWAS countries of 12.0 per cent. The same figure for total imports and EU imports for Nigeria is 20 and 19.5 per cent, respectively.

Table 9: CET rates and the Current tariff in Sierra Leone

	Number of products	Average CET Tariff (%)	Average Sierra Leone Tariff (%)
	61	0.0	9.2
	957	5.0	8.3
	508	10.0	15.0
	1548	20.0	23.2
All Sierra Leone Imports	3074	13.3	16.9

Source: *WTO Trade Policy review (2005) and own calculations.*
Note 1 : *Import-weighted averages*

Fifth, the pattern of the revenue is of importance as it gives the weight of trade related revenue. The table below shows that both the composition and shares of domestic revenue sources have changed considerably over the last two decades. The analysis shows that while the ratio of revenue to GDP has increased considerably (though irregularly) over time, the shares of the broad sources of revenue have undergone marked alteration. It can be seen from the table that the share of taxes on international trade and transactions in domestic revenue has increased from about 42 percent during 1980-86 to about 51 percent in 2002. This reflects the shrinkage in domestic economic activity over the years, especially during the decade of war.

Table 10: Trends in Domestic Revenue by Category (1980-2002)

	1980/81-84/85	**1985/86-89/90**	**1990/91-95/96**	**1996-2000**	**2001**	**2002**
			in percent of GDP			

Taxes on income and Property	2.5	1.9	2.4	1.3	3.7	3.8
Taxes on international trade	4.2	3.3	4.5	3.5	7.0	7.3
Taxes on Goods and Services	2.3	2.1	4.2	2.2	2.7	2.8
Other Revenues	0.8	0.5	0.6	0.4	0.6	0.5
	9.9	7.9	12.0	7.4	14.0	14.5
		in percent of total revenue				
Taxes on income and property	26.1	23.8	19.2	17.8	26.2	26.4
Taxes on international trade	41.7	42.3	38.2	47.1	50.3	50.5
Taxes on goods and services	23.2	25.9	34.9	30.6	19.2	19.6
Other revenues	8.9	8.0	7.6	4.6	4.3	3.5

Source: Ministry of Finance, Freetown

Furthemore the influence of international trade on domestic revenue in Sierra Leone is far more than is directly discernible from the above table as: (i) while both the quantum and share of taxes on goods and services has remained largely unchanged over the years, the composition has actually changed. Excise taxes, especially on petroleum products, as well as road user fees have constituted the main share of this revenue component over the period subsequent to 1992/93 these two items actually derive from international trade and transactions; (ii) a large proportion of taxes on goods and services also derive form domestic sales tax, which largely relates to output from domestic manufacturing industries. A huge chunk of raw materials for these industries are imports, with local raw material input minimal.

From all of the above and based on 2003 data the table below summarise the level of the government surplus, the level of total import duties, the share of imports from the EU and the weighted average tariff rate for imports from the EU.

Table 11: Key Government Revenue Indicators of Sierra Leone & ECOWAS

	Government deficit (-) / surplus (+)		Import duties		Imports from the EU		Tariff rate	
	(incl. grants) % of GDP	(excl. grants) % of GDP	% of GDP	In % of government Revenue[1]	% of GDP	% of total imports	total imports %[2]	EU imports %[2]
Sierra Leone	-11.4	-18.6	5,8	46,6	10.5	30	16.9	16.7
Ecowas	-4.6	-8.9	2.5	14.7	16.3	49.3	12.0	12.0

Sources: World Bank (2004b), UNCTAD (2004), ITC (2004), WTO Trade Policy review (2005) and own calculations.

Notes: 1 Excluding grants.
2 Import-weighted averages.

Import revenue constitutes a significant proportion of fiscal revenue. The country is heavily dependent on tariff revenues as import tariffs amount 5.8% to of GDP and account for over 46% of government revenues.

Overall this indicates the potential significance of the impact of the EPA on government revenue if import duties decline to a considerable extent.

From this perspective, the simulation reveals, as indicated in the table below, that Sierra Leone will be particularly affected with an estimated decline in total government revenue ranging from 31.3 per cent, in the low scenario to 34.2 per cent in the high scenario. As a share of GDP, the percentage figures amount to 1.8 per cent (low scenario) and 2.0 (high scenario). In absolute terms, the decline in import duties ranges from US$ 18.2 million in the low scenario to US$ 19.7 million in the high scenario.

Table 12: Decline in Import Duties in Sierra Leone

	Decline in import duties			
Scenario	mill. US$	% of total import duties	% of total government revenue	% of GDP
Low	18.0	31.3	14.6%	1,8%
Med	18.8	32.6	15.2%	1,9%
High	19,7	34.2	16.0%	2,0%

The projected revenue loss for Sierra Leone is relatively large largely due to the combination of many factors including: (i) significant budget deficit; (ii) highly dependent on import duties to finance government expenditure; (iii) the relative magnitude of imports and protection levels of Sierra Leone vis-à-vis imports from the EU; (iv) high import-weighted tariff rate for EU imports; (v) high concentration index of import revenue in Sierra Leone.

In comparison to the trade effects, the differences in changes in import duties in the low and high scenarios are much smaller, since EU imports will be duty free after an EPA comes into force and only small losses in import duties are due to trade diversion effects.

7.2.2 Potential Impact of the Revenue Loss on Government Revenue

As shown above trade related revenue is a significant share of the government revenue. The shift from a revenue system heavily dependent upon tariffs to one that is more broadly based and diversified is a necessary step for the country.

7.3 Impact on Welfare

From an economic point of view, trade creation is welfare improving, as consumers substitute lower cost beneficiary imports for goods produced at home. Trade diversion, on the other hand, will decrease welfare, as a more efficient source of imports will be displaced by a higher-cost producer. From this perspective, the EPA is likely to increase overall welfare levels in Sierra Leone. Yet this does not hold for all products, as at the highly disaggregated level trade diversion can exceed trade creation.

7.4 Socio-Economic Impact

The assessment of the likely economic and socio-economic impacts of trade liberalization with the EU should be anchored on the overriding objective of the Cotonou Agreement, which is one … “of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy.” (Part 1, Chapter 1, Article 1).

Central to meeting the poverty objective is the focus on regional cooperation and integration, which shall aim at:

a) fostering the gradual integration of the ACP States into the world economy;
b) accelerating economic cooperation and development both within and between the regions of the ACP States;
c) promoting the free movement of persons, goods, services, capital, labour and technology among ACP states;
d) accelerating diversification of the economies of the ACP states; and coordination and harmonisation of regional and sub-regional cooperation policies;
e) promoting and expanding inter and intra-ACP trade and with third countries.

A number of exploratory studies undertaken to examine the impact of EPAs, on trade in particular, most of them using the partial equilibrium analysis, have lacked full information on the content of EPAs and good accurate statistical data. As reported in the present study results of the application of the partial equilibrium analysis, the main conclusions is that the welfare effects of the EPA, though not very clear point to revenue losses and reduction of welfare effects of trade diversion.

There is also the likely impact of the EPAs inadvertently increasing regional tensions rather than promote regional integration, as integration in Africa is still perceived as more of a political priority, than an instrument of enhancing the welfare effects of the people.

For integration to have benefits to the people's welfare, in terms of EPA negotiations, the general framework of the agreements on rules of origin and other trade policy measures should be the same for all countries in the region. Only when the EPA is concluded at a minimum level of the FTA or ideally at the CU level, will the people of Sierra Leone and those of the region to experience level playing field welfare effects. However, in practice it is expected that individual country tariff phase-down schedules would be negotiated individually with the EU. Since ECOWAS is not yet a CU, Sierra Leone will need to come up with its own tariff phase-down schedule and negotiate it individually with the EC. This however, may not even be feasible within the timeframe left for the negotiations. The experience suggests that it will be difficult to harmonise, at a later stage, tariff phase-down schedules that have been agreed upon individually by the countries with the EC.[40] The socioeconomic impact arising from this is whether the EPA agreement will create conducive atmosphere for growth and investment. This is particularly critical for a country like Sierra Leone which enters these negotiations with extremely weak production and investment structures.

However, on the positive side, the restructuring of Sierra Leone's economy, by combining a modification of the framework of incentives for economic agents (propelling them towards a more efficient use of resources) with the financial and technical support of the EU are likely to yield the following:

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[40] The experience of the TDCA negotiated by South Africa and the EU, though limited, shows that once tariff levels are negotiated they become sticky to renegotiate, particularly downwards, when other members join the group, in this case, when other SACU members try to re-negotiate what was agreed to earlier between South Africa and the EU.

- Easier adjustments to European institutional arrangements, such as competition policy and commercial law considered as enabling instruments for efficiency and growth.
- Enhance the credibility of the country's trade reforms and "lock in" these reforms.
- Protecting from further erosion market access into EU markets for the country's export products.

The negative socio economic impacts could include the following:

- Loss of revenue and adjustment costs both of reallocating resources from producers displaced by lower costs of imports and the development of alternative sources of government revenue. Due to autonomous reforms, revenues to the state will decline and in many cases this will lead to expenditure reductions in key public social services.
- Complicate regional integration and increasing the profit margins of European exporters, rather than lowering the prices to consumers and ACP importers.
- The domestic economy will face various adjustments costs, capacity, technical, institutional and political constraints and issues.

Another direct effect of the EPAs will be the increased competition that local producers will face from EU imports and in the EU markets. Local manufacturers will not be able to compete on price or quality owing to a lack of economies of scale and restricted access to latest technologies. This may well lead to job losses, further de-industrialisation and barriers to entry into new markets for local producers.

7.5 Political and Social Implications

The negotiations over the proposed EPAs will have political and social implications for both rural and urban societies in the country.

Given that no loss of access to the EU market is envisaged for Sierra Leone, no implications for rural society related to the consequences of market access would follow from an EPA.

However a political implication of the new trade arrangements is the need to achieve and/or sustain commitments to the economic reforms, particularly fiscal reforms that will be needed among other things to ensure that the fiscal effects can be accommodated. The changes to taxation systems that are involved are major, and pressures to resist, modify or abandon the reforms have been and will continue to be intense in the country. The political challenges facing the introduction of the proposed new trading arrangements should not be under-estimated.

7.5.1 Impact on poverty

Poverty is pervasive in Sierra Leone. The country has consistently ranked at the bottom of the UNDP's Human Development Index. Characterised by low life expectancy (39 years), high illiteracy rate (67%), low per capita income and poor health and nutritional standards, the country is caught up in a vicious poverty cycle. The government has articulated specific goals for poverty reduction in order to reduce extreme poverty by half by the year 2010. The overall vision according to

Vision 2025 is total poverty eradication by the year 2025. In the social domain, Vision 2025 aims at developing "a healthy, and well-educated society with a high quality of life" and again access to affordable energy services is vital in all spheres of the social sector be it in education, health, job creation, safe drinking water, etc.

Trade Liberalization (tariff reduction) will affect poverty through its impacts on government revenue, the prices of products and the income of households. When tariffs are lowered government import tax revenue is reduced. As the government's ability to render service depends on its revenue, this will negatively affect government's capital and recurrent expenditure. Transfers and other social expenditure may be affected. It is almost a stylized fact that budgetary shortfall tend to lead to adjustment on the social sector budget with implication for health care, education etc. As indicated earlier in Sierra Leone's case the reduction in total government revenue will be relatively high (about of Government revenue) as import tax revenue is usually over 40% of total tax revenue.

The second channel is through the prices of products. Imported products will become cheaper and hence relatively more attractive than domestic goods (price elasticities of imports are negative).

Imports will increase and will compete more with domestic production. Trade Liberalization will further spur growth of imports as imports ordinarily increase with increases in GDP as a result of the marginal propensity to import. So imports will increase as GDP increases annually. Here we assume that GDP maintains the positive trend it has been showing in the last few years. Furthermore with the reduction of import tariffs over the years " the composition of effective demand shifted towards imports: this was triggered by the cheapening of imported goods and expansion of domestic credit supply". This agrees with the observed preference for imported products and existing propensity to import. With the successive reduction of tariffs, the ratio of trade revenue to GDP rose from 4.2% in the 1980 to 1985 period to 7.3 % in 2002 indicating a shift to imports demand vis-à-vis domestic goods. This is an indication of the propensity to import.

The third channel builds on the price effects. Household income and consumption is affected by the changes in prices. For households that obtain labour or profit income from domestic production of liberalized products a fall in income is expected. Previous reports have indicated that the appreciation of the Leone exchange rate cheapened food imports and consequently helped to depress domestic prices thereby constituting serious disincentive for increased domestic production. Reducing tariffs will have the same effect, as the price elasticities of imports are still negative.

At the same time the reduction in the prices of imported goods makes more consumption possible for the household.

The net effect on a household will then depend on weather the household is a net consumer or producer of the products in question. For the economy as a whole, the final price (and therefore) income effects depends on how the intersectoral relationships mould equilibrium prices. The final effect on the entire economy in turn determines the final effect on all households.

7.5.2 Impact on Women

Sierra Leone's ecomony, like most economies, is gendered structures in which there are particular gender dynamics such that women and men tend to have different roles and contribution across sectors and within sub sectors. Further, the underlying gender realities behind trade liberalization are that gender biases and gender inequality in access to resources, training, technology and credit structure constraint the opportunities of women to participate in the labour market as well as entrepreneurship. This is true in the areas of agriculture and services as well as in the industrial sectors. In particular, women businesses tend to be relatively less capitalized than men and suffer from lack of access to credit. Gender segregation and gender differences in access to skills and training also predetermine that women will tend to be predominate in one or other industrial sub sectors.

As has happened in the past, the burden of EPA reforms could fall heavily on women. In Sierra Leone, the IMF led Structural Adjustment Programme (SAP) resulted in some negative trends for women. Women's employment in the formal sector declined, and only few jobs created under employment schemes went to women, with only a small part of loans going to small and medium-sized enterprises (SMEs). SMEs have proved to be an important area for the economic and social empowerment of women worldwide, but greater liberalisation under EPAs may reduce their capacity to compete with foreign goods and services. Women are seriously disadvantaged by restricted access to productive resources and gaps in training and technology transfer.

In Sierra Leone, most households are headed by women, and over two third of these are poor, whereas about half of households headed by men are regarded as poor. The vas majority of the rural population depends on agriculture, and women farmers are doubly disadvantaged. Women are allocated the worst and smallest pieces of land, and only a small of all land is controlled by women.

In general, past experiences of ACP-EU cooperation show that gender inequality has not been fully addressed. A 1997 review of 24 EU-funded development projects in ACP countries found that 21 in no way addressed gender inequalities (European Commission

The EPA need to incorporate an understanding of the constraints faced by women that make it difficult for them to benefit from trade arrangements. . These include low levels of technical capacity and funds, as well as infrastructure and market standards which currently limit or inhibit women's capacity to engage with trade opportunities.

7.5.3 Impact on fight against aids

Scant information on HIV prevalence is available for Sierra Leone. A 1995 sero-survey conducted among sex workers in Freetown found that 27% tested positive for HIV-1.

No empirical data on the economic impact of AIDS in Sierra Leone were found. However, a modelling exercise carried out for the World Bank calculated the annual costs of scaling-up AIDS programmes to meet the current need to be between US$ 9 million and US $ 14 million. This represents a per capita cost of around US$ 2–US$ 3 and approximately 1.8% of GDP. In the education sector, the current primary school enrolment is 44%.

The reduction in government revenue generated by an EPA would put additional stress on the government capacity to deal with the issue. A model developed by UNAIDS and UNICEF shows how increasing mortality rates have led to discontinuity, with many pupils losing or having a change in their teachers. This discontinuity, along with increasing numbers of orphans and children's growing responsibilities as a consequence of AIDS in the household, is likely to erode the achievements in this area, reducing enrolment and, hence, literacy rates. The potential impact on other sectors, including agriculture, households and firms, shown in other African nations to increase costs and expenditure, reduce savings and shift productivity patterns due to labour losses, needs to be carefully monitored in future studies to ensure an appropriate policy response.

7.6 Impact on Investment Flows

According to the IMF (2005), International Financial Statistics (IFS), FDI inflows which stood at $32.5m in 1990 declined sharply with the outbreak of the war to $7.5m and remained negative for the consecutive four years thereafter. The onset of peace coupled with the pursuit of prudent macroeconomic reform by the Government led to a strong improvement in FDI inflows from $0.5m in 1999 to $39m in 2000. However, total inflows of FDI only amounted to $3.1m in 2003. A major constraint faced by Sierra Leone in promoting private investment stem from the high cost of doing business. According to the World Bank (2005), Sierra Leone ranked 145th out of 145 countries surveyed in terms of the costs of establishing businesses and these costs represent 1268% of GNI against 225% on average for Sub-Saharan Africa.

Not surprisingly, this study has not been able to quantify the likely impact of the EPA on investments in Sierra Leone. This is because tariff policies only play a small role in the decisions of private investors and in particular the foreign ones. Tariffs are also much less important as a determinant of investment particularly for FDI than tax concessions, political stability, investment subsidies, the market size and the overall cost of doing business. Moreover, a systematic computation of the likely impact of the EPA on private investment in Sierra Leone would require the use of a general equilibrium model which is not available for Sierra Leone. It does remain that the EPA alone would not solve the problems the economy faces in attracting a higher level of investment than in the present scenario.

However, in view of Sierra Leone's open trading environment and improvements in external competitiveness brought about by the flexible exchange rate regime, there are potential opportunities for diversifying the economy particularly in horticulture, fishing, tourism, etc. This would require that infrastructure deficiencies, especially those relating to the provision of electricity[41] and good roads be addressed in a timely fashion. It is important that the EPA process allows Sierra Leone sufficient time to recover from the post-conflict situation and to address the cross-cutting infrastructural and institutional constraints faced by the economy. Under such a scenario, the country could increase foreign and domestic investor interests in the context of the EPA by emphasising its comparative advantages, which include various financial incentives, lower wage costs (that is, lower wages not offset by lower productivity) and a potentially competitive port.

There is no doubt that by addressing the specific barriers to investment identified to date, the Government could significantly facilitate a sustainable increase in the stock of private investment. The matrix below presents some of the recommendations and the time frame put forth by the Foreign Investment Advisory Service (FIAS) following the recent diagnostic study of the local investment climate. The matrix shows that irrespective of the EPA, substantial work needs to be done to streamline the process, clarify laws, render all procedures transparent, and make information readily available for potential investors.

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[41] Sierra Leone has some of the highest costs of electricity production and distribution in the world. This coupled with the poor quality of supply has led to significant competitive problems for the productive sectors.

7.7 Identification of Defensive and Offensive List of Products

An important advantage of the partial equilibrium approach is the ability to identify the most affected products of the EPA at a fairly disaggregated level. Furthermore, IDS has developed a methodology that can be used to identify which products should be included or excluded from liberalisation under an EPA. The simple IDS methodology fills a need for a widely usable tool which can facilitate discussions within and between countries. Such discussions can contribute to the definition of the very limited number of scenarios that it will be possible to simulate rigorously through general equilibrium modelling.

However the non availability of full set of Sierra Leone datasets at a fairly disaggregated level has prevented the use of the above methodologies to successfully provide the list of product and the proportion of trade that will be liberalised under EPAs.

Hence, given the Sierra Leone LDC statute and the opportunity provided by the EBA initiative, the identification of list of sensitive product was more driven by fiscal revenue loss than market protection.

To single out the sensitive products and product categories, we have sorted the disaggregated effects both by absolute changes in import duties and by changes in total EU imports. For losses in import duties, Table 13 lists the 40 most important products at the four-digit HS level.

In that line the top 10 import revenue generators at 4 digit HS level are:

- *2402 CIGARS, CHEROOTS, CIGARILLOS AND CIGARETTES OF TOBA*
- *8703 MOTOR CARS AND OTHER MOTOR VEHICLES PRINCIPALLY D*
- *8422 DISH-WASHING MACHINES; MACHINERY FOR CLEANING OR*
- *3004 MEDICAMENTS CONSISTING OF MIXED OR UNMIXED PRODU*
- *2203 BEER MADE FROM MALT*
- *8704 MOTOR VEHICLES FOR THE TRANSPORT OF GOODS, INCL, CH*
- *3926 ARTICLES OF PLASTICS OR OTHER MATERIALS OF HEADINGS*
- *2710 PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS M*
- *1101 WHEAT OR MESLIN FLOUR*
- *8411 TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINE*

This compares favourably for those of other Ecowas countries as similar categories can be found in the other ECOWAS countries as well. There are a few products that are among the top ten most affected products in a number of countries, such as motor cars for the transport of people (HS heading 8703) and of goods (8704), and petroleum oils (2710).

