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Trade Policy Review Body

TRADE POLICY REVIEW

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Report by the Secretariat

This report, prepared for the first Trade Policy Review of Sierra Leone, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakech Agreement Establishing the World Trade Organization), sought clarification from Sierra Leone on its trade policies and practices.

Any technical questions arising from this report may be addressed to Mr. Sergios Stamnas (022.739.5382) and Mr. Carlos Perez del Castillo (022.739.5336).

Document WT/TPR/G/143 contains the policy statement submitted by Sierra Leone.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Sierra Leone.

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SUMMARY OBSERVATIONS

1. Since the end of civil unrest in 2002 and the return to a democratically elected Government, Sierra Leone, a least developed country (LDC), has pursued macroeconomic, structural, law, and trade reform. Sierra Leone's participation in sub-regional economic integration initiatives within the Economic Community of West African States (ECOWAS), together with actions for consolidating peace and resuming operations in the mining sector, a key activity in Sierra Leone's weakened economy, are among the most notable features of the post-conflict period. Competitiveness and governance problems persist but are receiving attention. Sierra Leone's economic outlook depends on the healthy performance of the dominant agriculture and mining sectors as well as the political and economic developments within the country and sub-region.

(1) ECONOMIC ENVIRONMENT

2. Since the end of the conflict, Sierra Leone's economy has shown vibrant growth. This is largely due to improvements in the security situation, growing confidence in the country, increasing diamond exports, rising aid inflows, and the progress achieved in resettling people displaced by the civil war. The inflation record has been erratic due to a rise in fuel prices (and their impact on transportation costs), a strong growth in import demand for reconstruction, an expansionary monetary policy, partly owing to delays in donor support, and the "pass-through" impact of the exchange-rate depreciation of the national currency on domestic prices The size of the informal sector is significant.

3. Macroeconomic stabilization and structural reform have been pursued within the framework of a 2001 Interim National Poverty Reduction Strategy (IPRSP). The share of the population living below the poverty threshold seems to be falling and the share of health and education in total recurrent expenditure is up. In order to enhance governance, an Anti-Corruption Commission (ACC) was established in 2001 and the United Nations Convention against Corruption was signed in 2003. Efforts to decentralize the Government and launch law reform have been undertaken. Since 2002, under the Heavily Indebted Poor Countries (HIPC) Initiative and the signing of debt-rescheduling accords, Sierra Leone's external debt (ratio to GDP), has dropped.

4. Sound fiscal policy lies at the core of Sierra Leone's economic reform efforts, particularly that directed to address deficiencies in the tax system. The fiscal deficit, due in large measure to the post-conflict rehabilitation programme and a weak domestic tax base, has followed a declining trend; the recurring deficits impair Sierra Leone's capacity to undertake growth- and development-related expenditures (including poverty alleviation, health, education, and infrastructure). The impact of implementing an ECOWAS Common External Tariff (CET) on fiscal revenue is being assessed.

5. 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. Since 2001, foreign exchange reserves have followed a rising trend. Between 1997 and 2003 the national currency – the leone - depreciated by 58% (in foreign currency terms) against the U.S. dollar.

6. Sierra Leone depends heavily on exports of diamonds and minerals and to a lesser extent on a few primary products (cocoa, coffee). In recent years re-exports have grown steadily due, inter alia, to relative stability in neighbouring Liberia. Imports are concentrated largely in hydrocarbons, food, machinery, and manufactured goods. The European Communities (EC) remains Sierra Leone's leading supplier and export market, followed by ECOWAS and Asian trading partners.

7. Foreign direct investment into Sierra Leone remains modest. To cope with a weak investment environment, in August 2004 Sierra Leone updated its legal framework governing investment (now covering all sectors); past fiscal incentives (including a lower payroll tax rate for ECOWAS citizens) remain in force pending the revision of the tax code. Work on the adoption of an export processing zone regime is under way. Although privatization is considered a key element in Sierra Leone's structural reform programme, the privatization programme, drawn up by the recently established National Commission for Privatization, does not specify any implementation dates.

(2) TRADE POLICY FRAMEWORK

8. Sierra Leone, a contracting party to the GATT, became a WTO Member on 23 July 1995. It grants at least MFN treatment to all its trading partners and benefits from the special and differential treatment provided for in the WTO Agreements. Political developments and priorities seem to have caused delays in implementing these Agreements.

9. Sierra Leone's trade policy is part of its more general strategy for poverty reduction and in line with its ECOWAS commitments. Since the launch of preparatory work for this Trade Policy Review, action has been taken for better policy coordination on trade and related matters through the establishment of an inter-institutional National Coordinating Committee on Trade (NCCT) (June 2004) and the reinforcement of the institutional capacity of the Ministry of Trade and Industry.

