SIERRA LEONE

DIAGNOSTIC TRADE INTEGRATION STUDY

CONCEPT NOTE

1 INTRODUCTION

This Concept Note discusses the background, key issues, and terms of reference for the Sierra Leone Diagnostic Trade Integration Study (DTIS), which is being prepared under the Integrated Framework for Trade Related Technical Assistance to Least Developed Countries in response to a request from the Government of Sierra Leone.[1] The ultimate objective of the study is to build the foundation for accelerated growth in Sierra Leone by enhancing the integration of its economy into regional and global markets.

Towards this end, a preliminary World Bank mission visited Freetown July 4-8, 2005 for the purpose of (1) clarifying the objectives of the IF process, and the DTIS study in Sierra Leone in particular; (2) identifying priority themes for the DTIS; (3) coming to agreement on the way in which the study will be conducted; and (4) coordinating with other multilateral and bilateral agencies. The mission consisted of Philip English, Trade Coordinator for West Africa, and Dirck Stryker, lead consultant. Adama Coulibaly (FAO trade specialist, FAO Regional Office in Ghana) joined the mission. A parallel mission was conducted by David Luke (UNDP trade official, Geneva office) and Massi Sahami (UNCTAD) for the purpose of planning a pre-DTIS workshop to take place in October 2005. After reviewing the documentation already available, the mission met with government officials and representatives of the private sector and donor community to explain the objectives of the Integrated Framework and the DTIS. The mission received a very warm reception from the Government of Sierra Leone, and notably the Minister of Trade and Industry, Dr. Kadi Sesay, and her staff, which provided exemplary support.

There have been a number of studies recently undertaken in Sierra Leone, but several sectors and issues have received relatively little analysis due to the need to give first priority to re-establishing the basic services of government, infrastructure, and food

[1] The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see Annex 1 and http://www.integratedframework.org/.

security. Other than mining, export development has not been a priority.[2] Yet now, after many years of war and civil conflict, Sierra Leone has a long list of needs. Not all of these can be satisfied simultaneously. It is important, therefore, to identify those actions that are most pressing in the short run and will contribute the most to sustainable trade and growth over the longer run.

The DTIS aims to achieve this by (1) analyzing the key constraints to expansion of trade and growth, (2) providing a comprehensive picture of how current and planned initiatives can be combined in a prioritized and sequenced way, and (3) developing a prioritized trade integration action plan consistent with the Poverty Reduction Strategy Paper (PRSP). After validation by the Government and a broad spectrum of stakeholders, this action plan will be implemented by the Government with support from the donor community to provide a stable environment in which trade plays a vital role in sustaining growth at levels and in ways that generate substantial reductions in poverty. The study will also serve to strengthen the trade and growth dimension of the PRSP, which receives relatively little detailed treatment in the current version.

The next section provides a brief review of the socio-economic background to the DTIS. This is followed by a brief discussion of trade performance and policy. Section 4 presents the export sectors that will be examined most intensively – agriculture, agro-industry, fishing, mining, and tourism. The cross-cutting infrastructural and institutional issues which act as constraints on trade are presented in Section 5 - customs operations, trade facilitation, norms and standards, public services (transportation, electrical power), and financial services. Section 6 summarizes the particular approach to be taken in the DTIS in light of its objectives. We conclude with a proposed outline, team composition, and calendar. Annex 1 outlines the overall Integrated Framework program.

[2] Sierra Leone does have recent reports on macroeconomic policy and performance, a PRSP, several sector reviews, a household budget survey, studies on obstacles to investment and administrative barriers to business, and a recent Trade Policy Review prepared by the WTO.

2 SOCIO-ECONOMIC BACKGROUND

2.1 OVERVIEW

Sierra Leone covers an area of 71,740 km^2, with a population of 5.3 million in 2003, of which 34 percent live in urban areas. The population growth rate is 2.0 percent per annum, which is relatively low by African standards, partly because child mortality is very high (see Table 1). Average life expectancy is estimated at only 37 years. About 70 percent of the total population lives under the poverty threshold of $2.00 a day, a figure which rises to 79 percent in rural areas. The poverty profile has been exacerbated by the displacement of about two million people during the civil war. Adult literacy is much lower than the sub-Saharan African average, as is per capita income. School enrollment and access to safe drinking water, on the other hand, are similar to African norms.

Table 1: Sierra Leone – Selected Social Indicators
(2002 unless otherwise noted)

Indicators	Sierra Leone	Sub-Saharan Africa	Developing Countries
Under-five Mortality (per 1,000 live births)	284.0	174.0	88.0
Life Expectancy at Birth (years)	37.0	46.3	64.6
Adult Literacy Rate (% ages 15+)	36.0	63.2	76.7
Combined Gross Ratio for Primary, Secondary & Tertiary Schools (%)	45.0	44.0	60.0
Population Without Sustainable Access to Improved Water Source (2000)	43.0	43.0	22.0
GDP per Capita (PPP US$)	520.0	1790.0	4054.0

Source: UNDP, *Human Development Report 2004*; UNESCO Institute for Statistics (2002).