Table 13: Imports for which the tariffs yield the most revenue

HS 4	PRODUCTS	RANK	VALUE in 1000 Euros (2003)	REVENUE in 1000 Euros (2003)
2402	*CIGARS, CHEROOTS, CIGARILLOS AND CIGARETTES OF TOBA*	*1*	7651	5930
8703	*MOTOR CARS AND OTHER MOTOR VEHICLES PRINCIPALLY D*	*2*	15306	3444
8422	*DISH-WASHING MACHINES; MACHINERY FOR CLEANING OR*	*3*	5033	2391
3004	*MEDICAMENTS CONSISTING OF MIXED OR UNMIXED PRODU*	*4*	6869	2232
2203	*BEER MADE FROM MALT*	*5*	2411	1869
8704	*MOTOR VEHICLES FOR THE TRANSPORT OF GOODS, INCL, CH*	*6*	8189	1843
3926	*ARTICLES OF PLASTICS OR OTHER MATERIALS OF HEADINGS*	*7*	4682	1756
2710	*PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS M*	*8*	6415	1443
1101	*WHEAT OR MESLIN FLOUR*	*9*	3722	1396
8411	*TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINE*	*10*	5764	1297
8708	*PARTS AND ACCESSORIES FOR TRACTORS, MOTOR VEHICLES*	*11*	5445	1225
8414	*AIR OR VACUUM PUMPS (EXCL, GAS COMPOUND ELEVATORS*	*12*	3167	1188
402	*MILK AND CREAM, CONCENTRATED OR CONTAINING ADDED*	*13*	3017	1131
9403	*FURNITURE AND PARTS THEREOF N.E.S. (EXCL. SEATS AND M*	*14*	2141	1017
5603	*NONWOVENS, WHETHER OR NOT IMPREGNATED, COATED, C*	*15*	2610	979
2106	*FOOD PREPARATIONS N,E,S,*	*16*	2484	932
1103	*CEREAL GROATS, MEAL AND PELLETS*	*17*	2812	914
8418	*REFRIGERATORS, FREEZERS AND OTHER REFRIGERATING OR*	*18*	1825	867
1701	*CANE OR BEET SUGAR AND CHEMICALLY PURE SUCROSE, IN*	*19*	2301	863
49SS	*CONFIDENTIAL TRADE OF CHAPTER 49*	*20*	4787	838
5903	*TEXTILE FABRICS IMPREGNATED, COATED, COVERED OR LA*	*21*	2116	794
1602	*PREPARED OR PRESERVED MEAT, OFFAL OR BLOOD (EXCL, S*	*22*	1804	677
407	*BIRDS' EGGS, IN SHELL, FRESH, PRESERVED OR COOKED*	*23*	1784	669
1507	*SOYA-BEAN OIL AND ITS FRACTIONS, WHETHER OR NOT REFI*	*24*	2026	658
9406	*PREFABRICATED BUILDINGS, WHETHER OR NOT COMPLETE*	*25*	1707	640
703	*ONIONS, SHALLOTS, GARLIC, LEEKS AND OTHER ALLIACEOU*	*26*	1686	632
4823	*PAPER, PAPERBOARD, CELLULOSE WADDING AND WEBS OF*	*27*	1679	630
8544	*WIRE AND CABLE -INCL, CO-AXIAL CABLE- FOR ELECTRICAL*	*28*	1612	605
8903	*YACHTS AND OTHER VESSELS FOR PLEASURE OR SPORTS; R*	*29*	1551	582
1901	*MALT EXTRACT; FOOD PREPARATIONS OF FLOUR, MEAL, STA*	*30*	1525	572
8705	*SPECIAL PURPOSE MOTOR VEHICLES, OTHER THAN THOSE P*	*31*	2325	523
9009	*PHOTOCOPYING APPARATUS INCORPORATING AN OPTICAL S*	*32*	2012	453
7602	*WASTE AND SCRAP, OF ALUMINIUM (EXCL, SLAGS, SCALE AN*	*33*	1719	387
3920	*PLATES, SHEETS, FOIL, FILM AND STRIP OF UNEXPANDED PL*	*34*	1658	373
99EE	*SETS OF GOODS, NOT ELSEWHERE CLASSIFIED")*	*35*	1553	272
8471	*AUTOMATIC DATA PROCESSING MACHINES AND UNITS THER*	*36*	3813	191
8517	*ELECTRICAL APPARATUS FOR LINE TELEPHONY OR LINE TEL*	*37*	2362	118
8473	*PARTS AND ACCESSORIES (OTHER THAN COVERS, CARRYING*	*38*	2257	113
8477	*MACHINERY FOR WORKING RUBBER OR PLASTICS OR FOR T*	*39*	2159	108
8479	*MACHINES AND MECHANICAL APPLIANCES HAVING INDIVID*	*40*	1959	98
8431	*PARTS SUITABLE FOR USE SOLELY OR PRINCIPALLY WITH TH*	*41*	1544	77

Assumptions are required on the proportion of trade that will be liberalised under EPAs, and the choices that Sierra Leone government makes on which items to include and exclude from the liberalisation process. On the proportion of trade, and on the assumption that current trade policy reflects government preferences over which sectors to protect, by how much, and is reflected in tariff levels. It is assumed that those products currently facing the highest tariffs will be excluded.

The revenue effect of eliminating tariffs on imports from the European Union could be limited by excluding from preferential liberalization those imports for which the tariffs yield the most revenue.

As to timing and sequencing, the phasing of tariff reductions should earn utmost attention. It is widely accepted that the existence of inter-sectoral adjustment costs calls for a "gradualist" approach to reductions in trade-protection measures. . Together with other ECOWAS member countries to establish a timetable for the progressive removal of trade barriers that helps the economy to adjust to increased competition from the EU with a minimum of economic and social upheavals. In sectors where the EU competition could have destructive effects (see sectoral analysis below), gradual implementation of trade liberalisation would be necessary in order to preserve domestic production and enable it to build competitiveness or to specialise in "niche" production that does not compete with EU imports (PricewaterhouseCoopers 2004). Of course, it will not be an easy task for governments of ECOWAS member states to reach an agreement on a common timetable and the final product coverage, because they might wish to follow different strategies, depending on their particular interests.

8. Assessment of Likely Sectoral Impacts of EPA

8.1 Agriculture and Agro-based (and/or related) Activities

8.1.1 Overview of the agricultural and agro-based sectors

Before the civil war, Sierra Leone's agricultural sector accounted for 52 percent of GDP and employed more than 60 percent of the working population, with coffee and cocoa being the principal export crops and rice being the principal food crop. Agricultural production accounts for about 40 percent of GDP and grew on average by about 9 percent during 2000-03.[42] Recent research published results put agriculture's contribution to GDP at 50 percent.[43]

Rice production increased by 5.1 percent to 303.1 thousand metric tons in 2004 from 289.3 thousand metric tons in 2003. The area cultivated for the other food crops such as piassava, sorghum and groundnut also increased substantially. This growth was facilitated by the sustained Government support to farming communities in the form of seedlings and other agricultural inputs.[44] By end of 2004, production levels of paddy rice increased to its 1991 level (544,000 MT). Though estimates of progress vary, government estimates show 544,000 mt in 2001 and 445,000 mt in 2003. FAO estimated that 503,700 mt were produced in 1991, a low of 199,134 mt in 2000 and 250,000 mt in 2003.[45]

Coffee and cocoa are the two main cash crops, mainly produced for export. Coffee and cocoa production increased from 39,000 metric tons and 16,000 metric tons in 2003 to 50,700 metric tons and 20,900 metric tons respectively, in 2004, representing an annual increase of 30 percent for both crops. Sierra Leone has also re-started sugar production and has been given a quota in the EU market. Another promising export product is ginger, where new imported varieties have steadily produced over 100 mt.[46]

[42] IMF, Country Report No. 04/420, December 2004, Ibid.

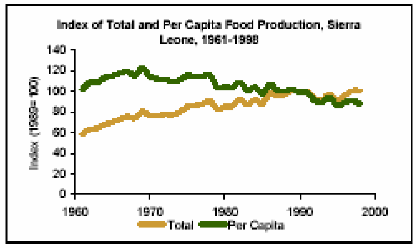
[43] Saccoh and Pessima (2005).

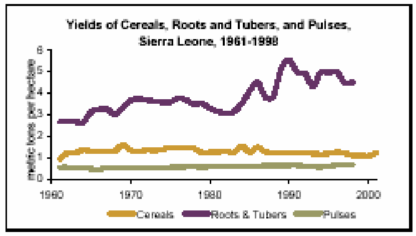
[44] EPRU Economic Bulletin, May 2005, p.1-2.

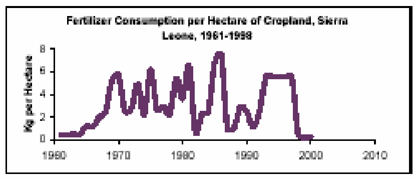
[45] Consultative Group Results Framework – A Framework for peace, recovery and development (undated).

[46] Interview with senior officials of the MTI.

Agricultural Production and Yields	Sierra Leone	Sub-Saharan Africa	World
Cereals, 1999-2001			
Average production (000 metric tons)	241	87,715	2,075,387
Percent change since 1979-81	-56%	54%	32%
Per capita production (tons per person)	55	135	343
Percent change since 1979-81	-67%	-11%	-4%
Average crop yield (kg per ha)	1,092	1,221	3,096
Percent change since 1979-81	-13%	9%	41%
Roots and tubers 1996-1998			
Average production (000 metric tons)	352	132,744	638,438
Average crop yield (kg per ha)	4,667	7,694	12,958
Pulses, 1996-1998			
Average production (000 metric tons)	42	6,499	55,469
Average crop yield (kg per ha)	676	481	808
Meat, 1999-2001			
Average production (000 metric tons)	22	8,124	233,218
Percent change since 1979-81	36%	49%	71%
Agricultural Land,			
Total cropland (000 ha), 1999	540	173,572	1,501,452
Hectares of cropland per 1,000 population, 1999	126	274	251
Arable & permanent cropland as a percent of total land area, 1998	7.5%	7.1%	11.3%
Percent of cropland that is irrigated, 1999	5.4%	3.8%	18.3%
Agricultural Inputs			
Average annual fertilizer use, 1999			
Total (thousand metric tons)	0	2,124	141,360
Intensity (kg per hectare cropland)	0	12	94
Pesticide use, 1994-1996 (kg/ha cropland) {c}	X	X	X
Number of tractors, 1997	81	261,984	26,334,690
Agricultural workers as a percentage of the total labor force, 1990	67.4%	X	X
Percent of GDP generated from agricultural activities, 2000	47.3%	16.7%	5.0%







Source: EarthTrends 2003

The pre-war decline of Sierra Leone's rice production was mainly due to the demise of the Sierra Leone Produce Marketing Board (SLPMB) which caused a sudden market failure as producers had been deprived of a channel to market their produce. This decline was further accelerated and acerbated during the war period. Other structural reasons for the decline of rice production were insufficient funds for agricultural research, poor road network, lack of modernized farming practices and networks and the slow rate of dissemination of research technologies to the farming communities. However, with most of the causes of crop failure now being addressed in a variety of ways, the current problems facing the sector include:

1. During the long years of war most farmers deserted farming and sought refuge in the relatively safer urban areas, consequently leaving tree crops uncared for;
2. The diseases such as black pod caused by fungi and bacteria have become predominant in most cocoa growing areas;
3. The poor state of farmers has resulted in failure to purchase inputs such as fertilizer as well crop chemicals, e.g. insectides, resulting in poor quality crops;
4. Price determination of coffee produce is extremely against the farmers, as final producer prices are determined by exporters, who pay the producer buying agents, who in turn determine what prices will be paid to the farmer *ex ante,* consequently causing uncertainty and a disincentive to the farmer;
5. Instead of exporters buying the produce off the farm-gate or designated local areas as it was the case before the closure of the SLPMB and the rebel incursion war, now farmers have to incur the costs of transporting their produce to the major buying centres;
6. Government produce inspectors are not mobile and equipped to inspect the beans, clear them and grade them according to international standards; and

7. Decentralisation continues to be hampered by lack of communication, e.g. as trade officers and other government support staff in the provinces are left with no logistics (transport, communication).

8.1.2 Impact on agricultural products

As shown above, Sierra Leone’s agricultural production is heavily dependent on a few crops. The agricultural sector is the main source of employment, growing potential of contributing to foreign currency earnings. The importance of the agricultural sector lies in its contribution to the livelihood of the rural community. About 70 percent of the country’s rural population is engaged in agriculture, making it both the source of livelihood for the majority of the people as well as principal food security crop for the nation.

The sensitivity of a country’s products or sectors can be identified on the bases of the degree of influence the products or sectors have on key economic variables such as employment, foreign currency, share of contribution to GDP and share of exports. For Sierra Leone, both agricultural cash crops (coffee and cocoa) and rice, the country’s main staple are major contributors to economic growth and employment thereby making these products sensitive.

Negative impacts
As a LDC Sierra Leone is conferred to “differential and more favourable treatment” in the form of longer compliance periods and EBA, her main productive sectors and especially agricultural products will be affected by EPAs, through the loss of competitiveness thereby reducing the much- needed foreign currency in the economy.

The cheaper EU imports could also have dumping effects on regional and domestic market as the removal of trade restrictions would depress prices of import-competing goods resulting in increased imports and reduced domestic production. The main reason could be that larger EU market allows firms to take advantage of economies of scale whereas domestic and regional markets are too small for that.

Positive impacts

- The exposure of Sierra Leone’s agricultural production is certainly going to assist in improving the agricultural products value chains, through processing and other value added activities in order to enhance the competitiveness of the sector.

- The competitiveness of exports would be enhanced through the removal of tariff and non-tariff trade barriers, consequently spurring domestic producers to increase the value added in the composition of their export range into the EU. Under previous arrangements, tariff peaks and tariff escalation have prevented such positive developments. This is because agricultural products like cocoa and coffee currently attract prohibitive duty once processed in ACP countries whereas unprocessed agricultural products may be duty free.

- The implementation of EPAs is likely to promote diversification of the structure of domestic production in regional economies in order to take full advantage of the opportunities offered by EPAs. Sierra Leone’s products like ginger and sugar are likely to benefit from this increased domestic competitiveness.

Particularly with regard to the agricultural sector, the opening up of the domestic economy under EPAs could impact positively by unlocking the current inefficient production structures faced by regional exporters in the provision of public infrastructure – electricity, communication, transport and water services.

8.2 Mining and Energy

8.2.1 Overview of the mining and energy sectors

Sierra Leone has a rich and diverse mineral resource base, and mining is vital to its economy. The mineral sector can be divided into three sub sectors:

1) large-scale production of the non precious minerals rutile (titanium dioxide and a little iron) and bauxite;
2) large-scale production of diamonds; and
3) artisanal production of precious minerals— mainly diamonds and to a much lesser extent, gold.

Large-scale production of the nonprecious minerals: which began in 1991 and by 1994, the last full year of production, the rutile mine generated about US$60 million in exports, corresponding to a third of that year's exports.[47] At the height of its production, Sierra Rutile Mine produced over 25 percent of the world's rutile from one of the world's highest-grade deposits. However, the mine was closed in 1994 because of work interruptions caused by the war. To reopen the mine, the government entered into an agreement with an investor in 2001 and after renegotiation of the agreement in 2003, production was expected to resume in the last quarter of 2005.

The country's other major non-precious mineral is bauxite, which until the closure of Mokanji Bauxite Mine in 1995 on account of the war, bauxite exports in 1994 totaled about US$16 million. Production of bauxite was also expected to restart in 2005.

Large-scale production of diamonds: Sierra Leone has two known kimberlite

diamond deposits, the Koidu and Tongo Fields. Diamonds found in kimberlite deposits can be mined by large-scale corporate operations. In 1995, the government entered into an agreement with an investor to develop the Koidu Kimberlite Project and the mine was scheduled to begin operations in 1997 but was forced to close in the same year because of the war. The investment amounting to US$18 million was lost. Additional shareholders were brought in, and, after another investment of US$18 million, production resumed in late 2003.

The production of diamonds, the country's principal mineral increased by 37 percent to 692,000 carats in 2004 from 507,000 carats in 2003. The resumption of Kimberlite diamond mining, coupled with the increase in the issuance of mining licenses for alluvial diamond mining, contributed to the increase in the production of diamonds. Diamond exports increased to at least US$ 60 million by end of 2003. The value of diamond exports increased to US$126.6 million by end December 2004, with alluvial

[47] IMF, Country Report No. 04/420, December 2004, p. 30.

diamond exports reaching $113 million. As a whole Sierra Leone diamond exports increased by 10 percent from Jan-June 2004 to Jan-June 2005.

Artisanal production of diamonds: Since the discovery of the first alluvial diamond deposits in Sierra Leone in the 1930s, diamond operations were largely controlled by a single company that guarded the mining fields and had the resources to employ heavy equipment. However, during the 1970s and 1980s the Sierra Leone diamond industry fell prey to corruption and mismanagement, with the result that many of the country's diamonds were exported illegally. Eventually, diamond mining was opened to artisanal, or small-scale, miners. Between 1992 and 2000, average official exports were less than 200,000 carats. Alluvial deposits are spread out over large areas, while kimberlite deposits are concentrated in one area. Artisanal production of precisous minerals also includes gold.

A survey of diamond mining which relied on air patrols and on-site visits, concluded that about 55 percent of the total significant mining operations in Sierra Leone were operating illegally in 2003.[48] The continued existence of a large illegal mining sector complicates the rebuilding of government institutions in the mining areas. The main challenge facing the government in eliminating the incentives for smuggling lies regularizing artisanal mining activity by:

i. restoring government control, law and order, and government services to the artisanal mining areas;
ii. increasing transparency in the diamond trade so that local communities, miners, and diggers can benefit more from the country's diamond wealth; and
iii. increasing tax collection.

The dependence of modern mining activities on energy intensive needs not to be over-emphasized, as the development of this sector, as with all other sectors of the economy will depend on the country's energy resources and its efficiency. A perennial problem in Sierra Leone has been the irregular power supply that has hinged on the non-completion of the Bumbuna Hydroelectric project.

But, at least in the short-term and before the completion and coming on stream of the Bumbuna hydro-electricity project, deterioration of electricity generation due to frequent breakdowns of generating plants continue to cause declines in industrial consumption as a result of low power supply. When phase I (one) of the Bumbuna Hydro-electric project is completed, it would provide about 50 megawatts of electricity compared to the current 13 megawatts now being produced by the National Power Authority (NPA). On completion of phase one and phase II (two) a total of 150 megawatts would be produced.[49]

8.2.2 Impact on Mining and Energy sector products

Though endowed with a world-class deposits of diamonds, rutile and bauxite, Sierra Leone's mining sector remains a dominant primary commodity - producing sector, with diamond being by far the largest contributor to merchandise export earnings.

Sierra Leone's mining activities and exports of mineral are unlikely to be negatively affected by the entry of force of EPAs. But the continued growth and development

[48] Ibid. p. 35.

[49] Ibid. p. 5.

impact of the sector will be influenced by the degree of its dependence on the country's energy sector. The development of this sector, as with all other sectors of the economy will depend on the country's energy resources and its efficiency. A perennial problem in Sierra Leone has been the irregular power supply that has hinged on the non-completion of the Bumbuna Hydroelectric project.

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On the positive side, there is likely to be efficiencies to be gained by the mining and energy sectors as a result of cheaper imported inputs, either as a result of trade creation, that will occur in some regional economies following a cumulative reduction of tariffs under the EPAs, particularly those countries with higher levels of tariffs.

8.3 Manufacturing

8.3.1 Overview of the manufacturing sector

Sierra Leone's manufacturing sector consists of a typical narrow based import substitution manufacturing enterprises that produces for the domestic market, namely: beer & stout, acetylene, oxygen, soft drinks, etc. Cement is probably the only sub-sector that is based on an abundant local resource, followed by the beer production which is increasingly relying on local produced agro- inputs (See Table …& … below). Other sub-sectors of the manufacturing sector do not have sufficient depth to withstand competition of similar products, primarily because they rely on imported inputs and do not have the minimum economies of scale to produce competitively.

The following sub-sectors have been rehabilitated after the war:

Beer, Stout and Maltina: whose total output remained at the 2003 production levels of 942,000 cartons. This was owing to stiff competition from imports of similar products and constraints imposed by water shortage in the Wellington Industrial Area.

Soft drinks: whose production increased by 35.3 percent from 1,171,000 cartons in 2003 to 1,584,830 cartons in 2004. The increase in the production of soft drinks was attributed to an expansion of capacity following the installation of new plants and machinery at the Freetown Cold Storage.

[50] Ibid. p. 5.

Cement: whose production increased from 170,000 metric tons in 2003 to 180,000 metric tons in 2004, an increase of 6.5 percent. The increase was mainly due to continuing rehabilitation and reconstruction activities as well as the apparent construction boom in the private sector.

Paint: whose production dropped from 181,000 gallons in 2003 to 170,000 gallons in 2004. The fall in paint production was attributed to the stiff foreign competition from imported paint.

Plastic Footwear: where production dropped from 730,000 pairs in 2003 to 86,000 in 2004, following the cessation of production by the establishment in February 2004.

An analysis of Sierra Leone's current established industrial sub-sectors indicates most of them are not directly linked to national produced resources both in agriculture mining or fisheries sectors, except for only beer & stout, and cement. This type of national industrial structure has an inherent inability for upgrading and diversification of its products and activities, such as would have been the case if the country's manufactured sub-sectors were, e.g., agro-foods and mineral and mineral products. These have the potential to extend their value chains profile through profound re-engineering of their production activities to respond to the upgrading of products through diversification of activities.

Sierra Leone, however, has two distinct sub-sectors are easily identifiable as having potential for forming the basis of national value chains with potential for regional and global inter-connectivities, namely:

a) Agro-foods industrial products;

b) Mineral and mineral products.

The agro-food processing industry is characterized by (i) direct link to agriculture, which in the case of Sierra Leone is the main stay of the economy; (ii) high diversity in terms of products and prospects for rice production, rice meal processing, sugar, edible oils especially palm oil seem to have significant potential for developing into national and regional value chains. This can be enhanced by well focused 'industrial governance', involving all the government ministries responsible for policy and programmes affecting the industrial sector.[51] In the case of Sierra Leone, at the centre of the industrial governance is the MTI, in co-ordination with the ministries of Agriculture, Infrastructure (Transport & Communications, Energy), and specialised agencies such as SLEDIC, the Bureau of Standards, and government research institutions.

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[51] The term is sometimes used more generally to describe any non-market coordination of industrial activities. This would include the governance function within value chains (McCormick et al. 2003; McCormick and Schmitz 2002; Kaplinsky and Morris 2002; Schmitz 2004).

[51] BSL, Bulletin, op.cit. Statistical Annex, Table 1.

Table 14: Sierra Leone's Production of Manufactured Establishments

Period 1	Beer & Stout ('000 Ctns)	Acetylene ('000 Cu.ft)	Oxygen ('000 Cu.ft)	Carbon Dioxide (000 lbs)	Plastic Footwear (000 Pairs)	Paint (000 Galls	Confec-tionary (000 lbs)	Salt (000 M/T)	Cement (000 M/T	Soft Drinks (000 Crts	Common Soap M/Tons
1995	467.7	152.0	643.0	73.0	-	60.9	3,017.7	4.9	51.3	683.6	587.5
1996	562.3	211.6	1,009.7	175.4	-	93.1	3,378.7	5.5	78.1	1,370.9	1,312.5
1997	187.2	93.4	266.6	67.1	-	51.6	1,758.9	2.1	39.5	791.2	416.7
1998	489.4	67.5	607.1	58.6	-	53.7	1,661.3	2.3	40.7	847.9	323.0
1999	-	14.4	188.7	16.8	298.5	29.9	814.6	1.2	45.1	787.4	301.6
2000	381.8	99.6	721.1	49.3	1,436.8	98.5	1,675.2	3.3	73.4	1,429.4	492.9
2001	983.8	197.4	1,008.8	12.7	1,419.7	158.3	2,188.2	2.9	113.3	1,711.8	367.1
2002	1,115.5	99.4	1,131.3	26.1	1,268.3	185.9	2,952.8	1.8	144.1	1,872.0	459.6
2003	924.7	114.0	1,609.0	2.0	730.8	181.2	3,318.7	1.0	169.5	1,171.0	491.3
2004	942.0	12.3	428.2	-	1,733.0	169.7	2,723.6	827.1	180.5	1,584.8	268.1

Source: Bank of Sierra Leone (BSL), January-June 2005,3 Production of Manufactured Establishments, SE3.