10. Sierra Leone's involvement in and commitment to sub-regional integration initiatives have been strengthened, particularly with respect to ECOWAS whose provisions seem to supersede those of the WTO Agreements in Sierra Leone; an attempt is being made to ensure the absence of inherent conflict between ECOWAS and WTO provisions. ECOWAS members have been gradually liberalizing intra-community trade, and since 1 January 2004 they have granted preferential treatment on the products that were liberalized in the West African Economic and Monetary Union (WAEMU), whose members also participate in the ECOWAS integration scheme. Sierra Leone does not implement the ECOWAS Trade Liberalization Schedule (ETLS), mainly due to uncertainty regarding forgone customs revenue.

11. Sierra Leone is making considerable effort to benefit from the increasingly expanding non-reciprocal preferential trade arrangements that are made available by, or negotiated with, its developed trading partners. Sierra Leone benefits from duty-free and quota-free access to the EC market; it is also participating in the negotiations for the conclusion of an Economic Partnership Agreement (EPA) with the EC. Sierra Leone is eligible for the trade preferences granted by the United States under the African Growth and Opportunity Act (AGOA) and the EC's "Everything but Arms" initiative.

12. Sierra Leone was the first WTO Member to benefit from a new facility, the Trade Policy Clinics. In accord with the Clinic, this Trade Policy Review aims, inter alia, to contribute to improving transparency in domestic policies at national and multilateral level. By the time of completion of this report Sierra Leone had not submitted notifications to the WTO other than the national tariff information (now with the WTO Integrated Data Base): in this respect, Sierra Leone has availed itself of trade-related technical assistance, and further notification should follow in due course.

13. On technical assistance, in 2005 the WTO envisages the participation of Sierra Leonean officials in: trade policy courses in Geneva; regional trade policy courses; short trade policy courses on the Doha Development Agenda (DDA); workshops or seminars at the regional or sub-regional level on a number of issues (including negotiating techniques); meetings to promote awareness among parliamentarians; and various other activities at the WTO headquarters. These activities will *cover, inter alia, issues identified by the authorities such as notification requirements, customs valuation, the implementation of the WTO Agreements, and the DDA. The setting up of a representation in Geneva would allow closer participation in WTO activities (currently, ensured by the Embassy in Brussels or the bi-annual Geneva Week meetings), but financial constraints constitute an impediment.*

14. The development of international trade in Sierra Leone is also supported at the national and the sub-regional level by several development partners, including non-governmental bodies. In October 2004 a "Technical review" was undertaken under the Integrated Framework (IF) as a first step toward Sierra Leone's inclusion in the IF process. Sierra Leone does not benefit from the JITAP (Joint Integrated Technical Assistance Programme).

(3) TRADE POLICY DEVELOPMENTS

15. 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%. 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 %). All tariff rates are ad valorem thus ensuring a high degree of transparency. The tariff reflects a concentration of tariff lines on four of the seven rates in force and a pronounced escalation pattern, seemingly in line with national as well as regional policy priorities. Sierra Leone's customs tariff is being harmonized with those of other ECOWAS members that now apply the WAEMU CET. An ECOWAS Common External Tariff (CET) is expected to be in place as of 1 January 2008.

16. Sierra Leone has not yet implemented the WTO Agreement on Customs Valuation, continuing with the use of the Brussels Definition of Value; it maintains reference values (officially established minimum customs values) for imports of sensitive items (rice, flour, sugar, cement, plastic slippers, used clothing, and used clothing accessories). No official list of these reference values seems to have been issued or made publicly available. Preshipment inspection is mandatory and importers bear the associated costs (1.10% of the f.o.b. value, 0.25% for rice). Efforts to streamline customs-clearance procedures are under way; a "one-stop-centre" for the clearance of imported goods has reduced time at the quay, and a project to implement the Automated System for Customs Data (ASYCUDA) has commenced.

17. A few import prohibitions and restrictions are maintained for health, safety, security, and environmental reasons. International standards constitute the basis for the preparation of Sierra Leonean standards; efforts are being made to follow WTO provisions on standards. No contingency measures exist but ECOWAS is committed to developing a Community Anti-dumping and Safeguard Code.

18. Complicated and lengthy procedures affect exports. Exports of plants and charcoal are restricted through permits aimed at minimizing deforestation and preventing the extinction of tree species used for both fuel wood and medicinal production. Export taxes are levied on cocoa and coffee (2.5%), and diamonds (3%). As from 2004, a flat rate diamond export-licence fee has applied, thus eliminating past discriminatory rates.