Table 15: Sierra Leone's Manufacturing Structure Jan 2004 - June 2005

Mnfd-goods	Measurement	Jan-Jun 2004	Jul-Dec 2004	Jan-Jun 2005	TOTALS
Beer & Stout	000 Cartons	360.45	448.1	888.96	1697.51
Maltina	000 Cartons	61.01	72.47	180.54	314.02
Acetylene	000 Cu ft	12.28	0	133.26	145.54
Oxygen	000 Cu ft	428.17	0	141.3	569.47
Carbon-Dioxide	000 Lbs	0	0	0	0
Confectionary	000 Lbs	1486.48	1247.17	1883	4616.65
Salt	M. Tons	434.03	393.1	0	827.13
Common Soap	M. Tons	173.1	94.02	560.32	827.44
Soft Drinks	M. Crates	739.94	841.86	1938.34	3520.14
Paint	000 Galls	89.89	74.69	114.66	279.24
Cement	000 M. Tons	95.74	84.69	161.34	341.77
Plastic Footwear	000 Pairs	85.97	0	0	85.97
Flour	000 M. Tons	10.01	9.07	18.4	37.48
Jumbo	000 M. Tons	0	0	0	0

Source: BSL Bulletin, January-June 2005

The two identified sub-sectors in the Sierra Leone economy, (i) agro-foods and (ii) mineral and mineral products would appear to have the potential to extend their value chains profiles through profound re-engineering of their production activities to respond to the abundant resource bases in the country. In the case of agro-based foods value chain, the industrial strategy would immediately save three main purposes: (i) grow the vegetable based products, such as palm oil, cassava and ginger), (ii) provide employment to the youth and women in rural communities through labour intensive technologies, and (iii) open opportunities for agro-foods processing and packaging for both the domestic market and for exports.

Sierra Leone's abundant mineral resource base could support forward and backward linkages in the transformation of its metallic and non-metallic mineral raw materials. It can be argued that at the heart of resource transformation of economies is the transformation of available metallic and non metallic mineral raw materials. In turn this can directly trigger other sectoral forms of transformation which are driven by sub-sector industrial value chains.

For example, with an abundant resource of cement raw materials, Sierra Leone can designate a special 'industrial free zone and industrial parks' designed specifically to encourage and enhance industrial exports of cement. This can be achieved through the concept of strategic geographical location of industries under a national law, which will pave the way for the establishment of free zones and incentives related to these zones. Because of the advantage of bulk handling, Sierra Leone firms will in a short period increase cement exports by exploiting duty free access and geographical proximity of the markets in the ECOWAS region.[52]

If properly structured the national PPP bodies can assist in devising policies that will support product up-grading and diversification of activities through networks and industrial clusters with the export markets in mind. To complete this cycle of holistic development, value chains should link up and upgrade activities from a bottom up approach involving SMEs to the large-scale manufacturing, and marketing firms. At the centre of supporting bodies in this transformation should be the UNIDO initiative under the African Productive Capacity Initiative (APCI) duped the sustainable industrial component of NEPAD.[53]

8.3.2 Impact on manufacturing sector products

As shown above, Sierra Leone's manufacturing sector has an inward looking production structure, that is typical of most of Africa's import substitution industries which are devoid of value chain linkages both within the national economy, regionally and globally. Even more critically, manufacturing firms and managers may look at the ECOWAS's CET as a death nail to their domestic market instead of a stepping stone towards opportunities offered by the regional market.

For purposes of addressing Sierra Leone's prospects of regional integration and the EPA, the current industrial structure can be enhanced through the framework of value chains, defined as a set of integrative actions that are taken within a network approach by all the institutions and actors involved in adding value to specific industrial sub-sectors.

The main impact of EPAs is likey going to be on the erosion of competitiveness of the local manufacturing firms thereby threatening employment. In the negotiation process

[52] Until recently Egypt was a net importer of cement, importing about 5 million tones per year. From 2002 it became an exporter of cement, producing 8 million tones in excess of its national requirements of a little over 25 million tones per year. The Egyptian firms located close to the Red Sea are favourably placed to avoid the high cost of crossing the Suez Canal and can therefore export to the COMESA market cost effectively. Egyptian cement is delivered through bulk handling to Port Sudan, Masawa, Djibouti and Mombasa in the East African coast. For details see, Daniel Ndlela, See, Ndlela (2004), Country Reports : Egypt, Kenya, Sudan and Zimbabwe, COMESA Secretariat, 2004.

[53] The APCI is itself the outcome of a series of sub-regional meetings held across the African continent during 2002 and 2003 as an initiative of the Conference of African Minsters of Industires (CAMI) to define the concept, strategies and concrete actions to strengthen industrial production and competitiveness in Africa.

Sierra Leone will have to define some of its manufacturing sector products as sensitive products. These may include its nascent agro-based processing and beverages.

On the positive side the EPAs will provide the following advantages:

- Encourage domestic industries to be more competitive by reducing costs of production and improving quality and the promotion of the country and region as a stable environment which is ready for long-term foreign direct and portfolio investment.
- The legal framework of EPAs will make it difficult to reverse any trade liberalisation, which may take place. This, in turn will make the country more attractive to investors as it will improve the perception of Sierra Leone and the region as a stable emerging market. The fact that EPAs should also specify levels of market access (which will need to be negotiated) should also attract investors into the country.
- Create interindustry relationships/ or fusion of national markets, which will make possible simultaneous advances in a number of fields as well as the application of large-scale technologies, leading to widening of markets and allowing the development of new branches of manufacturing.
- Enhance trade creation which entails a shift from high cost to low cost sources of supply. This is likely to be the case with companies relying on imported inputs as they will now purchase cheaper duty-free imports from the EU switching away from the rest of the world inputs which could be relatively expensive (this could actually reduce amount of regional trade), however impacting positively on economic development of ACP countries.

The first steps towards pursuing these likely economic impacts of trade liberalisation with the EU have already begun with the liberalisation of trade under ECOWAS and its implication from the private sector's perspective. From the point of view of the private sector and looking at product market integration and investment, there are costs and benefits of trade liberalisation at both the regional and the EU-EPA level. From the perspective of the private sector, it is the companies, not countries, that react to altering trade incentives and pick up the new opportunities for growth and development – or ignore them.

The balance of the costs and benefits is likely to hinge on whether both the ECOWAS and EU EPA agreements will be able to actually fully implement the commitments made and then move beyond trade integration to address some of the other pressing issues related to creating a conducive environment for doing business in the region. This is because private sector priorities are elimination of tariffs and non-tariff barriers (NTBs) to trade, in particular overcoming red tape, policy uncertainty, corruption, discriminatory taxes, temporary bans, divergence in standards and requirements, non- or late payments, and lack of financial services.

8.4 Fisheries sector

8.4.1 Overview of the Fisheries sector

Sierra Leone's fish exports on a bilateral basis to European countries was in 1978 – 1980, 50% of the country's GDP. However, the country failed to initiate the procedures in the early 1990s to export fishery products to Europe as a harmonised country because of the civil war. Nevertheless, the Sierra Leone fishery products continued to be exported through neighbouring countries as the product was trans-shipped from the Sierra Leone waters via international carriers to mainly Las Palmas and also Greece. This was done by poaching vessels mainly Liberian and Sierra Leonine licensed vessels (fishing licenses).

After remaining in a stagnant state and declining, Sierra Leone's total fish production has recently increased from 62,540 mt in 2001 to 82,923 mt in 2003.[54] In 2003 artisanal catch was 65,758 mt (82.9%) compared to total industrial catch of only 17,165 mt (17.1%),[55] emphasizing the importance of artisanal fish in the development of the country's fisheries sector and negotiations of the EPA agreement.

Sierra Leone has a coastline of 300 km or 210 miles and a continental shelf area of about 25,600 km2, with a vast revenue generation potential through exports and utilizing fish as source of food security.[56] Thus a major a priority for the government and the private sector in Sierra Leone working in co-operation with the EC Delegation in Freetown is to enable the country to export fishery products as soon as possible to Europe in a legal way, as a harmonised country.[57] Particular attention is being paid to ensuring that products from small-scale fisheries are not excluded from global markets and that a harmonised system of fisheries legislation and sanitary controls is implemented by the beneficiary countries,[58] without causing an excessive pressure on commonly shared fishery resources. This is to be achieved by improving the production of health conditions in beneficiary countries and by generating a sustainable system of sanitary controls and surveillance of fishery production and trading.

8.4.2 Impact on fisheries sector products

Sierra Leone's fisheries sector comes under the management of the Ministry of Fisheries and Marine Resources whose policy is to develop both the Industrial Fishing for exports and the small-scale fisheries artisanal sector which is mainly geared towards poverty alleviation through the promotion of sustainable livelihoods and enhanced nutritional, socio-economic conditions.

On the positive side, the legal framework of EPAs will make it difficult to reverse any trade liberalisation, which may take place. In the fisheries sector, the country will become more attractive to investors as it will improve its perception and that of the region. The fact that EPAs should also specify levels of market access (which will need to be negotiated) should also attract investors into the country.

Already as part of the anticipation towards the EPAs negotiations and agreement, a sense of urgency has been brought in for the coastal fishing countries of the ECOWAS to speed up preparations on the certification of fish exports to the EU

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[54] BSL, Bulletin, op.cit. Statistical Annex, Table 1.

[55] Ibid.

[56] The Sierra Leone River Estuary is said to be the third largest natural harbour in the World and is one of the finest harbours in Africa. The country has beautiful beaches all along the coast, which is a major tourist attraction, See. Secretariat Of The ACP Group Of States, (2004), p.9.

[57] Confirmed in separate interviews with the EC Delegation and the Ministry of Fisheries and Marine Resources officials.

[58] The countries involved in the current EU funded diagnostic mission are Gambia, Ghana, Sierra Leone and Liberia.

market. Sierra Leone is expected to earn Euro 50 million per year at the start of fisheries exports to the EU. As a result of the conclusion of the Fisheries Agreement with the EU, it is expected that a more conducive economic environment will assist in attracting investments into the country, particularly from the private sector. E.g. it is expected that the Fisheries Port will be financed by the private sector.

8.5 Services

Services constitute the second largest sector of the economy accounting for around 25% of GDP in 2003 having increased from 18% in 1995. In 2000, the leading services activities in Sierra Leone consisted of trade and tourism, transport and communication, banking and finance, and government services. In 2004, exports of commercial services represented close to 22% of total exports of goods and non-factor services, and almost 27% of total imports of goods and non-factor services.

Tourism

Tourism in Sierra Leone started over 25 years ago. From the late seventies to the eighties several new hotels were built by the private sector and the Government. In the case of the latter it is important to stress that the new developments were not demand driven but rather in anticipation of the government planning to host a number international conferences. Today, these hotels have been either privatised or are under private management. The National Tourism Board estimated that a complement of 4,148 staff was directly employed in all of the country's 323 tourist establishments in 2004.

Sierra Leone is endowed with abundant and diversified natural and cultural attractions. The potential for developing an industry offering a varied set of products cannot be over-emphasised yet the decisive steps aimed at spearheading the growth of the sector are still wanting. The sector remains faced with an array of constraints which include an inadequate to poor transportation and communication infrastructure; poorly trained staff, the difficulties encountered in accessing land and the high cost and poor quality of electricity supply. This situation is further exacerbated by the poor image Sierra Leone has gained as a result of the war and civil strife of the 1990s.

The establishment of the National Tourism Board in November 1991 was seen as a major step towards the realisation of the potential of the tourism sector. Unfortunately several critical measures have yet to be implemented to put the development of tourism on track. These include:

- A clear delineation between the respective roles of the Ministry of Tourism and Culture and the National Tourism Board;
- The formulation of a tourism development plan through a participatory process involving the private operators and all the other relevant stakeholders;
- The enforcement of the sector's regulations by all concerned parties;
- Moves to ensure that the National Tourism Board becomes an effective and efficient "one-stop-shop";
- Steps to improve on access, availability and reliability of utilities which should be seen as "key "locating factors.

Table 16: Visitors to Sierra Leone by Place of Origin - 2000-2004

Nationality	2000	2001	2002	2003	2004
Africa	33,670	79,989	94,633	163,387	171,122
Asia	13,461	12,684	14,938	13,965	15,799
America	17,178	22,477	26,495	32,893	33,350
Middle East	6,076	9,569	11,354	11,284	18,137
Europe	39,606	43,750	51,821	45,220	66,332
Total	**109,991**	**168,469**	**199,241**	**266,749**	**304,920**

Source: National Tourism Board

Financial Services

Between 1995 and 2003, the contribution of financial services (including insurance) to GDP increased considerably, from 3.6% to 6.7%.

Banking and Finance

The revised Bank of Sierra Leone Act, and the Banking Acts, provide for: (i) a more independent and effective Central Bank; (ii) a strengthening of the banking supervision function; and (iii) legislative guidelines for the financial sector as a whole, including revised prudential requirements and increased minimum capital requirements.

Six banks currently operate in Sierra Leone (three state-owned banks, two private foreign banks, and one domestic bank). Interest rates are set by each individual bank. The state-owned commercial banks (Rokel Commercial Bank, Sierra Leone Commercial Bank, National Development Bank) were planned for privatization in 2005.

Due to inefficiencies in the financial system, the cost of intermediation is high in Sierra Leone. This in turn limits the access to credit for productive investments, especially by small and medium enterprises. Other constraints faced by the sector include the high level of non-performing loans, inadequate judicial procedures for loan recovery and a defective credit risk valuation mechanism. A Financial Sector Review recently completed recommended a Financial Sector Assessment Programme to be conducted by the World Bank and the IMF. The aim is to benchmark the local financial sector against international standards and codes and provide a sound basis for the government to address future development challenges building on the series of reforms initiated in the past few years.

Loans and advances to private enterprises rose significantly to Le145.2 billion in 2004 from Le103.8 billion in 2003. Commerce and Finance accounted for the largest share (41 percent), followed by construction (20 percent), manufacturing (16 percent), Services (12 percent), Transport storage and communication (6 percent) and Agriculture, Forestry and Fisheries (2 percent) of total loans and advances to the private sector. The expansion of the banking assets was fuelled by a strong rise in deposits. However, the ratio of non-performing loans to capital (net of provision) rose increased by 8 percentage points reaching 13.5 % in 2004.

Insurance

Responsibility for over-seeing the business of insurance in Sierra Leone is vested in the Insurance Commission established in 2000. There are currently seven private and three public general insurers, with assets worth Le 20 billion. The industry appears to be dominated by the state-owned National Insurance Company (NIC).

Telecommunications

In 2004, the average number of fixed lines per person in Sierra Leone was estimated at only 0.5%. In 2003, local mobile phone subscribers numbered 100,000, equivalent to 2.2% of the population. There is no independent regulatory authority other than the Ministry of Transport and Communication. A Telecoms Bill currently being considered by Parliament should lead to the establishment of a regulatory body.

Transport

Shipping

Following the years of civil unrest, activities resumed at Freetown's port in 2002, container traffic grew by 24%, from 34,681 in 2002 TEUs to 35,555 TEUs in 2003. The average ship turn-around time, decreased from four days in 2002 to three days in 2003 but further investment is needed to bring the port at par with international standards.

In 2001, the regulatory functions previously undertaken by SLPA were transferred to the newly formed Sierra Leone Maritime Administration (SLMA); these include responsibility for the freight levy and navigational aid. Harbour dues are 140% higher on imports (containers) than on exports. In general, the operation costs of the port are thought to be uncompetitive.

Air transportation

Sierra Leone has only one international airport (Lungi), which is state-owned and managed by the Airports Authority. Seven carriers operate scheduled flights to and from Lungi. The latter should benefit from further investment in infrastructure and equipment if it is to fully meet international standards.

Sierra Leone signed the 1998 Yamoussoukro Declaration, and the 1999 Banjul Accord for the accelerated implementation of the Yamoussoukro Declaration. The latter concerns seven West African states[59]; it establishes a platform for negotiating traffic rights and market access, as well as for harmonizing air transport regulations.

Road transportation

The state-owned Sierra Leone Roads Authority (SLRA) is responsible for planning and managing of the construction, operation, and maintenance of the public road network. The latter totals about 8,200 km comprising primary and secondary trunk roads and feeder roads of which about 44% are in poor state of repair. Maintenance is financed through the Road Fund, funded by a user levy and fees for licensing and registration but there exist a growing maintenance backlog. The World Bank, the EU and the Kuwait Fund are funding the construction or rehabilitation of several major roads. In addition, the road authority planned projects include the completion of the peninsular road; the rehabilitation of Masiaka – Taiama – Bo, Matotoka - Sefadu; Rogbere - Pamlap and the construction of the Hill-Side road and that of a new Freetown – Lungi link. Despite donor commitments to the sub-sector, under funding remains a recurring problem.

[59] Cape Verde, the Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone.

9. Adjustments Required for Sustainability

9.1 Fiscal and Taxation

The need for adjustments stem from the findings of this study that the revenue effect of the EPA will be particularly marked. This will result from the substantial tariff reduction on European goods that will be implemented as the EPA unfolds over time. The aim of the required adjustment is to avoid that the current fiscal deficit is further exacerbated by addressing the tariff revenue concerns of Sierra Leone and finding ways of replacing foregone taxes.

Under the prevailing scenario, a 6-7% growth rate is projected over the medium term. With current total revenues equivalent to 12.7% of GDP, Sierra Leone is already a heavily taxed economy. For the year 2006, domestic resources only contribute 53% of the national budget. Overall funding is insufficient for the attainment of Sierra Leone's Millennium Development Goals.

Revenue losses of the above magnitude for a country that is slowly and difficulty recovering from a decade of war would be a large fiscal shock. To protect it fiscal position and maintain macroeconomic stability, the country will need to reform its indirect tax systems so that revenues from the VAT and non-discriminatory excise taxes levied at equal rates on imports and domestic products replace the forgone tariff revenues. Improvements in tax administration could also yield large revenue gains. The country may need to consider strengthening other components of its tax and revenue systems. Moreover, in view of the unmet expenditure needs for government spending on health, education, and infrastructure, the debt burden, and structural constraints to increasing government revenues, the country may need to retain a low revenue tariff on imports including those from the EU. If, in addition, the preferential tariff reductions are phased in gradually over a decade or so, the adjustment may be manageable (0.1% to 0.3% of GDP per year).

Restructuring indirect tax systems and strengthening tax administration will be complex legal and administrative undertakings and require some of the most demanding and time consuming reforms facing the country. However, restructuring of indirect tax systems is, in any case, necessary in the long term as all countries desiring to integrate into the world trading system will need to accomplish it sooner or later. In fact the UEMOA has already embarked on this process in the course of ongoing reform programs ant the ECOWAS is following suit.

The required restructuring of the indirect tax system needs to be started no later than, and preferably before, the tariff reductions on EU imports are implemented.

Already the Government has announced several measures to increase revenues. These include initiatives aimed at:

- Strengthening the National Revenue Authority (NRA);
- Raising additional revenue from the mining sector;
- Introducing VAT as a broad-based tax instrument in 2007;
- Reducing the incidence of duty/tax exemptions;
- Enhancing tax administration and compliance through the introduction of a national tax identification system and the extension of the coverage of tax clearance certificates; and

- Strengthening the anti-smuggling activities at the various border posts.

The above measures are consistent with the fact that trying to replace lost customs revenues by imposing higher rates for existing taxes would not be effective. In addition to the aforesaid, the Government has also adopted a medium term strategy for expenditure management which is aimed at controlling the wage bill, enhancing public audit function, pursuing debt relief and fast tracking privatization.

A review of Sierra Leone's fiscal policies indicates that they are broadly in line with international best practices. Thus, it is hard to identify additional measures the Government should include in its current reform package to counterbalance the negatives revenue impact of the future EPA. Indeed, further consideration could be given to policies aimed at "formalizing" the informal sector by overhauling the policies that contribute to its growth. However, with the ongoing/planned reforms already sufficiently comprehensive, a stronger focus by the national authorities on substantially raising the implementation capacity of the public service is required.

In any event, the determinants of the EPA revenue impact will strongly be dependant on:

- The initial structure of tariffs;
- The agreed schedule of tariff cuts;
- The volume of trade to be liberalized by Sierra Leone as part of the ECOWAS group; and
- The impact of trade liberalization on production, trade flows and consumption (i.e. the dynamic effects of the trade liberalization).

Given that the above variables are not yet known, it is difficult to be precise at the present time as to what the EPA impact would be for Sierra Leone. Nevertheless, it is clear that the fiscal effects of the EPA would be sizeable. It is therefore particularly critical that the developmental aspects feature prominently in the EPA negotiation rounds. Ideally, for the EPA to support the economic development of Sierra Leone, trade policy and tax replacement policy should be bound and sequenced. In other words, progress in trade liberalization should be conditional to achievements recorded in tax reform. For a country such as Sierra Leone, it is important that the EPA's cost in terms of revenue losses should be transitional whilst the EPA gains should be permanent.

In addition to being given enough time to plan and implement the required reforms, the country, may require substantial technical and financial assistance during the implementation period if elimination of tariffs on imports from the EU is not to undermine its fiscal positions: Tax and fiscal reforms are particular areas where the EU could provide support for the effectiveness of structural adjustment in the country induced by an EPA. This would be in accordance with the Cotonou Agreement, which earmarks transitional support (budgetary support, technical assistance) for this purpose. It is agreed that special consideration will be given to countries which face budgetary adjustments due to regional integration and EPAs (European Commission 2004a). In the EPA negotiations, Sierra Leone should press ECOWAS to explicitly ask the EU to provide grant-financing for tariff revenue losses until the tax reform is completed in all ECOWAS countries. Also, the EU should assist the LDCs for a longer time to provide them with an incentive to ensure that LDCs benefit as much from the EPAs as the non-LDCs.

Thus, the EU would need to support technically and financially the indirect tax reforms accompanying the implementation of the trade EPAs, for example by providing grant-financing for tariff revenue losses until the tax reform has been completed, tax administration has improved, and foregone revenues have been replaced.

9.2 Trade and Economic Policy Adjustments

Accelerated integration and greater market entry to the EU

For Sierra Leone, it can be argued that market building, rather than market opening, should be its priority.

There are at least three levels to development cooperation relating to EPAs:

- development support
- technical assistance for the EPA negotiations,
- capacity-building and support to regional integration

Capacity constraints remain a challenge. Negotiating a development-oriented EPA is a new experience and the Sierra Leone as others ECOWAS Member countries had to adapt to this scenario. EPA negotiations go well beyond the traditional focus on ACP market access to include the elements of a regulatory framework conducive to private sector development. The technical and institutional capacity national institutions and non-state actors, along with political commitment at all levels, are essential ingredients for successful EPAs and the government should be giving all possible attention to reinforcing them.

To realize these twin objectives of accelerated integration and greater market entry to the EU, a pro-development EPA could be structured around the following eight elements, all fundamental to the development strategies of the country:

- A 10 percent value-added rule as a non restrictive rule of origin. If the value added requirement is higher, cumulation rules should be global to allow the countries producers maximum access to the world's lowest-cost inputs and to avoid putting regional suppliers outside the EPA group at a disadvantage.
- Additional aid for trade. This should take the form of a program of technical and financial assistance for trade facilitation, sanitary and phytosanitary standards, and other supply-side measures (such as infrastructure). Putting additional aid for trade on the table as part of an EPA negotiation could increase the incentive of all countries to enter into an arrangement.
- MFN reductions in external tariffs. MFN reductions in external tariffs should be phased in, consistent with the ECOWAS development programs.
    - Phases 1 and 2: Promote internal trade by progressively eliminating all internal barriers within ECOWAS and, imprement common non restrictive rules of origin.
    - Phases 1 and 2: Reduce MFN peak tariffs to the average levels to promote intra-ECOWAS and other efficient trade with third parties.
    - Phase 3: Enact EU preferences. Making this the final step lessens the risks of trade diversion and hub-and-spokes development.
- Reform of tax administration and intraregional tax policy. A program to harmonize tax structures through gradual but purposeful reform of tax administration and intraregional tax policy would promote regional integration and replace lost tariff revenues. Such a program could complement tariff and

customs reforms at the regional level, with support through new aid for trade. (See section 9.1 Above)

- Liberalized trade in services. A phased, region-specific program of services liberalization could expand access to efficient trade-related services, such as telecommunications, electricity, and transport. To avoid entrenching monopolies, liberalization should be done on an MFN basis.
- Trade facilitation. A program of trade facilitation measures—for example, improvements in customs, ports, border posts—should be linked to intraregional programs to lower the costs of trading. The program should include specific benchmarks for implementation.
- Temporary movement of persons. The temporary movement of persons to supply services (mode 4 of the General Agreement on Trade in Services), although not part of the current EPA negotiations, may be easier to deal with in regional arrangements than in multilateral talks.
- Rules on investment and intellectual property rights (IPR). EPAs could include new IPR rules and rules on investment, but these should be calibrated in accordance with ECOWAS's capacity to implement them—and to benefit from them. Agreements could include competition policies consistent with national development strategies and in accordance with a region's implementation capacity.

EU support could also cover additional trade-related measures. For instance, there is a need to modernise customs administration. It is necessary to ensure smooth cross-border transport of goods and to reduce/eliminate delays and unnecessary additional transport costs. Another starting point for EU support could be capacity building dedicated to allowing Sierra Leone exporters to be able to fulfil the conditions required to access European markets. There is a particular need for activities related to sanitary and phytosanitary measures. More details are provided on Trade development Action Matrix section 10.1.3

Gender Policy

Sierra Leone needs to address the specific constraints women are facing. If not, women are likely to continue to carry the burdens of adjustment associated with economic restructuring, whilst gaining little or nothing from such adjustments. Careful consideration must be given to women in communal areas and implications fro them of moves towards free trade. This requires the establishment of specific policies and flanking measures, such as (i) addressing the physical and policy constraints that currently inhibit the ability of women producers in the country to produce and trade higher value products competitively; (ii) protecting public expenditure of greatest importance to poor women and men from budget cuts; (iii) establishing programmes specifically designed and implemented in ways which facilitate women's participation in the opportunities opened up through the EPA.

9.3 Competitiveness Adjustments

Though the introduction of EPAs seek to assist ACP countries to enter into the global economy and also strengthening the regional integration arrangements already in existence, negative effects associated with wider markets become inevitable. The broadening of the market base under reciprocal trade policies, i.e. opening up of economies of individual ECOWAS member countries will compel these countries to go through competitive adjustments, which are likely to throw up the following negative impacts:

a) Exposing of domestic manufacturers to increased competition from EU-based industries in which domestic manufacturers will face higher levels of competition in price and quality owing to reduced tariffs and their lack of economies of scale and restricted access to latest technologies.

b) Increased job losses, further de-industrialisation and barriers to entry into new markets for local producers.

c) Suffocation of SMEs by far constituting the greatest portion of the many ECOWAS economies, as the extent of development of these cannot be compared to those in the EU economies.

d) Although the LDCs are conferred to "differential and more favourable treatment" in form of longer compliance periods, extensive non-reciprocal tariff and non-tariff preferences, "Everything But Arms" EBA, their main productive sectors will also be affected by EPAs. Thus even while Sierra Leone will be able to access cheap imports, her exports are likely to lose competitiveness thereby reducing the much- needed foreign currency in the economy.

e) The cheaper EU imports could also have dumping effects on regional and domestic market as the removal of trade restrictions would depress prices of import-competing goods resulting in increased imports and reduced domestic production.

Positive impacts: On the positive side cooperation under the EPAs, likely to result from exposure of regional industries will lead to increased competition due to wider markets, namely:

- Regional industries will be more competitive by reducing costs of production and improving quality and the promotion of the region as a stable environment which is ready for long-term foreign direct and portfolio investment.
- The legal framework of EPAs will make it difficult to reverse any trade liberalisation, which may take place. This, in turn will make the region more attractive to investors as it will improve the perception of the region as being a stable emerging market. The fact that EPAs should also specify levels of market access (which will need to be negotiated) should also attract investors into the region.
- EPAs are likely to assist in improving the competitiveness of agricultural and manufacturing sector products, which have been deteriorating due to lack of investment, fixed capital formation and market access in many ACP economies.
- The competitiveness of exports would be enhanced through the removal of tariff and non-tariff trade barriers. Most ACP states are keen and willing to increase the value added in the composition of their export range into the EU, whereas currently tariff peaks and tariff escalation prevent such positive developments. West African

agricultural products like coffee and cocoa attract prohibitive duty once processed in the region whereas unprocessed agricultural products may be duty free.

- The implementation of EPAs is likely to promote diversification of the structure of domestic production in many ACP countries in order to take full advantage of the opportunities offered by EPAs.
- EPAs could create interindustry relationships or fusion of national markets, taking advantage of regional and global value chains in specific sectors such as agro-foods, minerals and mineral products, leading to widening of markets and allowing the development of new branches of manufacturing and engineering.
- EPAs could enhance trade creation which entails a shift from high cost to low cost sources of supply. This is likely to be the case with companies relying on imported inputs as they will now purchase cheaper duty-free imports from the EU switching away from the rest of the world inputs which could be relatively expensive (this could actually reduce amount of regional trade). This would impact positively on economic development of the region.
- The opening up of economies under EPAs could impact positively on unlocking of the current inefficient production structures faced by regional exporters in the provision of public infrastructure – electricity, communication, transport and water services.

9.4 Human Capacity Development Needs

Given the background of the decade long predatory war compounded by the adverse legacies from long periods of economic decline and mismanagement, Sierra Leone lost both experienced personnel and newly qualified graduates of universities and technical colleges through a massive brain drain. As a result there is dire shortage of skilled labour that allows for specialisation and efficiency in both the public and private institutions including the private sector concerns.

In the context of globalised economic environment, which is knowledge-based, the conventional comparative advantage of raw materials and unskilled labour is increasingly becoming insignificant. High quality services such as accounting, management, production engineering, design, packaging, processing, quality control etc. are crucial for export penetration and survival. Though Sierra Leone is trying to address these gaps by investing in human capital it may continue to lose this precious factor through brain drain. This is due to relatively poor working conditions and low and deteriorating real wages and salaries.

Under the EPA negotiations and cooperative arrangements, the human capacity development needs of Sierra Leone will have to be front-loaded in order to assist the country during the negotiations as well as during the implementation process. The main problems faced by Sierra Leone in the area of human capacity development needs in general and particularly in trade and regional integration matters include:

- A steady erosion of functions, structures and management capabilities in government ministries to spearhead policy formulation and implementation;
- Low level of national awareness as to the role and involvement of the

private sector in both the international and regional economic integration processes;

- Lack of capacity of both public and NSA institutions, both in terms of financial resources and technical and management skills;
- Lack of exchange of information and effective consultations among stakeholders, a situation that is currently being partly addressed by the evolving implementation road map under the FIAS framework;
- Weak research and policy formulation capacity, e.g. there is serious need for a Sierra Leone Trade Policy to be formulated, based on detailed and sufficient research and analysis;
- Lack of an economic model for trade policy analysis and simulation as a useful instrument in the trade policy making environment;
- Lack of capacity and advocacy by the NSAs (chamber of commerce, trade unions, professional and sector organizations and associations) to engage in an on-going dialogue on strategic choices to be made on trade related issues; and
- The size and supply side constraints of the Sierra Leone national economy, with high concentration of extractive sector export activities (diamonds and rutile, fish products, coffee and cocoa), with virtually little or no efforts on upgrading and diversification of products.

The EPA negotiations would require significant support to enhance the human and institutional capacities of Sierra Leone to deal with trade related issues, through the provision of secure and predictable financial and technical assistance. Both the EU and Sierra Leone in co-operation with regional partners under ECOWAS need to recognise that:

- Discrepancies in the human and institutional capacity for negotiations, which exist between the partners;
- That a smaller countries, like Sierra Leone face particular problems in dealing in parallel with trade negotiations at the regional, multilateral and inter-regional levels;
- The human resources and expertise is too far spread out, such that where possible, the process of negotiations should be structured in ways, which allow the collective regional expertise to be brought to bear on the major issues of concern;
- In the context of the human and institutional constraints facing the country, it is necessary to bring all concerned stakeholders into trade policy debates, so as to ensure that a clear assessment can be made of the likely impact of specific trade measures on domestic and regional economic operators.

10. Trade Related Technical Assistance Needs

10.1 Trade Needs Assessment

10.1.1 Obstacles to trade

Sierra Leone faces many challenges and obstacles in the development of its trade. These can be broadly divided into policy-induced constraints resulting from trade and macroeconomic policies that have biased the structure of incentives against exports, and structural supply side constraints, which are particularly prevalent in the country.

On policy side, during the assessment mission, the Government and other key stakeholders (the private sectors and civil societies) emphasised that limited national-level capacity constrained their ability

(i) to understand, negotiate and engage in the various trade agreements, especially WTO and EU negotiations,

(ii) to implement trade reform obligations undertaken internationally,

(iii) to formulate and execute trade policy,

(iv) to assess the impact on the poor of trade policy options,

(v) to strengthen and accelerate regional integration processes and to integrate trade policy issues in the broader budgetary processes.

This is mainly due to

(i) a lack of resources (human, institutional and material);

(ii) limited government and private sector access to information ;

(iii) inefficient trade policy co-ordination;

(iv) incoherent trade development strategies;

(v) insufficient mechanisms for consultation on trade policy among governments, the private sector and civil society.

In addition to the above policy related constraints, the country faces structural supply side challenges which include

(i) its heavily dependence on one main product (diamonds) and preferential, and highly supported access to one principal market outside ECOWAS (the European Union) for exports;

(ii) its limited domestic market, shortage of skilled labour, weak technological capacities and marketing infrastructural deficiencies.

A significant constraint to export expansion evident in all diagnostic studies of the country is the inadequacy of roads, railroads, ports, and trade-related institutions. These inadequacies saddle exporters with high costs of inputs, high transport costs, and costly delays in reaching global markets. Increased donor development assistance can alleviate these supply-side constraints.

These supply side constraints could be aggregated in three broad areas:

(i) the production of exportable goods and services,

(ii) trade and investment facilitation and support and

(iii) market entry.

10.1.2 Needs and actions

While waiting for the results of the IF process that is currently being carried for Sierra Leone The study identified a set of actions to alleviate the obstacles faced by Sierra Leone in the development of its trade. This technical assistance needs can be classified into two categories:

(i) A strong need for improving trade policy, trade analysis and negotiating capacities and policy coordination ; Technical assistance is needed to establish a durable and effective framework through which the country can continually revise and update trade strategy and policy on its own. To be durable and effective, the trade policy framework must be characterised by two critical and overlapping consultative processes, one bringing together governmental and non-governmental stakeholders and the other involving policy-makers.

(ii) The necessity to address supply-side constraints.

This involves addressing capacity gaps in a wide range of areas, often simultaneously, and a diverse array of stakeholders needs to be engaged. And trade development efforts need to be embedded, or mainstreamed, in a broader development framework encompassing a poverty-reduction strategy, sound macroeconomic policy, adjustment mechanisms, and policies designed to stimulate private enterprise.

The proposed action plan in a section 11.1.3 below provide a set of recommendation for trade support for the major obstacles to trade identified especially in terms of trade policy and development. As an example

- To address the limited knowledge, skill and resource to negotiate effectively, implements trade agreements, meets ongoing trade obligations and defends Sierra Leone trade-related rights illustrated by:

  (i) the prevailing little knowledge and technical skills necessary both to shape and to comply with the growing number of technical provisions and environmental, health, safety and product quality standards found in multilateral and regional trade agreements;

  (ii) the weak human and institutional capacity and financial resources to carry out the institutional and regulatory reforms necessary to implement the provisions in trade agreements (The MTI, for example, has fewer than five officials assigned to work on trade policy issues full-time and scarce resources leave officials dependent on information supplied by international organisations and/or donors, and most officials are not aware of many technical and economic aspects of the various agreements);

  (iii) the weak analytical capacity in support of trade and investment agreements negotiators;

  The study recommends: (i) To strengthen the trade policy analysis unit in the MTI with dedicated trade economists; (ii) To strengthen trade policy analysis within the private sector and associations; (iii) To identify associations to train in negotiating skills to support the negotiating team and undertake capacity building in negotiating, development and presentation of strategy; (iv) To build capacity in implementation of trade development projects, particularly entrepreneur skills and SME development; (v) To empower women in trade issues; (vi)To develop domestic trade policy; (vii) To engage in trade development and negotiation training – this to include Government, private sector and civil society and to include negotiating skills training for regional and international agreements and to be done at national and local, or decentralised (grass roots), levels; (viii) To finalise the country's trade policy; (ix) To prepare the country's position through a participatory process prior to negotiation rounds

- The proposed priority interventions are:

  (i) Institutional strengthening of the trade policy process and key stakeholders – support to key civil society, private sector representatives and/or government. May include institutional reviews and recommendations

  (ii) Technical assistance and capacity building to: Train and equip government trade staff and non state actors for economic analysis; Technical and financial support for data collection systems (including computerization); Training to develop analytical expertise to assess the welfare cost of trade restraining actions

  The capacity building project to include:

  - Trade policy development skills training for public, private sector and civil society
  - Negotiation training for negotiation team
  - Negotiation skills training for Private Sector and civil society
  - Provision of training and technical assistance to business associations
  - Capacity building in policy research and analysis in the trade promotion unit team
  - Provision of technical assistance to organisations involved in entrepreneur skills and SME development
  - Establishment of a skills bank of trade policy experts
  - Establish support projects for organisations involved in women's empowerment and development in trade
  - Review current trade agreements at bilateral and multilateral levels and establish level of compliance and benefit to Sierra Leone

10.1.3 Trade development Action Matrix

TRADE POLICY - TRADE CAPACITY AND POLICY COORDINATION CONSTRAINTS

SUMMARY OF CONSTRAINT	ILLUSTRATION	OBJECTIVES	RECOMMENDATIONS/ACTIONS	PRIORITY INTERVENTIONS
Difficulties to create and sustain trade-friendly economic policy environments				
▪ Difficult socio-economic situation	▪ Sluggish economic performance and deterioration of public finances ▪ Growing unemployment	▪ Improve socio-economic situation and reduce the incidence of poverty	▪ Government implements the Poverty Reduction Strategy Plan.	▪ Translate the PRSP into concrete policy and actions ▪ Mainstream trade into the PRSP
▪ Inadequate business environment	▪ High transaction costs	▪ Create an environment supportive of pro-poor equitable growth	▪ Government implements Fiscal Restructuring and Public Sector Reforms ▪ Government implements FIAS report	▪ Assistance to the Government to create and foster an enabling environment
The government, the private sectors and civil societies have limited capacities to formulate and execute trade policy and negotiate and implement trade agreements				
▪ Limited Knowledge of multilateral and regional trade policies, institutions and agreements	▪ Lack of awareness and understanding of the benefits and constraint of trade agreements (WTO, Cotonou, Ecowas, Agoa etc.) ▪ Sierra Leone has not been fully engaged in the day-to-day activities of the WTO nor has it been able to participate effectively in the ongoing negotiations	▪ Maximise benefit of Doha round, regional and EPA negotiation for Sierra Leone by actively participating in negotiations and prioritizing Sierra Leone negotiation interests	▪ Leverage trade policy reforms by offering selective WTO, EPA commitment ▪ Improve understanding of government, trade negotiators, producers, exporters and importers on WTO, EPA and regional trade agreements and negotiations	▪ Fund trade specialists to advise GOS ,trade negotiators and NSA on WTO, EPA and regional trade agreements ▪ Train judges and legislators' staff on WTO issues and jurisprudence ▪ Strengthen GOS and private sector expertise in the area of international trade law, the alignment of national laws, notification requirements
▪ Limited knowledge, skill and resource to negotiate effectively, implement trade agreements, meets ongoing trade obligations and defends Sierra Leone trade-related rights	▪ Little knowledge and technical skills necessary both to shape and to comply with the growing number of technical provisions and environmental, health, safety and product quality standards found in multilateral and regional trade agreements. ▪ Weak human and institutional capacity and financial resources to carry out the institutional and regulatory reforms necessary to implement the provisions in trade agreements ▪ MTI, for example, has fewer than five officials assigned to work on trade policy issues full-time ▪ No sufficient analytical staff. Scarce resources leave	▪ Improve capacity for effective trade negotiation, and better trade agreement implementation ▪ Capacity Building (this to include mentoring and to extend beyond mere training) ▪ Enhance the contribution of trade to economic development	▪ Strengthen trade policy analysis unit in the Ministry in charge of international trade with dedicated trade economists ▪ Strengthen trade policy analysis within the private sector and associations ▪ identify associations to train in negotiating skills to support the negotiating team and undertake capacity building in negotiating, development and presentation of strategy ▪ build capacity in implementation of trade development projects, particularly entrepreneur skills and SME development	▪ Institutional strengthening of the trade policy process and key stakeholders – support to key civil society, private sector representatives and/or government. May include institutional reviews and recommendations TA and capacity building to: ▪ Train and equip government trade staff and NSA for economic analysis ▪ Technical and financial support for data collection systems (including computerization) ▪ Training to develop analytical expertise to assess the welfare cost of trade restraining actions

Summary of Constraint	Illustration	Objectives	Recommendations/Actions	Priority Interventions
	officials dependent on information supplied by international organisations and/or donors, and most officials are not aware of many technical and economic aspects of the various agreements ▪ Weak analytical capacity in support of trade and investment agreements negotiators ▪ Sierra Leone is seen as a passive country in trade negotiations. ▪ The country lacks a trade policy framework		▪ empowerment of women in trade issues ▪ need to review the compliance with current trade agreements ▪ development of domestic trade policy ▪ trade development and negotiation training – this to include Government, private sector and civil society and to include negotiating skills training for regional and international agreements and to be done at national and local, or decentralised (grass roots), levels ▪ Finalise the country's trade policy ▪ Prepare country's position through a participatory process prior to negotiation rounds	The capacity building project to include : ▪ Trade policy development skills training for public, private sector and civil society ▪ Negotiation training for negotiation team ▪ Negotiation skills training for Private Sector and civil society ▪ Provision of training and technical assistance to business associations ▪ Capacity building in policy research and analysis in the trade promotion unit team ▪ Provision of technical assistance to organisations involved in entrepreneur skills and SME development ▪ Establishment of a skills bank of trade policy experts ▪ Establish support projects for organisations involved in women's empowerment and development in trade ▪ Review current trade agreements at bilateral and multilateral levels and establish level of compliance and benefit to Sierra Leone
▪ Insufficient trade data for policy analysis by GOS & NSA	▪ No reliable statistical accounting system ▪ Data reporting not fullybintegrated with ECOWAS	▪ Improve trade statistics	▪ Computerize customs to establish a reliable statistical accounting system ▪ Integrate data reporting with ECOWAS	▪ IT equipment and software purchases ▪ Train staff in data collection and statistical analysis
▪ Weak trade policy co-ordination	▪ Many different Ministries have responsibility for particular trade policy issues and the division of tasks among the ministries remains the subject of conflict. ▪ Fragmented trade policy process ▪ Linkages among stakeholders are actually quite poor, no formal mechanisms exists for co-ordination among officials	▪ Mainstream trade into development policy & enhance institutional arrangement	▪ Create coordinating body ▪ Incorporate trade issues explicitly and fully into an interagency policy formulation and implementation mechanism ▪ A more cohesive structure is required that will avoid duplication of effort and will consolidate activities / initiatives by various organisations	▪ Institutional review and recommendations for revised structure ▪ TA to the coordinating body
▪ Lack of coherent trade development strategies	▪ Little capacity to analyse the strengths and weaknesses of trade aspects on the Economy ▪ GOS has not elaborated a comprehensive and coherent strategy to promote trade, and trade policies are not well-integrated into national development strategies ▪ No diversification of exports,	▪ Strengthen Sierra Leone trade institution and process ▪ Develop Export Strategy	▪ Create coordinating body ▪ Ensure trade policy is firmly integrated in the Poverty Reduction Strategy Program (PRSP) ▪ Finalize drafting and approval of Trade Policy and Export Strategy	▪ Review of existing inter-ministerial mechanisms for strategy development ▪ TA to prepare background notes or chapters on trade for PRSP ▪ Technical/consultancy support to help develop trade strategy and linkages with national development strategy
▪ Weak mechanisms for consultation on trade policy among governments, the private sector and civil society	▪ Lack of reliable mechanisms for ensuring that trade-related information is distributed to all relevant officials or private sector actors ▪ The involvement of the private sector in policy deliberations is "largely ad hoc and limited" ▪ Business associations, Labour unions, NGOs and other civil society groups have limited staff and are poorly funded and lack expertise, advocacy skills and access to information	▪ Reinforce and deepen Public-private sector dialogue on Trade Related issues ▪ Facilitate intergovernmental coordination of trade related policies and programs ▪ Establish communications channels and for a discussion of trade policy	▪ Government promotes and supports public discussion of its trade policies. ▪ Government take measures to enhance consultations with business, academy and other stakeholders in connection with its participation in international trade negotiations ▪ Government to promote better and increased use of the EU, USA and regional market access schemes among exporters. ▪ GOS to identify current and potential	TA and capacity building to: ▪ Identify best practices on consultations and policy formulation ▪ Implement communication strategies to raise awareness and develop policy dialogue with stakeholders – the private sector and civil society. Could involve workshops, IT support, media support etc ▪ Institutional strengthening of the trade policy process and key stakeholders – support to key civil society, private sector representatives and/or government. May include

SUMMARY OF CONSTRAINT	ILLUSTRATION	OBJECTIVES	RECOMMENDATIONS/ACTIONS	PRIORITY INTERVENTIONS
		issues and formulation. This to include identification of representative, / lead / umbrella organisations and their needs, incorporation of Government ministries and civil society	beneficiaries of the EU, USA and regional market access schemes and organize them. ▪ Government analyses the possibility of using EU's incentives to increase the benefits under its Cotonou scheme.	institutional reviews and recommendations ▪ Organize and support seminars, conferences and similar events to enhance both Government and public awareness of the costs and benefits of opening or closing the economy to foreign competition ▪ Organize and support seminars, conferences and similar events to disseminate among public and private sector interested parties all relevant information concerning EU, USA and regional procedures; ▪ Identify and promote the additional market opportunities created by the extension of the EU, USA and regional market access; and Train governmental officials in charge of Sierra Leone's' Mark access administration and issuance of certificates of origin for market access purposes ▪ Identify communications channels, lead or umbrella organisations and the manner in which communications forums should be established ▪ Research fund for non-government stakeholders to analyse trade issues and prepare issues briefings for government.
▪ The country has few strong, independent institutions capable of performing research and analysis on trade policy matters	▪ No trade think tank ▪ No strong trade lobbying group ▪ The Producers Associations are not yet fully geared to play that role ▪ The availability of independent analytical capacity at the national level is crucial if the trade policy process is to achieve overall trade and development objectives.	▪ Reinforce private sector and other NSA's trade analysis capacity	▪ Strengthen FE-CC as an umbrella mechanism that can bring together the various private sector associations so that they speak with a common voice on common interests	Call down facilities to enable access to technical experts Training in trade issues and negotiating skills, Training and awareness raising on WTO agreements TA and capacity building to ▪ Identify lead agencies / umbrella organisations project to include: Definition of the lead agencies; the roles to be played by each agency; flowcharting of the communication and negotiation process for each organisation; training on how to communicate ▪ Promote Strengthen dialogue between Producer Association bodies and various member groups ▪ Support to local think tanks in trade policy – academia, civil society or private sector

10.2 EC Development Cooperation

The section covers the main on-going intra-ACP initiatives and other regional projects and programmes that provide direct institutional support and trade related capacity building for their economic integration into the world economy. It also includes other complementary private sector development programmes and thematic programmes that address specific constraints.