19. Assistance to domestic production is available in the form of tax incentives; those for agri-processing activities are tied to a requirement of 60% of local input or value added. State participation in certain activities *continues, for example, in electricity, telecommunications, and transport. Since 2004, Sierra Leone has been applying interim rules and regulations for government procurement, for a period of one year, pending the completion of a revised regulatory framework; no preferences for local suppliers are currently in force.*

20. The regulatory and institutional framework for the protection of intellectual property rights (IPRs) is being strengthened; Sierra Leone benefits from an extended time-limit (up until 2006) for the full implementation of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The ratification of certain regional IPR arrangements (e.g., the 1999 Harare protocol for patents and industrial designs) and effective enforcement of protection measures seem to be impeded by institutional constraints and a lack of means. No legal framework is in place relating to competition policy and consumer protection. Environmental concerns have been addressed by the introduction/enforcement of new legislation.

(4) SECTORAL POLICY DEVELOPMENTS

21. The labour-intensive and well-endowed agricultural sector appears to be recovering progressively from the damages of the civil conflict, while retaining its pre-conflict dominant role in the economy (almost half of GDP). Sierra Leone is a net-food-importing country and a food aid recipient, with production unable to keep pace with the rapidly expanding food requirements. Although food security has improved progressively since 2001, due to stability that has allowed the subsequent return of displaced farmers, free distribution of seedlings and other inputs is important in determining the scale of planting. Local-content requirements need to be met to take advantage of tax incentives in agri-processing activities. Domestic rice production (82% of the population's food intake) is protected at the border by a 15% tariff and a minimum reference value. Special permits for the production, transport, and export of fuel wood and/or charcoal are used against deforestation, which has progressed rapidly in recent years; some reafforestation action is being taken. Industrial fishing takes place mainly under joint-venture agreements but the catch is processed abroad due to a lack of adequate facilities in Sierra Leone; standards and codes of conduct are being developed in accord with the EC directives on sanitary certification for fish and fish products.

22. Sierra Leone's vast mineral resources, reserves, and unexploited potential remain among the key elements in its development prospects; a Core Mineral Policy is being developed. The diamond subsector is the dominant activity and main foreign-exchange earner; it accounts for more than 90% of total exports (2003). Since 2000, mandatory certificate-of-origin requirements (Kimberley process) have contributed to the considerable growth of registered diamonds trade and the resulting fiscal revenue rise. A Diamond Area Community Development Fund (DACDF) seeks to ensure an equitable allocation of benefits to communities in the diamond mining areas. Ad hoc tax concessions have been granted for restarting rutile mining activities; Sierra Leone was the largest world producer of this mineral before the conflict.

23. In the light of Sierra Leone's fragile economy, dependence on increasingly expensive oil imports for, inter alia, electricity production and transportation constitutes, to some extent, a developmental constraint. The National Power Authority, a state monopoly, is responsible for electricity generation, transmission, and distribution; a hydroelectric power plant is to be operational by the end of 2005. Electricity tariff differentials penalize industrial consumers, who are charged up to 30% higher rates than other consumers.

24. Manufacturing, mainly composed of small and medium-sized enterprises, remains underdeveloped. Border protection, is confined to tariffs, which attain their highest levels on processed food, beverages, textiles, *furniture, non-metallic mineral products, and other manufactures.*

25. Services account for one quarter of Sierra Leone's GDP. Several inefficiencies contribute to the high cost of financial intermediation, and limit the availability of financing for productive investments, especially to small and medium-sized enterprises; emphasis has been put on promoting the micro-financing programme. Prudential requirements, independent supervision, and rural bank reforms have marked the finance sector since 2000. In telecommunications, two private operators have run mobile telephony networks since 1990; efforts are under way to update the regulatory framework. The State Ports Authority levies higher charges on imports than exports (freight levy for navigational purposes, harbour dues for containers); port services have improved and the average ship turn-around time has decreased. Since 1999, Sierra Leone has participated in the Yamoussoukro Initiative on the gradual implementation of an "open skies" agreement in order to liberalize air passenger and cargo transport.

26. Sierra Leone has comprehensive commitments under the General Agreement on Trade in Services (GATS); an MFN exemption is in force with respect to its sub-regional preferential arrangements. Sierra Leone did not take part in the negotiations on basic telecommunications or financial services.

(5) OUTLOOK

27. Sierra Leone's economic performance since the end of civil unrest, together with the authorities' commitment to structural reform, holds the prospect of sustainable growth and poverty alleviation. The intensity of efforts to strengthen the legal and institutional framework for coherent and sound policy-making, and to promote export and market diversification, will determine Sierra Leone's speed and sustainability of recovery. As an LDC, Sierra Leone will continue to receive technical assistance from its development partners, as it has from the WTO since 1995. The negotiations under way in the WTO could make a major contribution to Sierra Leone's market access. Nevertheless, the benefits to Sierra Leone will not be fully realized until its economy is able to respond competitively to external demand.