10.2.1 Intra-ACP programmes to enhance the participation in international trade negotiations

Trade.com

The program builds more directly on the experience of previous specific intra-ACP facilities for the effective participation of ACP countries in multilateral trade negotiations and the preparationfor EPAs. Trade.Com will capitalise on the experience gained so far, in particular regarding the extremely weak capacity within the ACP, not only to elaborate coherent trade policies, but even to formulate sound project proposals to assist them in this effort. Trade.Com will therefore not only continue to assist the ACP in preparation of their trade negotiation positions, but will also assist them in assessing their broader trade capacity needs, in designing strategies to meet these needs, in mainstreaming trade in their development policies, and in providing capacity building assistance to kick-start the implementation of these trade policies at the institutional level. On the way, endogenous trade research capabilities will be developed and regional networking enhanced in order to ensure sustained ACP participation in the international trade system beyond the DDA and EPA negotiations and to ensure additional funding is found for mainstreamed trade²development activities.

Integration of ACP in the Multilateral Trade System and WTO

Total amount: €10 million [Project N° 7 ACP RPR 753] www.mtsacpeu.org

The programme was designed to support the effective participation of the ACP States into the multilateral Trade system of the World Trade Organisation (WTO). This implies not only the training of negotiators and the financing of studies to prepare negotiation positions, but also technical assistance to access WTO or to comply with WTO rules.

Even though the programme may be increased with €2million, considering the existing pipeline and the upcoming requests expected from the field, the funds will be largely committed by yearend 2003.

Capacity building programme for EPA negotiations

Total amount: € 20 million [Project N° 8 TPS ACP 110] www.acpepa.org

The programme was decided in 2001 to assist in the preparation for the negotiation of Economic Partnership Agreements (EPA). The programme covers following activities:

- specific study work aimed at developing negotiation positions
- training in negotiating techniques
- technical assistance support to ACP countries and regional economic groupings in the area of trade policy
- targeted technical assistance to ACP countries and regional groupings aimed at consolidating economic integration initiatives

Considering the existing pipeline and the upcoming requests expected from the field, the funds will be largely committed by year-end 2003.

ACP Secretariat Antenna in Geneva

Total amount: €1.4 million [Project N° 8 TPS ACP 116]; www.acpsec.org

The project was approved in 1999 and covers a period of four years. The main objective is to ensure, through a permanent presence of the ACP Secretariat in Geneva, a better co-ordination and preparation of the positions of ACP countries within the WTO framework.

10.2.2 Intra-ACP thematic trade development programmes

Two programmes have been recently approved whose main objective is to improve compliance of the ACP with sanitary requirements to access EU markets in key sectors of their economy.

These programs do not cover all the sectors and problems but Trade.Com will capitalise on the experience gained under these programmes and put it in a broader SPS and trade policy perspective[60].

Programme Initiative Pesticides (PIP)

Total amount: € 29.12 million [Project n° 8 ACP TPS 114] ; www.coleacp.org

The PIP is aimed at the reinforcement of the ACP horticultural sector's competitiveness, through the improvement of food safety of fresh horticultural products exported to the European markets, and in particular the compliance with regulations on pesticide residues and tracability of export in the EU.

The programme is divided into four components:

- an Information/Communication component
- a Regulation component concerning the laying down of new maximum residue levels (MRLs) and import tolerance limits and the adaptation of the ACP countries' plant health regulations.
- a Good Practices and Health Measures component which assists the ACP enterprises (in particular small and medium-sized producers) in their efforts to upgrade,
- an Organisation and Capacity Building component which will help ACP enterprises to take charge of their own development.

The programme is demand driven and its implementation entrusted to the COLEACP, an association of ACP exporters and EU importers and professional organisations well anchored in the horticultural sector.

Strengthening fishery products health conditions

Total amount: € 44.86 million [Project n° 8 ACP TPS 137 ea.];

The fisheries program aims at promoting the market access of fisheries products from ACP countries to the EU through technical compliance with phytosanitary requirements at the different stages of the production chain. The program focuses on capacity building activities to pursue the development of an appropriate regulatory

[60] Additional capacity building activities are foreseen in the area of Food Security, including under the budget line B7-20, such as training, for example in collaboration with the FAO on SPS.

framework and inspection systems. The activities include, among others: the institutional strengthening of the relevant authorities (legal, organisational and technical framework, financial sustainability, fight against corruption, equipment), the development of the inspection system, laboratories and technical support institutions, training and technical advise to the different actors and technical assistance for a sustainable management of the fish stocks.

10.2.3 Private sector development programmes

The Community support for the development of the private sector is based on an integrated approach at the three levels conditioning the development of the enterprises: macro, meso and micro-levels. To implement this strategy, the Commission created several instruments, mostly aimed at supporting export competitiveness and strengthening private sector organisations.

However, the capacity building gaps in terms of policy and strategy formulation and helping private sector institutions to increase their overall capacity to participate in a dialogue on trade are often neglected. Trade.Com focuses precisely on the complementary reinforcement of this capacity of ACP countries for trade policy formulation. However, wherever the existing programmes already foresee the improvement of the public-private sector dialogue, there are potential synergies to be exploited.

CDE; www.cdi.be

The CDE provides support, in varied forms, for the creation and for the development of ACP companies. In addition it also adopts a proactive approach on sub-sectors and groups of SME with an economic potential, based on comparative advantages, their sustainable growth potential, the innovation and emulation prospects, the possibilities of partnership and the socio-economic effects.

Activities and studies carried out by the CDE whenever they have an incidence on Foreign Trade and Trade policy formulation will be considered in the activities of TRADE.COM.

PRO€INVEST

Total amount: € 110 million over a period of 7 years; www.proinvest-eu.org

The overall objective is to promote investment, the transfer of technology and North-South or South-South partnership agreements at company level. For this PRO€INVEST targets its actions towards enterprises in key sectors in terms of their impact on the economy, while attempting at the same time to reinforce the management of ACP intermediary organisations (trade associations, chambers of commerce, ….) and the public – private sector dialogue.

These objectives are to be achieved essentially on a demand-driven and cost-sharing basis through two facilities:

- INTER€POWER supports, on a regional basis, the development and improvement of intermediary organisations and associations of consultants (chambers of commerce and industry, investment promotion agencies, professional organisations). This includes:
    - proposing strategic reforms as regards the investment environment and climate,
    - reinforcing the capacity of the private sector to make proposals in areas relating to the promotion of investments, and supporting the establishment of a dialogue with the national and regional authorities on the implementation of these proposals,

    - participating in the organisation of inter-enterprise meetings,
    - contributing to the training of local consultants,
    - strengthening support services adapted to the needs of enterprises with regard to the promotion of investments,
    - supporting specific mechanisms for the promotion of initiatives originating from areas that do not fall within the above framework.

- INVEST€TECH is more specially dedicated to supporting growth sectors. For this, it devotes more resources to support individual enterprises operating in key sectors whose project is the result of sector or sub-sector inter-enterprise meetings. This includes:
    - carrying out strategic sector, sub-sector or regional studies with a view to identifying key sectors with economic potential by including the analysis of a sector's environment and its comparative advantages – legal, economic, technical, social and financial constraints and ways of overcoming them – and the identification of technology and partners,
    - to promote inter-enterprise co-operation essentially through the organisation of sector or subsector partnership meetings,
    - to participate in the legal, technical, commercial and financial implementation of the projects negotiated at partnership meetings,
    - to support specific promotion mechanisms for initiatives originating from areas not falling within the above framework.

EBAS

Total amount: € 20 million over a period of 3 years

The European Business Assist Scheme (EBAS) was a matching grant scheme that helped businesses and intermediary organisations finance expansion projects and could meet up to 50% of the costs of services. It was operational as from May 1999 and will be closed in 2003. The main objective was to strengthen the competitiveness of the ACP firms through the use of services for the development of the company and thereby ensuring the development of the sector of these services and advice. The programme was demand driven (principle of "first come, first served"). Grants on the basis of cost-sharing where provided to firms eager to improve their competitiveness by access to the market of business development services, to the consultants and other service providers who wished to develop and improve the range of their services, or to the intermediate organisations (professional associations, Chambers of Commerce and Industry, and other) which wanted to increase their capacities to help their members.

EBAS has been preceded or complemented by a series of similar matching grant schemes funded under national and regional programmes.

DIAGNOS

Total amount: € 2 million

DIAGNOS was used as a vehicle for 8th EDF planning from 1999 to 2002 and carried out different diagnostic studies in several ACP countries, particularly on obstacles to the expansion of the private sector. Trade.Com will fully take on board the results of the work done under DIAGNOS and seek to complement those studies where required.

10.2.4 Regional integration support programmes

The Regional Integration Organisations (RIOs) have a critical role to play in assisting their member States to participate more fully in the multilateral trading environment and, by doing so, to access the benefits of globalisation.

The ongoing or planned[61] regional programmes can be subdivided in two categories: (1) programmes which aim at supporting the regional integration process through institutional capacity building support to the RIOs (training, technical assistance, development of management tools such as harmonised macro-economic or trade statistics, budgetary support…) and to the member States which have to integrate community law into their national legislation;

(2) programmes which target the facilitation of trade (customs modernisation, standardisation and certification,…). Hereafter the most representative ongoing initiatives in the last two fields are briefly presented.

Support for Economic Integration

- At all-ACP level, the EC is supporting capacity building for economic integration Within this framework of the Global Coalition for Africa (GCA €1,75 million) is supported to address the issue of rationalisation of regional integration organisations in Africa. Another part involves support for a collaborative research programme of the African Economic Research Consortium (AERC) on African imperatives in the new world trade order. The programme will also support activities of the African Union in the area of economic integration.
- In 2001, the EC started a programme (€ 1,95 million) to strengthen the capacity of the ECOWAS Secretariat in giving direction and coherence to regional integration initiatives and in co-ordinating with other regional organisations (particularly UEMOA, but also other African regional integration initiatives). A full-time regional integration expert was appointed to work under the responsibility of the ECOWAS Executive Secretary in Abuja, Nigeria. Simultaneously a specific statistical development programme (€ 1.95 million) was initiated to improve, in complementarity with the UEMOA support programme, the economic statistics in ECOWAS countries with a view to facilitating macroeconomic surveillance, in particular in the fields of national accounts and price statistics.

10.3 Other Partners

Obviously, we cannot have the ambition to be exhaustive here. At the international level, under the guidance of the WTO and the OECD, a database on TRTA is being elaborated which will enable everyone to access the requested information.

As in the case of private sector interventions, capacity weaknesses in terms of trade policy formulation are often not directly addressed. However, there are a few initiatives that take explicitly into account these problems:

INTEGRATED FRAMEWORK (IF) for TRTA in LDCs whose main objective is to assist these countries in mainstreaming trade policies into their national poverty reduction strategies. This multilateral initiative (WTO, WB, ITC, UNCTAD, UNDP,

[61] Under the 9th EDF, 40 to 50% of the regional indicative programmes are dedicated to regional integration and trade development programmes (€ 280-350 million).

IMF) launched in 1997 at the request of the 1st WTO Ministerial Meeting in Singapore, foresees the conduct of "Diagnostic Trade Integration Study" (DTIS) carried out in each beneficiary country to assess the competitiveness of the economy and to identify the impediments to the effective integration into the global economy, and leading to the elaboration of plans of action for trade enhancement.

There also exists an extensive network of institutions which, through research and awareness enhancing activities such as the ECDPM-ICTSD-ODI Trade Programme, also contribute to the development of trade policies of ACP countries. The key objectives of most of these programmes are practical research on ACP-EU trade related issues, the promotion of informal dialogue between key ACP and EU actors in the trade negotiations, strengthening of trade capacity in ACP countries and the dissemination of information on ACP-EU trade to the broader public through the publication of studies, discussion papers, brief notes or newsletter and the creation of websites on ACP-EU trade matters.

11. Conclusion and Recommendations for Negotiations Positions and Strategy

11.1 Main feature

Given the structure of Sierra Leone's economy, which is clearly in contrast with that of the European Union in terms of development and achievement of integration into ECOWAS, the reciprocity condition implicit in the on-going partnership agreements (EPAs) may have several consequences for trade, general economic performance and poverty in the country.

In reaching mutually beneficial partnership agreements therefore, the structure and level of industrial development of Sierra Leone should be an important factor in negotiating EPAs between ECOWAS and the EU.

EPA's goal should be to complement the development programmes of Sierra Leone and ECOWAS countries by maintaining and improving the sub-region's current market entry to the EU and by enhancing the supply response capacity of the countries in the sub-region so that they can take full advantage of the various domestic and external opportunities that will be created by the CPA.

The development of the agricultural and industrial sector of Sierra Leone should rank very highly in this scheme. The EU through the EPA should provide support for the country to embark on needed agricultural and industrial transformation that would follow the implementation of the EPA. The competitiveness of existing sectors need to be enhanced, and the establishment of new industries must be encouraged, especially in areas where the country already have comparative advantage or where comparative advantage could be dynamically developed. Efforts must also be made to address the various supply side constraints that have limited the development of the agricultural and industrial sectors in Sierra Leone.

The empirical analyses carried out in this study have shown very clearly that the implementation of the EPA has non-marginal implications for Sierra Leone. The country will suffer from loss of revenue, and trade diversion. Furthermore the study suggests that some agricultural and manufacturing sub-sectors will contract and employment will fall in those sectors. The study therefore makes a clear case for the protection of these sectors.

Survival of Sierra Leone as well as the sub-regional economies under the EPA requires purposeful adjustment in the main productive sectors of the economies. This suggests that there are varied degrees of cost to be borne by the component economies of the sub-region. How these impacts could be minimized should clearly be an important goal of the EPA negotiations. They should similarly take full advantage of the inbuilt flexibility in the EPA such as differential and asymmetry treatment, flexibility in establishing the duration of transition periods, product coverage and the schedule for dismantling various market access barriers in the sub-region.

11.2 Analysis of Alternative Arrangements for Market Access to the EU

EBA already provides Sierra Leone with the most favourable access to the EU market that it can hope to achieve. Furthermore EBA does not "trigger" PACER, since it does not require Sierra Leone to offer preferential market access to the EU. An EPA will not offer any additional market access and in fact the market access provisions of an EPA could possibly be inferior to those of EBA. Sierra Leone does not have per se to pursue an EPA negotiation which is not likely to have much impact in the medium term. Furthermore Partial preferential liberalisation of trade under EPAs by itself would also be problematic probably even disadvantageous on balance, because of the loss of tariff revenues and the probability of significant costly trade diversion. The opportunity costs in terms of market access of not joining an EPA are zero, since they already receive equivalent or better access under EBA.

However the EPAs offer an important opportunity. The inclusion in the EPA of attractive trade facilitation provisions could ensure that there is a significant opportunity cost for Sierra Leone in staying outside the EPA. Also the EPAs could be quite beneficial economically for Sierra if they can be used to leverage important policy reforms.

EPAs can offer Sierra Leone two important improvements in market access over the EBA-plus-GSP alternative: more favourable rules of origin and certainty of access. The European Union has long posited that the goal of the demanding rules of origin under both the Cotonou Agreement and the European Union's GSP (and hence EBA) is industrial development and integration in beneficiary countries. But two decades of restrictive rules of origin have not induced integrated industrial developments in Sierra Leone or contributed to more dynamic export performance.

Generally the penalty for using eligible inputs (lower quality, higher prices) often exceeds the benefits of EU preferences, while the small size of of the local market makes vertical integration uneconomic. Even when it is economically feasible to comply with the production requirements of the European Union's rules of origin, problems in proving origin due to weak customs controls and costly documentation requirements have stopped exporters from taking advantage of preferential access. As a result of this and other factors, exports of the country have remained concentrated in few, mainly unprocessed products.

If the country could obtain more favourable rules of origin under EPAs, it could markedly improve their access to the EU market. Moreover, even the prospect of change would encourage both LDCs and non-LDCs to pursue EPA negotiations, since less restrictive rules could, among other things, facilitate the export of clothing, as the U.S. African Growth and Opportunity Act (AGOA) has done. A uniform criterion of 10 percent value added—as proposed by the Blair Commission for Africa—or a simple change-of-tariff-heading rule could significantly increase export opportunities for Sierra Leone.

EPAs can also provide greater certainty of market access than can voluntary preferences. Enrolment of a product in the positive lists under the GSP is subject to periodic review and withdrawal, creating uncertainty that deters the private investment needed to diversify export production in the country. Although EBA preferences last for as long as a country remains an LDC, successful exporting countries can, as experience has shown, quickly graduate from LDC status and thus to the less favourable GSP. Sierra Leone who faces the possibility of graduating from LDC status in the lifespan of the agreement may wish to retain the option of acceding to an EPA in that eventuality. Also in relation to trade in goods, an immediate benefit possibly obtainable by Sierra Leone from an EPA that is not already available under EBA would be derived through the inclusion of trade facilitation provisions.

Furthermore EBA has been granted unilaterally by the EU, as noted above, and could at least in theory also be withdrawn or amended unilaterally.

The necessity for the country to liberalize imports from the EU to improve their access to the EU market under the ECOWAS EPA also provides an opportunity for Sierra Leone to integrate into the global economy, to strengthen regional integration in West Africa, to accelerate its trade-related reforms under potentially favourable conditions, and to lock in these reforms in a way that makes them credible to prospective investors.

Moreover, inclusion of trade in services, investment, and trade facilitation in EPAs could provide an opportunity to use the leverage of the EPA process to address a broad range of obstacles to a supply response in trade-related sectors. The EPAs' negotiating schedules and deadlines create a useful dynamic impetus for global and regional integration in a situation where progress may otherwise be halting, and the technical and financial assistance from the EU could provide more generous support than is often available for countries undertaking trade reforms.

The EPA process also entails some serious risks for Sierra Leone. The EPAs could go astray because, despite the EU's good intentions, at critical moments lobbying by politically powerful business interests could lead to commercially advantageous decisions for the EU rather than pro-development ones or because the management of a truly development-oriented EPA process proves too complex. Similarly, some interest group in the country may not be able to agree to the necessary liberalization or the country may not be able to satisfactorily implement the required accompanying reforms as a result of lack of political support or limited institutional capacity and may suffer from losses of fiscal revenue, trade diversion, and monopolistic behaviour in the services sector until they do so.

For the Sierra Leone, realizing the potential benefits of the EPAs will be to actually utilize them as instruments for development. In that line the key requirement is commitment to utilizing the EPAs to accelerate reforms that are necessary in the long term for integrating with the global and regional economies. Careful attention will need to be given to the design, sequencing, and timing of the EPAs and accompanying reforms in order both to ensure that the country can overcome the technical and administrative constraints to implementing them and to establish a sound basis for future trade liberalizations, whether bilateral or multilateral.

Furthermore, if the EPAs are to be credible instruments for leveraging reforms, they will need to be enforced; and a development-friendly approach will need to be found for handling enforcement and dispute settlement problems.

Moreover, there are many obstacles to expanding production of tradable goods in Sierra Leone in addition to the trade-related reforms. The supply response to the EPA reforms will be much greater if these trade-related reforms are followed by actions in other areas. Particularly important are

- a competitive exchange rate policy that encourages the expansion and diversification of exports;
- liberalisation of services imports and related regulatory reforms in the services sector;
- institutional reforms in customs administration and other areas of trade facilitation;
- improvements in the investment climate to encourage a supply response from the private sector; and
- infrastructure investment.

In fact the foregoing reforms may be higher priorities for the country than the EPA-related trade reforms.

It may be possible to address some of these supply-side and behind-the-border reforms (investment, competition policy, trade facilitation) by including trade in services and some of the Singapore issues in the EPA process; but others may have to be tackled unilaterally by the country.

The EU-ECOWAS EPA envisages addressing a wide range of difficult development issues in multiple sectors in all of the ECOWAS member countries in a period of 10-12 years. Even for countries with substantial institutional capacity, dynamic leadership, and strong political support for reforms, implementation of such programs would be a challenge. For Sierra Leone with serious capacity constraints and probably lukewarm political support for reform, the list of actions envisaged is daunting. Hence, the reform process will have to be carefully steered, on the one hand, to take advantage of the dynamism provided by the EPAs while, on the other hand, avoiding initiatives that would not be sustainable institutionally or politically, or that discard advantages already provided by the EBA initiatives. Hence, Sierra Leone should seek an EPA agreement that pay careful attention to the timing and sequencing of reforms. Furthermore the agreement could have an “opting out” option to revert to EBA initiatives should the need arises.

11.3 Broader Actions to be Considered by SL

Opting for EBA preferences would imply forgoing an opportunity to enter into a phase of more serious structural adjustment, which the country cannot escape from anyway as integration into the world economy is an integral part of the development strategy.

Although, there are many risks involved, which have been mentioned above, an EPA could be perceived as an historic chance to implement such a policy, if handled with care. Current and future initiatives for structural adjustment, which are frequently subject to an extremely controversial internal debate, could find better domestic support and would thus be more sustainable (lock-in-effect).

The country should therefore focus on opening up its domestic markets and pursue domestic policies that support economic development improve its institutions of conflict management in order to maintain macroeconomic stability.

In that line the country should implement the FIAS recommendations reproduced below and supported by this study.

Table 17: Actions For Administrative Barriers Lift Off (FIAS)

Area/Sector	Issue	Recommendation	Timeframe	Priority
I.	**Startup Procedures**			
Foreign Investor Entry	Discretionary procedure & non-transparent approval process	Develop and publish decision criteria and reasons	Short term	High
	Bureaucratic and high cost of work permit	Review decision making process.	Medium term	Medium
	Inflexible validity of work permit	Introduce flexible duration of work/residence permits	Medium term	High
Company Registration	Complex & expensive process	Streamline process & reduce fees	Short term	High
	Superfluous Exchange Control Permission	Abolish the Exchange Control Permission	Short term	Medium
	Lack of enforcement and monitoring	Improve enforcement and follow up	Short term	Medium
Licensing	No overall understanding of the rationale of a licensing regime	Develop a streamlined & purpose oriented licensing procedure based.	Short term	High
	Strong focus on revenue generation	Abolish licenses that aim only at revenue generation	Medium Term	Medium
	Lack of enforcement and low penalties	Improve enforcement and update penalties	Medium Term	High
Tourism	Lack of tourism development plan	Develop a tourism development plan.	Medium Term	High
	Lack of enforcement	Improve enforcement.	Short term	High
	Repetitive and uncoordinated procedures	Abolish redundant procedures and make NTB the "one-stop-shop" for all tourism related licenses	Medium Term	Medium
Mining	Lack of personnel	Employ sufficient personnel to cover all mining areas	Medium Term	Medium
	Issuance of license not always timely	Speed up the issuance of mining licenses	Medium Term	Medium
Fisheries	Inadequate info on procedures & fees	Improve dissemination of info	Short term	High
	Lack of pre-license inspection capacity (export to EU)	Ensure access to EU by improved safety and health standards	Short term	High
II.	**Locating Procedures**			
Land Acquisition	Obsolete laws	Review and reform land laws and policies	Short term	High
	Lack of administrative agency to oversee land issues	Develop a new administrative framework	Short and medium	High
	Limited info on processes & proced	Issue brochures for State owned land	Short and medium term	High
	Outdated existing customary laws	Reform customary land laws	Short term	High
	Land unlawfully sold/leased	Develop traditional land/building titling/registration process	Short term	High
	Lack of staff and training	Train staff, and hold information forums for professionals	Short term	High
	Lack of comprehensive planning	Develop a planning framework and develop master plan	Short and medium term	High
	Outdated laws and building codes	Re-assess/update the laws and codes	Short and medium term	High
	Lack of information on the processes and procedures	Prepare information brochures	Short term	High

Area/Sector	Issue	Recommendation	Timeframe	Priority
Utilities	Utility providers under-funded and inefficient	Privatize national parastatals	Short Term	High
	Lack of infrastructure to facilitate new investors	Find short term mechanisms to promote investment.	Short Term	High
	Utilities are not part of the building permit process	Link utility connections with the Town and Country Planning Department's building permit process	Short Term	High
	Difficult to obtain tariff information	Publish tariff rates in the local branch offices	Short Term	High
	International donor funding is needed for large scale infrastructure projects	Seek donor, bi-lateral, and multi-lateral assistance	Short, medium, and long term	High
	Fiscal burden on start-up enterprises	Eliminate advance tax payments for enterprises that have not yet made a profit; limit advance payments to amount of taxes paid in previous year.	Short-term	High
	Discrimination against foreigners	Abolish payroll tax on foreign employees	Short-term	High
	Lack of Capacity in Tax Department	Organizational development; HRD; Introduce IT	Long-term	High
Import and Export	Cost and delays of inspection and import clearance	Phase out pre-shipment inspection and reinforce Customs capacity Introduce risk-based classification and inspection	Medium-term and Long-term	High
	Improper customs valuation	Phase out use of Brussels Declaration and adopt WTO Agreement on Customs Valuation; Adopt HS2002 nomenclature	Short-term Short-term	High Medium
	Lack of information gathering and analysis	Install computerized declaration and information system (GCNet or ASYCUDA)	Medium-term	High
	Lack of Transparency	Make tariff schedules available in print, online and at Customs offices	Short term	High
	Cash flow burden on enterprises	Introduce effective duty drawback or suspension scheme and reinforce bonded warehousing system	Medium to long-term	Medium
	Excessive and arbitrary power of Customs authorities	Introduce effective and rapid appeals and dispute resolution mechanism	Long-term	High
	High cost of exporting	Eliminate export levies on basic agricultural commodities; Review competition law and policy to increase competition in export sectors	Short-term Long-term	Medium Medium
	Lack of capacity in Customs & Excise	Organizational development; Human resource development; Introduction of IT and telecommunications	Long-term	High
Other Operating Issues	Lack of capacity to develop and enforce health and safety standards	Develop skills base, technical know-how and organizational structure of Sierra Leone Standards Bureau and the Department of Environmental Health. Provide adequate financial and material resources to enable these bodies to exercise their assigned responsibilities.	Long-term	High

Source: Sierra Leone, Administrative Barriers Study, 2005 FIAS

11.4 A “gradualist” approach

A “gradualist” approach is needed because it takes time to implement the complementary measures that are required to ease the inter-sectoral adjustment process and the reduction or elimination of direct and indirect barriers to trade.

Some complementary measures need to be taken well in advance while others could accompany trade liberalisation, depending on the economic, political, social and institutional capacity to absorb adjustment costs. In general, there is no standard solution for the sequencing problem. Complementary adjustment policies typically involve inter alia training programmes to provide qualified mployees for export-oriented companies. Programmes for private-sector development should be considered. This comprises inter alia technological support to improve the ability of firms to compete against imports. Moreover, improvements in the environment for domestic and foreign investors should be envisaged, as well the installation of an effective domestic competition policy. Furthermore, the “hard and soft” trade-related infrastructure should be enhanced, including trade facilitation measures, such as the reform of customs administration.

Probably, there is also a need to establish social safety nets that compensate displaced workers and provide the poor with a minimal standard of living below which they should not fall. And finally, macroeconomic stability is a pre-condition for promoting economic development by trade liberalisation.

Complementary measures are also urgently required to ensure that moving from a restrictive to an open-trade regime does not lead to a fiscal shock and macroeconomic instability.

Therefore, unavoidable short- and medium-term losses in government revenue need to be cushioned.

11.5 Recommendations Concerning Third Parties

As noted earlier, the Cotonou Agreement emphasises for example that trade and economic cooperation between the EU and the ACP states aims to promote sustainable development and contribute to poverty eradication in ACP states, through the fostering of their smooth and gradual integration into the world economy (Article 34.1 and 34.2). The Agreement further emphasises the economic and trade cooperation will “aim at enhancing the production, supply and trading capacity of ACP countries as well as their capacity to attract investment.” (Article 34.3).

A strong case can be made that these developmental objectives of Cotonou require that the scope of the proposed EPAs be expanded beyond the focus on trade in goods, and that such expansion of the scope would greatly enhance the value of the proposed EPA to Sierra Leone.

This leads to suggest that EPAs should contain additional provisions designed to create further opportunities for private sector expansion, and to overcome the handicaps that are inhibiting private sector investment in post conflict Sierra Leone.

Considering the low level of development and the related vulnerability to fundamental policy changes and external chocks, Sierra Leone as other LDCs certainly need a transitional phase with a proper timing and sequencing of tariff reductions and complementary reforms and adjustments required.

Reliable external commitments regarding technical as well as financial support could encourage the country in its decision making and facilitate the implementation of trade liberalisation. Financial support is particularly needed to offset customs revenue losses, which could be sizeable in the case of Sierra, as the empirical analyses in the previous sections have shown.

The European Union and ECOWAS will have to work hard to achieve pro development EPAs. Time is short, and much remains to be done. To succeed, the European Union must subordinate narrow commercial interests to its broader interests in supporting economic growth and regional integration in ECOWAS member countries. It must be willing to provide greater market access through non-restrictive rules of origin, to expand aid for trade, and defer its own preferences in the regional market until important MFN liberalization has occurred there. Due to LDCs being a majority among the ECOWAS countries, the whole EPA project depends on their participation. To get them into an EPA, the EU not only needs to offer an EBA-like product coverage and equivalent preferential margins, but also has to go even beyond by providing less restrictive and simplified rules of origin, concessions in trade of services and sufficient financial support to cover part of the adjustment costs and effective technical assistance to manage the whole process of structural change. Strong cooperation between trade negotiators and development experts of the EU would help to put development at the centre of the EPAs and increase coherence of EU development policies.

For their part, Sierra Leone and other ECOWAS members must use the negotiating process to put forward internal reforms to promote its own competitiveness, regional integration, and growth, and to be willing to lock-in a program of implementation consistent with its own development priorities and pace of reform. EPA negotiations could become an external driving force that will push ECOWAS to rationalise and harmonise its regional trade arrangements, thus strengthening the regional integration process and economies of the region, and assisting the member countries in becoming a more active partners in the global economy. EPAs are also meant to stimulate related new efforts. As intra-regional commitments would be locked into EPAs, regional groupings could benefit in terms of impact. Intra-regional negotiations have already been accelerated in line with the EPA timetable, and an agreement was achieved to put in place a customs union in 2007, just before the EPA with the EU becomes effective.

11.6 Actions Plan for the MTI

Areas	Objectives	Recommendations/Actions
▪ EPA Negotiation process	▪ Develop a strong negotiation machinery	▪ Set up the National Negotiation Committee and its mode of operation ▪ Provide trade development and negotiation training – this to include Government, private sector and civil society and to include negotiating skills training for regional and international agreements and to be done at national and local, or decentralised (grass roots), levels ▪ Implement Impact study recommendations ▪ Hold a governmental seminar on EPA ▪ Prepare country's position through a participatory process prior to negotiation rounds ▪
▪ Trade Related Assistance	▪ Maximise benefit of Trade related assistance ▪ Improve capacity for effective trade negotiation, and better trade agreement implementation ▪ Capacity Building (this to include mentoring and to extend beyond mere training)	▪ Apply for Assistance for the Governmental Seminar to the PMU ▪ Apply for assistance to strengthen the WTO bureau by improving Access and dissemination of trade-related information. Application to be made through www.mtsacpeu.org
▪ Trade	▪ Achieve higher growth of exports	▪ Agree on and implement the restructuring of SLEDIC ▪ Formulate a national export development strategy ▪ Disseminate information on market access agreements while focusing on those markets where Sierra Leone benefits from preferential treatment ▪ Formulate a National Tourism Development Plan ▪ Simplify business registration ▪ Carry regular competitiveness study of the economy ▪ Advocate for the establishment of a permanent mission in Geneva to enable effective participation in the multilateral trading system
▪ Fiscal (in this area Ministry of Finance will play the lead role)	▪ Broaden the tax base ▪ Attract higher level of foreign investment	▪ Review policies that create incentives for enterprises to remain within the informal sector ▪ Review tax instruments that tend to discourage investment (exp. telecommunications and foreign travel taxes) ▪ Phase out from the tax system the categories of withholding taxes that appear to discriminate against foreign companies and individuals ▪ Phase out from the tax system aspects that appear to discriminate against small business in favour of large firms ▪ Remove the discretion granted to tax officers to determine the amount of individual or company's taxable income. This applies when a taxpayer fails to file return or when the Commissioner suspects that records and returns submitted are inaccurate.

AREAS	OBJECTIVES	RECOMMENDATIONS/ACTIONS
		▪ Revise fiscal investment incentives in ways more favourable to investors (i.e. accelerated depreciation, R & D expensing and amortization start-up costs) ▪ Carry-out a detailed review of the effective tax burden on firms in both qualitative and quantitative terms and enhance the fiscal investment incentives in light of the international best practices ▪ Work out and start the implementation of a programme aimed at guiding the introduction of VAT in 2007 ▪ Seek to commit the EU to the binding/sequencing of trade liberalisation in the context of the EPA and progress in tax reform
▪ Sectoral	▪ Improve capacity for removing supply-side constraints ▪ Improve capacity for sectoral competitiveness strategies and taking advantages of market access	▪ Put in place sectoral (Public-Private Partnership bodies (PPPBs) to agree on concrete capacity measures to benefit from market access and face competition domestically, by adopting pro-development measures that would address the issues of diversification in Sierra Leone ▪ Prepare and monitor sector specific development measures to address supply-side constraints ▪ Hold sector specific seminars for refining and concretising impact study sectoral recommendations ▪ Sector PPPBs to set their investment required streams – insisting on upstream and downstream benefits that will allow each sector to develop world class competitiveness levels
▪ Economic and social	▪ Maximise the capacity for EPAs to have a strong development dimension ▪ Capacity for withstanding adverse effects of high adjustment costs which may even negate the benefits from EPAs	▪ Set up appropriate mechanisms for linking national synergies between EPAs and WTO negotiations by identifying required levels of 'Aid for Trade' ▪ Prepare national positions for negotiating development assistance under 'Aid for Trade' to alleviate the expected high adjustment costs of EPAs ▪ To devise transparent procedures for government procurement as part of industry policy that government grants contracts to domestic emerging sectors, along the lines of the UK suggestion that where government procurement is put into an EPA, on request of an ACP grouping, negotiations should be limited to transparency.

11.7 Wind up Note

To wind up, like other ECOWAS countries, Sierra Leone is facing an enormous challenge when assessing an EPA with the EU and considering alternative policy options. A final decision has to be taken under a high degree of uncertainty. This is mainly due to severe analytical restrictions in balancing economic and non-economic costs and benefits. It appears that the commitment to structural adjustment for the country, as well of the regional grouping as a whole, plays a decisive role in decision making. There are less challenging alternatives to an EPA, like taking further advantage of unilaterally granted EU preferences. This would sustain full autonomy as to the size and depth of trade liberalisation and related structural adjustment measures. On the other hand, an EPA could be considered as an historic chance to lock in economic reforms, which are required anyway as integration into the word economy is part of the development strategy.

Thus, an EPA would provide an impetus to implement such a policy effectively. However, lessons from other regional integration projects including the European case illustrate the need for a gradual and country-specific approach in trade liberalisation and a proper sequencing of complementary, compensatory and institutional measures to counter possible negative repercussions of integration. Trade liberalisation is not necessarily the first step, but should be well prepared and perceived as a part of an overall package of reforms.

12. Annexes

Annex 1: List of all Relevant Studies consulted

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    - *Annexe E – Project Outlines for Short Term Support to the Ministry of Trade & Industry To Create An Enabling Environment For Enhanced Private Sector Development in Sierra Leone, mimeo, 2004.*

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    a. *IMF Mission on a New Poverty Reduction and Growth Facility (PRGF) for Sierra Leone* - October, 2005 Statistics Sierra Leone's Contribution to the Negotiations/Discussions (REVISED)
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Annex 2: List of all Relevant Support Programmes (TRA)

EC TRA Programme	Programme Modalities
WTO SUPPORT PROGRAMME **€10M** + **€2M** PROGRAMME TO SUPPORT THE INTEGRATION OF THE ACP STATES INTO THE MULTILATERAL TRADING SYSTEM OF THE WTO	**OBJECTIVES** To support effective integration of the ACP countries into the Multilateral Trading System (MTS). This implies supporting ACP countries in building requisite capacities both to effectively participate in global trade negotiations, and implement the agreements. **WHO CAN APPLY?** ACP countries and regional org. (Closure June 2007) **WHERE TO APPLY?** www.mtsacpeu.org **ACTIVITIES FINANCED** **Technical Assistance** to help ACP countries and other eligible organisations to asses the impact of WTO rules on ACP economies, adapt trade policy according to WTO commitments, etc **Training** officials of ACP States. Regional integration organisations and private sector. Access to and **dissemination of** trade-related **information.** Preparation and **participation** in WTO negotiations **Conferences** and workshops on issues related to trade negotiations
EPA SUPPORT PROGRAMME **€20M + €4M** CAPACITY BUILDING PROGRAMME IN SUPPORT OF PREPARATION OF EPA NEGOTIATIONS	**OBJECTIVES** The capacity building programme will provide **specific technical assistance** to assist the ACP members in their preparation for and conduct of the negotiations **WHO CAN APPLY?** ACP countries, regional integration organisations and private sector organisations and other non-state actors in their preparations for the EPA negotiation. (Closure June 2007) **WHERE TO APPLY?** www.euacpepa.org **ACTIVITIES FINANCED** Specific **study work** aimed at developing negotiating positions. EPA impact studies. **Training** in policy analysis and negotiating techniques for ACP officials. **Technical assistance** to enhance the capacity of national trade officials to participate effectively in regional **trade policy discussions.** Targeted **technical assistance** to ACP regional groupings aimed at **consolidating economic integration initiatives**.
TRADE.COM **€50M** TRADE.COM	**OBJECTIVES** Enhance the capacity of ACP for **trade policy formulation**, to mainstream trade in their poverty reduction strategies and to **participate in international trade negotiations.** **WHO CAN APPLY?** ACP countries, regional integration structures, private sector organisations and non-state actors: consumer associations, trade unions, universities, etc. **WHERE TO APPLY?** www.?.com **ACTIVITIES (TO BE) FINANCED** **Analytical component** aims at enhancing capacity for trade policy formulation through local research institutions and to establish appropriate mechanisms for consultation with private sector and civil society. **Hubs & Spokes** will put in place a network of trade advisers seconded to all ACP governments and regional integration institutions. Recruitment TPA. **Capacity Building component** to assist ACP partners in implementing WTO agreements and to address urgent institutional and supply side constraints. **IMPLEMENTATION MODALITIES** Commonwealth Secretariat & AIF PMU

PIP **€29M** PESTICIDES INITIATIVE PROGRAMME(PIP)	**OBJECTIVES** **Capacity building** to provide a concrete response to the difficulties encountered by private companies in the export trade for fresh ACP fruit and vegetables. **WHO CAN APPLY?** Private companies in the export trade for fresh ACP fruit and vegetables to Europe (producers, exporters, importers, services providers) and the private or public intermediary support organisations in this sector. (Closure July 2006) **WHERE TO APPLY?** www.coleacp.org **ACTIVITIES FINANCED** The **Regulation component** helps in **adjusting local SPS regulations** concerning horticultural exports. Assists the ACP in setting Import Tolerance dossiers to be authorised for export to EU. **Good Practice and Food Safety** component provides direct assistance to ACP companies to adopt recognised systems for control of food safety and traceability. The programme develops Good Agricultural Practice by crop. **Capacity-building** component aims at strengthening intermediary structures capable of reliably supplying the necessary services both for companies and for the competitiveness of the sector. Public-private sector Task forces. The I**nformation and Communication** component aims information on new EU regulations connected with the use of pesticide; buyers' expectations; and access to the PIP programme and its operations.
FISHERIES **€44M** STRENGTHENING FISHERIES PRODUCTS HEALTH CONDITIONS IN ACP/OCT COUNTRIES	**OBJECTIVES** This programme has been designed to help ACP countries overcome their difficulties to comply with European sanitary regulations in the fishery sector. **WHO CAN APPLY?** All parties involved in the fish processing and distribution channels (private or public), including the competent regulatory authorities, test laboratories, private processing companies and small scale fisheries. (Closure May 2008) **WHERE TO APPLY?** www.sfpacp.org **ACTIVITIES FINANCED** Diagnostic studies, institutional support to ACP governments and analysis laboratories. Technical assistance for fisheries enterprises and artisan fisheries SME.

Private sector programmes	
EC TRA Programme	**Programme Modalities**
€ 110M Proinvest Trinnex.	Promotion of investments and partnerships. **PRO€INVEST** www.proinvest-eu.org (Closure 2009) The approach of the programme is two dimensional: (i) Strengthening the capacity of professional associations to conduct a productive dialogue with governments and regional organisations on subjects related to investment. Secondly to provide support services for companies in this field; (ii) Support sectors at the regional level**.** Under Pro€invest, € 1,9M **TRINNEX** is a facility aimed at promoting public-private sector dialogue on EPAs.
€ 2,2B Investment Facilities	Increase of the investment funding capacity and strengthening of the financial markets. The **Investment Facility** www.eib.org € 2.2 billion, "revolving" funds The resources of the Facility could be used for the supply of venture capital (Acquisitions of a holding; quasi-capital assistance; guarantees)
€ 90M Centre for the Development of Enterprises	Promotion of non-financial services for the SME development. The **Centre for the Development of the Enterprise** www.cde.int (CDE) provides business development services.

€ 15M Microfinance Framework Contract	Support for the micro-enterprises, in particular via micro-finance development. The **Microfinance Framework Programme**, supporting program for the ACP micro-enterprises (PAME – ACP) is under preparation, including financial and non-financial support for the micro-finance sector, through sector suitable intermediaries.
€ 20M Private Sector Enabling Environment Facility	Enabling Environment The **Private Sector Enabling Environment Facility** (PSEEF). It will launch studies on enabling environment issues (Improving legislation, reform of public companies). Expected to be operational this year.

Annex 3: List of People Consulted

	Names	Institution
1	Dr. Kadi Sesay Minister of Trade and Industry	Ministry of Trade & Industry, 6th Floor, Youyi Building, Brookfields, Freetown Tel: +232 22 222 755 Fax: +232 22 235 575
2	Mr Bernard N. Javombo Esq. Permanent Secretary	Ministry of Trade & Industry, 6th Floor, Youyi Building, Brookfields, Freetown Tel: +232-22- 222706 Email: njavom@yahoo.com
3	Mr. Joseph W.A. Jackson Director of Industries	Ministry of Trade & Industry, 6th Floor, Youyi Building, Brookfields, Freetown Tel: +232 – 222 707 / 228 373 Mobile: 076-715827
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5	Mr Bernard E. Jayah Economist	Ministry of Trade & Industry, 6th Floor, Youyi Building, Brookfields, Freetown Tel: +232 22 222 252 Mobile: 076-604753
6	Ms Kirsi Pekuri Head of Economics	EU Delegation – Sierra Leone Trade & Regional Coop. Section – EU Tel: +232-22-223975 Mobile: 076-769585 Email: kirsi.pekuri@cec.eu.int
7	Ms. Beatrice Chaytor Dove-Edwin, Director Policy, Planning and Research Division	Ministry of Trade &Industry 6th Floor, Youyi Bld, Brookfields, Freetown Tel: +232-22 224 512 Fax: +232-222 351 29/235 575 Email: beatricechaytor@mtsl.org
8	Mr. Franklin S. Bench Project Officer – EU	EU Delegation – Sierra Leone Tel: +232 236 062 / 236 418 Mobile: 033-417-334 Email: Franklin.BENDU@cec.eu.int
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11	Dr. Fatmata Lovetta Sesay, Development Economist	Economic Policy Research Unit (EPRU) Ministry of Finance Ministerial Building George Street, Freetown, SL Tel: +232-22-226469 Fax: +232-22-228472 Email: lovesesay@yahoo.com
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25	Mr Sheka Bangura Programme Officer Ms Sophie Moody Conteh, Programme Officer	Development Assistance Co-ordinating Office (DACO) Email : shekabangs@yahoo.co.uk Email : moody_sophie@yahoo.co.uk
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Annex 4: Terms of reference

1. ECONOMIC CONTEXT

Economic theory leaves little doubt over the question of whether, in principle, economic integration – and trade liberalization in particular – generates overall positive welfare effects. Once barriers to cross-border economic activity are lifted, this will usually result in a dynamic combination of efficiency gains (better allocation of production factors), increased competition, lower prices, knowledge transfers and ultimately higher economic growth.

The success story of European integration is a textbook example in this respect. In addition, some observers claim that Europe's ever-closer economic integration has led to a peace dividend: additional economic growth derived from political and social stability. The economic consequences of an EPA for Sierra Leone would include the impact resulting from consequential changes in trade relations with third parties. There are also legal aspects that the country must consider relating to the WTO and other trade agreements.

It should be noted that economic integration is not a cost-free process. Even in Europe, this is the prime reason why the complete elimination of all internal (technical and non-technical) barriers to trade in goods took as much as four decades. Moreover, to yield the benefits of integration certain basic institutional requirements need to be fulfilled.

Indeed, it is difficult to liken the economic effects of EPAs between the EU and the ACP to the standard example of European integration. While textbook analyses are extremely useful tools for understanding the various effects of integration, one should not overlook the specificities of so-called North-South integration, particularly for an LDC like Sierra Leone.

If concluded, EPAs will constitute an unprecedented reciprocal free trade arrangement between the world's largest single market and some of the poorest economic regions. Obviously, the ACP group is far too large and diverse to generalize on the impact that such an arrangement would have on its members hence the need to conduct specific national and regional impact assessments.

Taking cue of the past two generations of structural adjustments and related programmes in Sierra Leone, economic sensitivities would include the potential closures of many uncompetitive national “infant” firms and businesses and, as a result, an unprecedented rise in unemployment. These economic costs may be gauged against potential long-term positive dynamic effects associated with the exploitation of the economies of scale, increases in efficiency and productivity changes as a result of greater competition stemming from the EPAs, enhanced possibilities of absorbing technologies from the EU, and increases in domestic and foreign investment.

Social sensitivities include the fact that the very attractive potential welfare gains emanating from the tariff-reduction related price advantages of imports from the EU, need to be balanced off with both the government revenue losses as a result of the same tariff reduction and the adverse effects of the potential cutbacks in government spending on social capital investments. The study for preliminary regional impact study for ECOWAS shows worse results than the earlier indicated revenue losses. It concludes that all countries in the region except Nigeria would be very severely (8 countries, including Sierra Leone) or severely (5 countries) affected by progressive tariff reduction.

These developments may impinge on the ability of most ACP countries, and in particular, Sierra Leone to undertake additional fiscal and socio-economic adjustments associated with the implementation of an EPA with the EU without significant net inflows of additional aid money, investment and substantial increased economic activity.

Fiscal sensitivities in the context of EPAs therefore include the loss of revenue to government as a result of tariff reductions on imports from the EU. For instance, preliminary results from the ECOWAS CET Impact Study show that Sierra Leone will lose domestic revenue of about 6% of annual import revenue and the external sector current account balance would deteriorate by a further $2.2 million as a consequence of implementing the CET.

Gauged against current unprecedented fiscal constraints in Sierra Leone, a further loss of government revenue could have significant adverse impacts on budgetary balances and increase the cost of domestic financing of the deficit. The latter may further complicate the fiscal situation as Sierra Leone already faces an unsustainable (internal and external) debt burden.

Expenditure cuts, with high debt services and the established vulnerability of social and human development, would simply undermine the development objectives of EPAs and those of the Cotonou Agreement. The achievement of provisions of Articles 22, 23 and 25 of the Cotonou agreement depends strongly on a favorable expenditure program of the government.

Therefore, a diminished capacity of the Sierra Leone government to discriminate in favor of social and human development expenditures resulting from negative revenue shifts would not enable an upgrade either in public or private sectors and, neither the public nor private sectors would be able to compete on the international stage. Hence it is imperative that Sierra Leone commissions these two level National Impact Studies to be able to determine the fiscal impacts more clearly and to identify the policy measures it will need to implement.

2. OBJECTIVES OF THE NATIONAL IMPACT STUDIES

The ACP Ministers of Trade decided that a common set of terms of reference be prepared in order to allow for subsequent consultations at national and regional level to address common issues arising from the studies. Thus the main objective of these studies is to assess the sustainability of the EPAs, consistent with Article 34 of the Cotonou Agreement, in terms of the capacity of individual ACP States to assume the obligations that would devolve under the EPA and cope with the type of adjustment that would be needed to meet the requirements of the future liberalized economic and trade environment on the one hand, and national development goals on the other.

It would specifically be important to identify the ways in which fiscal and other socio-economic adjustments would be carried out, the amount of fiscal revenue foregone and trade-offs between socio-economic costs and benefits, the measures and resources that would be required to enable the domestic industry (sectors) evolve in a more competitive environment, the type of industries/sectors or sub sectors that would have to be developed taking into account the comparative and potential competitive advantage of the country.

The studies are aimed at informing the ACP states of the implications of entering into comprehensive EPA negotiations and the results should assist in determining the levels of commitments the ACP State can take and actually have the capacity to implement taking into account its trade, financial and development needs and the specificities of least developed countries, like Sierra Leone.

This national study entails a discussion of the implications of the Cotonou Partnership Agreement for the formation of an EPA. It also assesses the possible regional impact of an EPA, based on preliminary national impact assessments. The studies deal with a number of issues that are specifically relevant to Sierra Leone:

- The possible sectoral and fiscal implications of an EPA, particularly, its impact on the sustainability of debt management;
- The consequences for Sierra Leone’s trading relationships with other developed country partners;
- The future of the preferential protocols (e.g. fisheries and other agricultural products);
- The impact of the EPA on the socio-economic development of the country and
- The implications of the above for a regional negotiation strategy under ECOWAS.

Specific Issues to be addressed in the Study

The study will seek to identify some stylized facts, and possible patterns across sectors within the country. This level relates to what might be called the “quantitative” dimension of the implications of EPAs, i.e. whether the fiscal and other socio-economic implications may be excessively contractionary, with an intended (or unintended) depressive effect on output or could generate quantifiable economic gains.

It will also seek to provide a detailed sectoral analysis that will cover the issues emerging from the first level in greater detail and also address additional country specific issues, including issues of process, capacity building, and governance that are important for the sustainable implementation of the EPAs. This level will also address issues regarding design and sequencing of fiscal and economic adjustment programmes to make the EPAs sustainable and socially and politically legitimate.

Therefore, the focus of the study includes the following:

- Undertake an analysis of the current trade regime (Lome to Cotonou) linking Sierra Leone and the EU and make a detailed assessment of the benefits accruing to the country.
- Carry out an assessment of existing production structures, production infrastructure, levels of productivity and competitiveness, level of human resources development, etc. and assess how these are being addressed within the current national development programme including its CSP/NIP, PRSPs, etc.
- Examine the adjustments that could be envisaged in the current trade and economic policies as a result of the eventual conclusion and implementation of an EPA with the EU; and examine options to finance these additional adjustment costs.
- Provide an overview of the linkages between the EPA negotiations and the multilateral negotiations under the Doha Work Programme and assess the cumulative impacts for country.
- Undertake an analytical assessment of the implication of the EPA for the country both in terms of opportunities and challenges, including fiscal and competitive-related adjustment costs, and the potential trade-offs between these costs and the economic and social gains.
- Undertake an analytical assessment of the implications of liberalizing the capital account under the EPA taking into account the lessons of similar measures under the Breton Woods Institutions (BWI) structural adjustment programmes and the capacity to cope with the implications of such liberalization.
- Undertake an analysis of the institutional, human capacity building and national consensus requirements for the negotiation and implementation of the EPA and make appropriate recommendations.
- Identify opportunities in the post-2007 EU markets that the ACP States could take full advantage in any future EPA arrangement.
- Make qualified recommendations on the structure and content of the EPA that the country could negotiate with the EU, the sequencing of the negotiations taking into account key milestones that will impact on the negotiations, and the probable configuration for those negotiations. These recommendations should be made within the context of the ECOWAS Roadmap.

The study will also address additional country specific issues, including issues of process, capacity building, and governance that are important for the sustainable implementation of the EPAs. This level will also address issues regarding design and sequencing of fiscal and economic adjustment programmes to make the EPAs sustainable and socially and politically legitimate. The issues include:

- Undertake trade creation and trade diversion analysis; examine the implications of the EPA on the nominal and effective rate of protection with detailed impact study of the EPA on the domestic industry (key sectors).
- Analyze the implications of the EPA on the various service sectors and sub-sectors, including on trade related issues such as investment, TRIPS, competition policy, environment, labor standards and procurement.
- An analysis of the main causal mechanisms, by identifying the significant proposed changes in policy within the EPA framework and the resulting economic, political, environmental and social impacts. The analysis should combine qualitative and quantitative approaches.

- Identification of the human, technical, technological and capital needs to enable the country to face the EPA challenges and proposes measures and a long-term programme to meet these needs.
- Propose a comprehensive policy mix commensurate with the level of requirements in the context of the EPA to enable Sierra Leone engage in a new economic development strategy with a view to:
  a. Ensuring its sustainable development and protecting the critical levels of investments in the economy;
  b. Consolidating and further enhancing its level of economic development;
  c. Diversifying its economic base;
  d. Stepping up the level of competitiveness and enhancing productivity;
  e. Promoting the transfer of technology, skills and know how; and Smoothing out its integration into the global economy.

3. EXPECTED RESULTS / OUTPUT INDICATORS

The study will result in the supply of a comprehensive EPA sustainability study, aimed at assessing the benefits derived for the current trade and economic provisions of the EU ACP and the appropriate adjustments that would be required in the context of the new form of relationship that is expected to develop between the ACP and the EU pursuant to the EPA Negotiations.

The findings study will enable Sierra Leone to develop strategies to continue to engage in comprehensive EPA negotiations with the EU and request more resources to deal with substantive issues. The second level of the study will enable Sierra Leone to work towards a new policy mix towards meeting the challenges and availing of the opportunities that the EPA will create.

It will also identify new areas that will have to be developed and the adjustments that will have to be undertaken, the capacity that will have to be developed, in terms of Human Resource Development, the stepping up of competitiveness and productivity, acquiring of new technology, leveraging both domestic and external resources, etc.

The study will therefore provide vital guidance on the future economic trajectory of the country to facilitate the determination of economic sectors in which Sierra Leone can assume, implement and honor its obligations with the consequential adjustments. The study should equally identify the development of existing and new sectors of the economy and the appropriate means to better adjust them to a liberalizing trading system.

The specific results the study in terms of the analytical texts will be along the lines of the main tasks delineated above. Implementation of the studies will require a team of three consultants. Counterparts from the key institutions (MTI, Finance, NRA and Statistics) should be assigned by the Government to work with the team. The team would be supported by the Trade Expert currently attached to MTI.

PROFILES OF EXPERTS

- **Macro-Economist**

One Macro-Economist with experience of international trade issues and a minimum of a Master's degree in International Economics or other business related subject. The expert required should have at least ten years experience of working on international trade issues, particularly, related to ACP/EU trade. This person should also have experience and knowledge of the EPA process. Experience in regional integration bodies in Africa like ECOWAS, COMESA or SADC is desirable. He should have carried out other similar national or regional impact studies relating to trade integration within Africa and should have experience of leading a multi-disciplinary team. This person will also act as Team Leader and Lead Consultant

Fluency in English

Duration: two (2) man-months

- **Business Fiscal Analyst**

A Business Fiscal Analyst with minimum 10 years experience of analyzing the impact of trade liberalization on fiscal revenues, competitiveness of the industrial sector and the overall economy. The consultant must have demonstrated experience in analyzing economic and business-related policy. This analyst will lead in analyzing the fiscal impact of the EPA on the national budget and determine the adjustment costs. This person will also assess the sustainability of the national debt servicing in the face of revenue loss.

Fluency in English

Duration: two (2) man-months

- **Development Economist**

The development economist will have minimum of a Bachelor's degree in economic and preferably a Master's Degree in Development Economics or any other business related subject. This person must have more than 10 years experience of working as an economic analyst with good knowledge of the local economic environment and a practical understanding of development issues and the private sector in Sierra Leone. The consultant should have the capacity to undertake basic survey implementation and data analysis of economic statistics. He/She should have a proven capacity to distil survey results and/or other data in a concise and thoughtful manner and participate in the preparation of the study reports.

Fluency in English;

Duration: one (1) man-month

Officials from the following government institutions/departments, should be assigned to work with the consultants:

- Department of International Trade, Ministry of Trade and Industry
- Economic and Planning Research Unit (EPRU), Ministry of Finance
- Research Unit, National Revenue Authority
- Statistics Sierra Leone

They would assist the consultants in obtaining data and will conduct preliminary analysis of the data, support the team by providing technical inputs and participate in the detailed analysis of data by the core team. This is in order for them to learn the analytical skills involved in international trade by doing some of the work.

The consulting team would be advised and guided by the EU Trade Expert who will manage the task in close consultation with the National Authorizing Office and the EPA PMU in Brussels.

4. REPORTING REQUIREMENTS AND TIME TABLE

The experts will submit to the Minister of Trade and industry, two copies of their reports and the PMU. The reports should be prepared as follow:

- An inception report two weeks from the start of the study outlining the approach for the study and the draft contents of the main report. The inception report will be based on the consultants' proposals and consultations with the national authorities.
- A draft final report for comments by all national stakeholders within two calendar months from the start of the study.
- A final report for comments by all parties three calendar months from the start of the study.

The reports (inception, interim draft final and final report) are to be submitted only to the beneficiary governments and the Project Management Unit.

The reports will be produced in English.

5. ORGANIZATION / FINANCIAL AND PHYSICAL MEANS

The consulting firm, which will be recruited by means of service contract, in close collaboration with the Ministry of Trade will be responsible for the workshop content including the selection of themes to be discussed, the program for the working groups and the selection of the speakers who will be intervening during the workshop.

The consultant firm will also be responsible for the financial management of the workshop (implying accounting and disbursement management in line with EDF procedures), i.e. flights booking for international participants, disbursement of per diem, fees and logistical costs as per the budget. These tasks can be devoted to a local coordinator.

6. PROPOSED TIMING AND VENUE

The project will be implemented during the period September to December 2005 and the study will require a total of five (05) man months for three experts. The workshop should be held at the end of December 2005 at the latest, and shall include representatives from the Government, the ACP Secretariat, ECOWAS, as well as representatives from civil society and private sector.

7. CONTACT DETAILS OF THE BENEFICIARY ADMINISTRATION

Dr Kadi Sesay (Minister)

Ministry of Trade and Industry

Tel: 232 22 222 755

Fax: 232 22 235 575

Annex 5: Methodology & project planning

Co-ordination with other projects

The activities of the present project have been built on other related initiatives including notably:

- The recently ended EDF-funded TA support to the Ministry of Trade and Industry (MTI),
- The 2005 WTO Trade Policy Review and the preliminary results of the Integrated Framework Diagnostic Study for Sierra Leone.
- The various EPA studies for West Africa.

Several other initiatives are underway that are relevant to this impact assessment. These relate to activities being undertaken with support from donors and/or international organisations active in Sierra Leone. These donors include the United States (in the context of AGOA), the WTO, UNCTAD, UNDP, DFID, the World Bank and the EC. The EC in particular has several ongoing relevant programmes, which include Trade.Com, the pesticides control project for the horticulture sector, and a project to strengthen health standards in the fisheries sector. In addition, several studies have either been recently completed or are underway that target sectors and/or subjects of relevance to Sierra Leone's trade interests.

During the conduct of the impact assessment, the team of consultants and their counterparts have sought to foster synergy between this exercise and all the other relevant initiatives at national, regional and global levels.

Project goals and objectives

The purpose of this project is to assist the Government of Sierra Leone assume its obligations that will arise under an EPA, negotiated as part the ECOWAS EPA group, and cope with the type of adjustment that would be needed to meet the requirements of the future liberalised economic and trade environment on the one hand, and national development goals on the other.

Specifically the activities of the study will identify:

- the ways in which fiscal and other socio-economic adjustments need to be carried out
- the amount of fiscal revenue foregone and trade-offs between socio-economic costs and benefits
- the measures and resources that are required to enable the domestic industry (sectors) evolve in a more competitive environment
- identify the type of industries/sectors or sub sectors that need to be developed taking into account the comparative and potential competitive advantage of the country

Overview of the methodology

The approach to the study has been (1) independent, (2) participatory and (3)) forward oriented.

- **Independent**. Independence implied freedom from political influence and organizational pressures and incentives. It was characterized by full access to information and by full autonomy in carrying out investigations and reporting findings.

- **Participatory**. A participatory process has been facilitated and led by the Study Team. Key types of stakeholders has been part of the process at each phase: building the impact assessment matrix, gathering data, analysis and feedback. This participatory approach has been chosen to better learn and capitalize on existing knowledge and to provide a greater base for the ownership of recommendations.
- **Forward Oriented**: The analysis provided a basis for identifying a range of options for strengthening the comparative advantage of Sierra Leone, enhancing the results and impact of its activities and developing the capacity of Sierra Leone trade performance. Focus has been placed on matching the strengths of Sierra Leone and future opportunities.

Data gathering tools

A mix of impact assessment methods and tools was used to gather information and to achieve the objectives of the study. This includes:

(1) Documentation review: The documentation review is very important to analyse studies and reports already completed.

(2) Economic and Financial analysis: A careful detail analysis of trade and tariff data to identify products in which market access may change as a result of the EPA will be carried out. These will include currently traded goods and those which might start to be traded as the result of the tariff cuts. Furthermore an analysis of socio-economic data at the national, regional and sectoral level will be undertaken. A survey of a sample of firms that might be affected by the EPA to identify their expectations of the likely impact will also be conducted

(3) Rapid appraisal tools (**semi structured interviews**)**:** Semi-structured interviews will be the most common tool used to gather information. These semi-structured interviews are most useful for developing an in depth understanding of qualitative issues and to understand and to frame the issues.

Where possible triangulation will be used to verify facts and observations by obtaining different sources of information. Complementary tools and approaches including the SWOT analysis and the Budgetary Analysis, will supplement the above approach.

Implementation Modalities

The strategic corner stones on which the implementation of the project will be based are as follows:

- Foster coordination/collaboration among all relevant parties;
- Learn lessons from the use of current market preferences and build on them;
- Assess the likely impact of the EPA alongside the potential impact of other trade initiatives with similar likely effects;
- Contribute to efforts aimed at the EPA and the PRSP becoming mutually supportive.

Intended results

The TOR (section 2, pages 27-29) details what is to be undertaken for the purpose of the impact assessment. This has been reviewed during the inception stage and the allocation of tasks between the team has been decided as was discussed in the technical offer submitted by the contractor.

Planning for duration of project

The following methodology combines the team strategy as described above with the requirements of the Terms of Reference in terms of timeframe and output:

I. Inception Phase (20/11 - 11/12):

1. Document search, stakeholder identification and preparatory work have been completed.

   Stakeholders identified and consulted so far include:

   - Government officials, e.g. from Department of International Trade, Ministry of Trade & Industry; Economic & Planning Research Unit (EPRU), Ministry of Finance; Resource Unit, National Revenue Authority; the NAO's office, Ministry of Development and Economic Planning;
   - Private sectors representatives (e.g. in fisheries, agricultural, mining sectors, etc), chambers of commerce or similar, trade unions etc;
   - Civil society organisations – NGOs
   - International/regional organisations, such as ECOWAS
   - Donors: the EC Delegation and other donors (for example, WB & DFID);

1. Initial analysis of documentation and reports
2. Preparation of Inception Report

II. Field Studies and Analysis (05/12 – 19/01):

3. Liaison with the Government of Sierra Leone via the EPA coordinator at the Ministry of Trade and Industry is ongoing
4. Data collection/stakeholder interviews,
5. Analysis of the findings
6. First conclusions and recommendations elaborated
7. Preparation of an interim impact study report

IV. Seminar (18-19/01/05)

8. Holding of validation seminar

IV. Finalisation (by 11/02/05)

9. Submit draft final report
10. Reception of comments to draft final report
11. Production of final report

Constraints, risks and assumptions

Risks:

Although the assignment poses globally few risks, the followings have been identified:

- ***Cooperation with Stakeholders:*** the risk of lack of commitment and contribution of all stakeholders to contribute to the assessment process.

- ***Variant expectations:*** Stakeholders to be interviewed may have variant expectations as to the outcome of the assessment, and may be reluctant to share their view with the project team
- ***Tight Time frame*** for carrying out the studies as stakeholders to be interviewed seems not to be fully available during the field period and because part of the project is carry out is over the end of year festive season.
- ***Validity of information:*** there is the risk of collecting biased information from the stakeholders.

Mitigation strategies

In order to reduce the risks mentioned above, the project team will adopt the following mitigation strategy:

Participatory process: This should reduce the risk of the lack of cooperation and contribution of the stakeholders in the evaluation process, and create a cooperative atmosphere built on a constructive approach and openness to the team. This will also provide an opportunity for validation of facts and discussion of preliminary findings. The study team has so far received good support and participation from the following organisations: Department of International Trade; Ministry of Trade & Industry; Economic & Planning Research Unit (EPRU), Ministry of Finance, Research Unit, National Revenue Authority; Statistics Sierra Leone; Chamber of Commerce and Industry.

Use of baseline information and desk study: Maximum use will be made of other studies and published sources of information to establish baseline information and to cope with the risk of collecting biased information.

Obtaining Verifiable Indicators: Development of detailed impact assessment Tools and Data Sheets and the development of questionnaires in order to generate as much data and information as possible in a coherent framework.

Assumptions

The following assumptions have been made by the project team:

- We understand that EU funded Trade Expert attached to the MTI is no longer in post. We are however aware of two other technical assistants stationed in Freetown who can assist the impact study. These are the Director of Policy, Planning and Research Division, a post funded by the Commonwealth Secretariat, and an ODI fellow who supports MTI.
- Availability of data

Verdoorn's model

Verdoorn's model focuses on imports from different sources, that is, imports from preference beneficiaries and from non-beneficiaries. The model is based on two key assumptions. First, the demand function of the preference donor (Sierra Leone) for any single good takes the following form:

(1) $Q_1 + Q_2 = \beta P_1^{\varepsilon \alpha 1} P_2^{\varepsilon \alpha 2}$

Where P1 and P2 are the prices of beneficiaries' and non-beneficiaries' imports, α1 and α2 are share coefficients (α1 = Q1/(Q1+Q2) and α1+α2 = 1), β is a parameter and ε represents the elasticity of import demand.

Second, the elasticity of substitution (σ) of preferred and non-preferred imports can be defined as:

(2) $Q1/ Q2 = \gamma (P1/ P2) \sigma$

If the tariff (t) is eliminated only on preferred imports Q1 and supply elasticities are infinite, then the price of the beneficiaries' imports P1 changes by

(3) $\delta P1/ P1 = \delta t/ t + 1$

Then the total expansion of imports from the preferred country's viewpoint due to the trade preferences can be expressed as follows:

(4) $\delta Q1/ Q1 = (\alpha 1\, \varepsilon + (1- \alpha 1)\, \sigma)\, (\delta t / (1+t))$

The chain reaction comes in two stages: first the tariff is eliminated only on Q1, and P1 falls, and then the consumer substitutes Q1 for Q2. Equation (5) can be rearranged by substituting $\alpha 2$ for $\alpha 1$:

(5) $\delta Q1/ Q1 = (\varepsilon + \alpha 2\, (\sigma - \varepsilon)\, (\delta t / (1+t))$

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The total change in preferred imports can be split into trade creation (TC) and trade diversion (TD). The former is defined as the change in imports from beneficiaries' countries and consists of the consumption effect, that is, the increase in overall consumption due to lower prices, and the displacement of domestic production. This effect can be determined from the preferred country's point of view as follows:

(6) $TC = Q\,1\, \varepsilon\, (\delta t / (1+t))$

Similarly, trade diversion is defined as the substitution of preferred for non-preferred imports due to the preferential tariff elimination:

(7) $TD = Q1\, \alpha 2\, (\sigma - \varepsilon)\, (\delta t/(1+ t)$

Finally, the expected change in import duties (ID) is equal to the sum of import duties for imports from preferred countries Q1, which are now excluded from import tariffs, and the replacement of imports from non-preferred countries (TD) multiplied by the import tariff:

(8) $\delta\, ID= Q\,1t1 +TD\, t\,2$

where t1 and t2 represent the tariff rates for preferred and non-preferred imports, respectively.

The estimation of trade creation and diversion and the changes in import duties has been conducted at the two-digit HS level. At that level of aggregation, the HS schedule consists of 1,241 goods. In comparison to an estimate at a more disaggregated level, this highly aggregated approach does not ensure an accurate estimation of trade effects, since it does not take – in the case of trade diversion – competition from various countries at an appropriate level into account. Also, it does not allow the identification of the commodities that are most likely to be affected by the EPA.

Annex 6: Main features of the EU EBA Initiative

The idea of trade preferences is to contribute to development through the expansion of exports from beneficiary countries by generating increased investment, growth and employment, and the diversification of the production base away from a heavy reliance on the production of primary commodities. Indeed, the relative success of those countries that have been able to diversify into manufactures seems to lend support to this basic premise. On the other hand, LDCs have remained heavily dependent on commodities and have seen their share of world trade decline. The idea of the EBA initiative and similar programmes is to try to lift the trade performance of the LDCs and, hence, their overall economic development.

Features

The EBA proposal was enacted by the Council Regulation No. 416/2001 of 28 February 2001, amending EC Regulation No. 2820/98 applying a multi-annual scheme of generalised tariff preferences for the period 1 July 1999 to 31 December 2001, so as to extend duty-free access without any quantitative restrictions to 919 agricultural products originating in the least developed countries. More than 50 per cent of the liberalised tariff lines covered meat and dairy products, beverages and milled products.

EBA entered into force on 5 March 2001. It should be noted that while the preferences for developing (LDC and non-LDC) countries under the GSP scheme are subject to periodic renewal, the special arrangements provided for in the EBA initiative (modifying the GSP) with regard to market access for LDCs would be maintained for an unlimited period of time.

All the products included in the initiative are agricultural products – in contrast with the original GSP, which, in line with the Prebisch thesis, focused on manufactured products. Products such as fruits and vegetables, meat, beverages and dairy products are now granted duty-free and quota-free access to the EU market. Only three products have not been liberalised immediately: bananas, rice and sugar. Their phase-in periods for full market access are as follows:

- Bananas – duties has gradually be eliminated, by a 20 per cent annual reduction, starting on 1 January 2002. All duties was eliminated from 1 January 2006;

- Rice – full liberalisation will be phased in between 1 September 2006 and 1 September 2009 by gradually reducing the full European Union tariff to zero. Duties will be reduced by 20 per cent on 1 September 2006, by 50 per cent on 1 September, 2007 and by 80 per cent on 1 September, 2008. During the transition period, LDC rice can be exported duty-free to the European Union within the limits of a tariff quota. The initial quantities of this quota shall be based on best LDC export levels to the European Union in the recent past, plus a growth factor of 15 per cent. The quota will grow every year, from 2,517 tonnes (husked-rice equivalent) in 2001/2002 to 6,696 tonnes in 2008/2009 (September to August marketing year);

- Sugar – similar arrangements are provided for sugar. Full liberalization will be phased in between 1 July 2006 and 1 July 2009. During the transition period, LDC raw sugar can be exported duty-free to the European Union within the limits of a tariff quota, which will be increased from 74,185 tonnes (white-sugar equivalent) in 2001/2002 to 197,355 tons in 2008/2009. The provisions of the ACP-EC Sugar Protocol will remain valid.

The adoption of EBA had to meet certain conditions imposed by other international trade arrangements where the EU was signatory: the WTO agreements and the ACP preferential trade arrangements. The EBA was adopted as an amendment to the GSP scheme in order to benefit from the compatibility with the WTO rules of the GSP scheme. The basis for EBA under the WTO is paragraph 2(d) of the Enabling Clause of 1979, which allows for special treatment to be granted for least developed countries in the context of any general or specific measures in favour of developing countries. The EBA had to be not only WTO compatible but also in line with the ACP regime. The Lomé Convention required EU to grant non-discriminatory market access to all ACP countries. However, the EBA initiative would have granted more preferential market access to ACP LDCs than the one enjoyed by ACP non-LDCs.

Therefore, in the Cotonou Agreement that superseded the last Lomé Convention, article 174(2)(b) of the Lomé Convention imposing non-discrimination among ACP states was eliminated. Thus, the European Union can offer better market access to LDC ACP States without extending it to non-LDC ACP countries, as the above-mentioned article would have required.

Apart from the extension of duty and quota free market access to all products (with the exceptions of arms) originating in LDCs the EBA brings only few changes in the general rules administering the GSP scheme. Of these, one of the more important changes is that, unlike the EU GSP scheme that is subject to renewal and revision, EBA has no time limitation. On the other hand, the EBA also introduces new provisions allowing the EU to introduce safeguard measures when massive increases in imports of products originating in the LDCs arise in relation to their usual levels of production and export capacity. Specific safeguard measures apply especially with regard to sensitive products (bananas, sugar and rice), if imports of these products cause serious disruptions to the EU mechanisms regulating these products (the CAP and ACP- EU protocols in particular).

Assessing the impact of EBA

Existing studies based on simulation analysis (Ianchovichina et al. 2001, UNCTAD 2001b, Trueblood and Somwaru 2002) show that the impact of the EBA initiative is likely to be concentrated on a narrow set of sectors, in particular, sugar and rice. From these studies, it also emerges that, while for some beneficiary LDC countries the effect of the liberalization policy may be non-negligible (at the end of the transition period), the effects on the EU are likely to be minor. However, trade diversion will take place especially for the non-LDC developing countries receiving preferences from the EU but excluded from EBA.

Annex 7: Tariff averages by HS chapter

HS 2-digit	Description	No. of lines[a]	MFN		Effective applied MFN[a]		Bound rates	
			Average (%)	Range (%)	Average (%)	Range (%)	Average (%)	Range (%)
	Total	5,577	13.9	0-30	14.9	0.5-60.5	47.5	30-80
01-24	Agriculture	827	17.2	0-30	18.6	0.5-60.5	41.8	30-80
25-97	Industry	4,750	13.3	0-30	14.3	0.5-60.5	48.5	30-80
01	Live animals	24	16.3	5-20	16.8	5.5-20.5	40.0	40-40
02	Meat and edible meat offal	60	20.0	20-20	20.5	20.5-20.5	40.0	40-40
03	Fish and crustaceans, molluscs and other aquatic invertebrates	94	16.3	10-20	16.8	10.5-20.5	50.0	50-50
04	Dairy produce; birds' eggs; natural honey; edible prod. n.e.s.	38	19.2	5-20	19.7	5.5-20.5	40.0	40-40
05	Products of animal origin, n.e.s.	20	11.8	5-20	12.3	5.5-20.5	40.5	40-50
06	Live trees and other plants; bulbs, roots and the like; cut flowers etc.	13	13.1	5-20	13.6	5.5-20.5	40.0	40-40
07	Edible vegetables, certain roots, tubers	62	19.8	5-20	20.3	5.5-20.5	40.0	40-40
08	Edible fruit & nuts; peel of citrus fruit/melons	60	19.3	5-20	19.8	5.5-20.5	40.0	40-40
09	Coffee, tea, maté and spices	33	19.1	5-20	19.6	5.5-20.5	40.0	40-40
10	Cereals	19	9.5	5-20	10.0	5.5-20.5	40.0	40-40
11	Prod. of the milling industry; malt; starches; inulin; wheat gluten	31	15.0	0-20	15.5	0.5-20.5	40.0	40-40
12	Oil seeds & oleaginous fruits; misc grains, seeds and fruit; etc.	50	9.8	5-20	10.3	5.5-20.5	40.0	40-40
13	Lac; gums, resins and other vegetable saps and extracts	12	4.2	0-5	4.7	0.5-5.5	40.0	40-40
14	Veg. plaiting materials; veg. prod. n.e.s	12	13.8	5-20	14.3	5.5-20.5	39.2	30-40
15	Animal/veg. fats & oils & their cleavage products; etc.	57	16.1	5-20	16.6	5.5-20.5	40.5	40-50
16	Prep. of meat/fish/molluscs etc.	28	19.8	15-20	20.3	15.5-20.5	45.4	40-50
17	Sugars and sugar confectionery	21	15.7	5-30	16.2	5.5-30.5	40.0	40-40
18	Cocoa and cocoa preparations	17	15.3	5-30	15.8	5.5-30.5	39.4	30-40
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	23	17.6	5-30	18.1	5.5-30.5	38.3	30-40
20	Prep. of veg./fruit/nuts/other parts of plants	57	24.2	15-30	24.7	15.5-30.5	39.4	30-40
21	Miscellaneous edible preparations	25	20.2	5-30	20.7	5.5-30.5	38.8	30-40
22	Beverages, spirits and vinegar	29	27.1	5-30	47.2	5.5-60.5	56.6	40-80
23	Residues and waste from the food industries; prepared animal fodder	26	5.0	5-5	5.5	5.5-5.5	40.4	40-50
24	Tobacco & manuf. tobacco substitutes	16	21.3	5-30	31.1	5.5-60.5	40.0	40-40
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	77	5.8	0-20	6.3	0.5-20.5	50.0	50-50

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HS 2-digit	Description	No. of lines[a]	MFN		Effective applied MFN[a]		Bound rates	
			Average (%)	Range (%)	Average (%)	Range (%)	Average (%)	Range (%)
26	Ores, slag and ash	41	5.0	5-5	5.5	5.5-5.5	50.0	50-50
27	Mineral fuels, mineral oils & prod. of their distillation; bituminous sub; mineral waxes	43	8.4	0-20	39.2	30.5-50.5	50.0	50-50
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	182	5.0	0-5	5.5	0.5-5.5	50.0	50-50
29	Organic chemicals	341	4.9	0-5	5.4	0.5-5.5	49.9	40-50
30	Pharmaceutical products	36	6.1	0-20	6.6	0.5-20.5	30.6	30-50
31	Fertilisers	26	5.0	5-5	5.5	5.5-5.5	30.0	30-30
32	Tanning/dyeing extracts; tannins & their derivatives; pigment, etc.	59	11.2	5-30	11.7	5.5-30.5	50.0	50-50
33	Essential oils & resinoids; perfumery, cosmetic or toilet preparations soap, etc.	41	19.6	5-30	20.1	5.5-30.5	49.5	30-50
34	Soap, organic surface-active agents, washing prep., lubricating prep., waxes, etc.	28	18.8	5-30	19.3	5.5-30.5	50.0	50-50
35	Albuminoidal substances; modified starches; glues; enzymes	16	5.0	5-5	5.5	5.5-5.5	43.1	40-50
36	Explosives; pyrotechnic prod.; matches; pyrophoric alloys; combustible prep.	10	18.5	5-30	25.0	5.5-50.5	50.0	50-50
37	Photographic or cinematographic goods	37	22.8	5-30	23.3	5.5-30.5	50.0	50-50
38	Miscellaneous chemical products	73	13.1	5-20	13.6	5.5-20.5	47.1	30-50
39	Plastics and articles thereof	141	8.8	5-30	9.3	5.5-30.5	50.0	50-50
40	Rubber and articles thereof	94	13.6	0-20	14.1	0.5-20.5	50.0	50-50
41	Raw hides & skins (no furskins) & leather	38	16.1	5-20	16.6	5.5-20.5	47.4	40-50
42	Articles of leather; saddlery & harness; etc.	25	22.6	5-30	23.1	5.5-30.5	50.0	50-50
43	Furskins & artificial fur; manuf. thereof	14	24.3	10-30	24.8	10.5-30.5	45.7	40-50
44	Wood and articles of wood; wood charcoal	74	17.0	5-30	17.5	5.5-30.5	50.0	50-50
45	Cork and articles of cork	11	5.0	5-5	5.5	5.5-5.5	50.0	50-50
46	Manuf. of straw/esparto/other plaiting materials; basketware and wickerwork	6	20.0	20-20	20.5	20.5-20.5	50.0	50-50
47	Pulp of wood/other fibrous cellulosic material; recovered paper and paperboard	20	5.0	5-5	5.5	5.5-5.5	50.0	50-50
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	112	9.4	5-20	9.9	5.5-20.5	50.0	50-50
49	Printed books, newspapers, pictures & other prod. of the printing industry; etc.	22	9.5	0-30	10.0	0.5-30.5	43.6	30-50
50	Silk	13	20.0	5-30	20.5	5.5-30.5	46.9	40-50
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	48	19.1	5-30	19.6	5.5-30.5	47.7	40-50
52	Cotton	150	24.0	5-30	24.5	5.5-30.5	49.2	30-50
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	30	12.5	5-30	13.0	5.5-30.5	48.0	40-50
54	Man-made filaments	73	22.1	5-30	22.6	5.5-30.5	50.0	50-50
55	Man-made staple fibres	124	22.3	5-30	22.8	5.5-30.5	50.0	50-50

HS 2-digit	Description	No. of lines[a]	MFN		Effective applied MFN[a]		Bound rates	
			Average (%)	Range (%)	Average (%)	Range (%)	Average (%)	Range (%)
56	Wadding, felt & nonwovens; special yarns; twine, cordage, etc.and articles thereof	36	18.9	5-20	19.4	5.5-20.5	50.0	50-50
57	Carpets and other textile floor coverings	23	27.8	20-30	28.3	20.5-30.5	50.0	50-50
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	46	27.3	5-30	27.8	5.5-30.5	50.0	50-50
59	Impregnated/coated/covered/laminated textile fabrics; etc.	24	16.3	10-20	16.8	10.5-20.5	50.0	50-50
60	Knitted or crocheted fabrics	44	30.0	30-30	30.5	30.5-30.5	50.0	50-50
61	Articles of apparel and clothing accessories, knitted or crocheted	116	22.5	20-30	23.0	20.5-30.5	50.0	50-50
62	Articles of apparel and clothing accessories, not knitted or crocheted	119	21.7	20-30	22.2	20.5-30.5	50.0	50-50
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	60	21.3	5-30	21.8	5.5-30.5	50.0	50-50
64	Footwear, gaiters etc.; parts of such articles	30	22.3	10-30	22.8	10.5-30.5	50.0	50-50
65	Headgear and parts thereof	12	23.3	20-30	23.8	20.5-30.5	50.0	50-50
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, etc. and parts thereof	7	21.4	10-30	21.9	10.5-30.5	50.0	50-50
67	Prep. feathers & down & ; artificial flowers; articles of human hair	8	20.0	20-20	20.5	20.5-20.5	50.0	50-50
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	49	19.4	10-30	19.9	10.5-30.5	50.0	50-50
69	Ceramic products	30	18.7	5-30	19.2	5.5-30.5	50.0	50-50
70	Glass and glassware	66	21.0	5-30	21.5	5.5-30.5	50.0	50-50
71	Natural/cultured pearls, precious or semi-precious stones, metals, coins, etc.	53	15.6	5-30	16.1	5.5-30.5	50.0	50-50
72	Iron and steel	171	5.0	5-5	5.5	5.5-5.5	50.0	50-50
73	Articles of iron or steel	127	16.4	5-20	16.9	5.5-20.5	50.0	50-50
74	Copper and articles thereof	60	6.5	5-20	7.0	5.5-20.5	50.0	50-50
75	Nickel and articles thereof	17	6.8	5-20	7.3	5.5-20.5	50.0	50-50
76	Aluminium and articles thereof	39	9.2	5-20	9.7	5.5-20.5	50.0	50-50
78	Lead and articles thereof	10	6.5	5-20	7.0	5.5-20.5	50.0	50-50
79	Zinc and articles thereof	10	5.0	5-5	5.5	5.5-5.5	50.0	50-50
80	Tin and articles thereof	8	5.0	5-5	5.5	5.5-5.5	50.0	50-50
81	Other base metals; cermets; articles thereof	51	5.0	5-5	5.5	5.5-5.5	50.0	50-50
82	Tools, implements, cutlery, spoons & forks, of base metal; parts thereof	66	8.7	5-20	9.2	5.5-20.5	35.0	35-35
83	Miscellaneous articles of base metal	36	16.7	5-20	17.2	5.5-20.5	50.0	50-50
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	519	6.8	5-30	7.3	5.5-30.5	43.2	30-50
85	Electrical machinery and equipment and parts thereof; etc.	293	16.4	5-30	16.9	5.5-30.5	48.3	30-50
86	Railway or tramway locomotives, rolling-stock and parts thereof;	24	6.3	5-20	6.8	5.5-20.5	50.0	50-50

HS 2-digit	Description	No. of lines[a]	MFN		Effective applied MFN[a]		Bound rates	
			Average (%)	Range (%)	Average (%)	Range (%)	Average (%)	Range (%)
	etc.							
87	Vehicles other than railway or tramway rolling-stock, & parts & accessories thereof	138	12.6	0-30	13.1	0.5-30.5	52.9	30-80
88	Aircraft, spacecraft, and parts thereof	16	5.0	5-5	5.5	5.5-5.5	47.5	30-50
89	Ships, boats and floating structures	21	11.9	5-30	12.4	5.5-30.5	50.0	50-50
90	Optical, photographic, cinematographic, measuring, checking, precision, etc.	165	8.8	5-30	9.3	5.5-30.5	48.4	30-50
91	Clocks and watches and parts thereof	53	22.1	10-30	22.6	10.5-30.5	50.0	50-50
92	Musical instruments; parts & acces. thereof	23	16.1	10-30	16.6	10.5-30.5	50.0	50-50
93	Arms & ammunition; parts thereof	21	26.2	10-30	52.9	20.5-60.5	50.0	50-50
94	Furniture; bedding, mattresses, mattress supports, cushions, etc.	45	22.9	5-30	23.4	5.5-30.5	50.0	50-50
95	Toys, games and sports requisites; parts and accessories thereof	44	29.5	20-30	30.0	20.5-30.5	50.0	50-50
96	Miscellaneous manufactured articles	52	24.0	5-30	24.5	5.5-30.5	49.9	35-50
97	Antiques	13	18.5	5-30	19.0	5.5-30.5	50.0	50-50

a Including excise taxes and ECOWAS taxes.

Source: WTO Secretariat calculations, based on data provided by the authorities of Sierra Leone.