Sierra Leone has a rich and diversified natural resource base comprising diamonds, rutile, bauxite, gold, and other mineral resources; a variety of agro-ecological conditions; a significant maritime fishery; and a number of tourist attractions. Economic growth is largely dependant on the mining and agricultural sectors for the moment. Diamonds are the main mineral product and export, while agriculture engages about two-thirds of the working population, currently reduced to basically subsistence production.[3]

After growing at 4 percent annually in the 1960s the economy deteriorated sharply during the next two decades as a result of poor macroeconomic and fiscal policies, massive state intervention, concentration of state spending on the non-poor, dismantling of local government, rampant corruption, and economic policies that held back overall economic activity and heavily taxed agriculture and the rural population. Real GDP per capita peaked in 1970; between 1971 and 1989, it dropped 37 percent. By 1990, 82 percent of the population lived below the poverty line.

In late 1989, given the continuous decline and deterioration in living standards, the Government initiated a comprehensive economic recovery program. During 1992-1994, Sierra Leone implemented a structural adjustment program supported by the IMF and the World Bank. However, by 1991 the civil war in Liberia had spread into the eastern part of Sierra Leone, and sporadic attacks by the Revolutionary United Front gradually spread throughout the country. Multi-party elections were held in 1996, but the government was overthrown in a violent coup the following year. Although the elected President was reinstated in 1998 with the help of ECOWAS peacekeeping forces, the situation remained unstable until 2001.

Tremendous damage was inflicted on Sierra Leone by this protracted civil war. More than two million people, nearly half the population, were displaced, farms were abandoned, official mining ceased, and infrastructure was destroyed. Output fell, and the associated reduction in the revenue base led to a sharp decline in government revenue. With rising expenditures driven by security-related outlays, the overall budget deficit (excluding grants) reached an estimated 15 percent of GDP during 1999.

---

[3] World Bank, Sierra Leone – Country Brief.

2.2 *RECENT ECONOMIC DEVELOPMENTS*

Following the signing of the Lome Peace Accord in July 1999, the Government, in collaboration with multilateral and bilateral donors, elaborated an economic recovery program. The program was aimed at re-establishing macroeconomic stability, rehabilitating the economic and social infrastructure, and rebuilding capacity for policy formulation and implementation. The program was supported by the IMF through its Emergency Post Conflict Assistance Facility and by the World Bank's first Economic Recovery and Rehabilitation Credit (ERRC I). The European Union and DFID/UK also supported the Government's recovery program.

In late 2000, improvements in the security situation had strengthened confidence and helped to sustain economic recovery. In September 2001, the Fund approved a three-year Poverty Reduction and Growth Facility (PRGF) arrangement (US$196 million).[4] The overall objective of the program was to address the desperate poverty situation in a more comprehensive manner and to enhance the growth prospects of the economy through macroeconomic stabilization and structural reform.

An Interim Poverty Reduction Strategy Paper (IPRSP) was issued in 2001, and its final version (PSRP) was ready in March 2005. The PRSP is to provide a medium-term framework to address the socio-economic challenges facing Sierra Leone. Tax and tariff reforms are also being undertaken, but privatization has not yet progressed. Since 2001, steps have been taken to combat corruption and improve governance by revising the regulatory framework and creating an Anti-Corruption Commission. Since 2002, Sierra Leone has been eligible for, and benefited from, assistance under the enhanced Heavily Indebted Poor Countries Initiative (HIPC).

The government has pursued structural and institutional reforms since 2002 to improve economic management and promote growth. The reform areas include strengthening public financial management, promoting good governance, enhancing domestic revenue mobilization, and supporting private sector development, notably in the mining sector. The reforms were supported by Sierra Leone's development partners including the IMF under the PRGF, the World Bank's Economic Rehabilitation and Recovery Credits

[4]IMF Press Release No. 04/33, 23 February 2004. Available at: http://www.imf.org/ external/ np/sec/pr/2004/pr0433.htm [28 July 2004].

(ERRC I-III), the African Development Bank's Economic Rehabilitation and Recovery Loans (ERRL I-III), the United Kingdom's Poverty Reduction Framework Arrangement, and the European Union's Post Conflict Budgetary Support.

2.3 RESULTS TO DATE

Economic conditions improved substantially after successful completion of the disarmament and demobilization program and rapid resettlement of the displaced population. The end of the war officially opened the entire country to the free movement of goods and services, although destruction of roads and bridges during the war seriously impeded this movement.

Agricultural production increased as the rural population returned to its communities. Real GDP growth has been positive and accelerating since 2000: 3.8 percent in 2000, 5.4 percent in 2001, 6.3 percent in 2002, 9.3 percent in 2003, and an estimated 7.4 percent in 2004, underpinned by broad recovery in agriculture, mining, manufacturing, construction, and the services. Nevertheless, growth of the productive sectors of the economy remained fragile at the end of 2004 because of problems in the energy sector, the slow pace of rehabilitation of feeder roads, increases in the prices of petroleum products, and deterioration in the macroeconomic situation.

Although government revenue increased from 7 percent of GDP in 1999 to 12.5 percent by 2004, budgetary management was made difficult by delays and shortfalls in donor inflows. Monetary policy reflected fiscal performance. Increases in bank credit to Government led to a sharp increase in the money supply -- 20 percent during 2004. Average annual inflation rose to 14.2 percent in 2004. The rise in prices of petroleum products and depreciation of the exchange rate contributed to this inflation. Domestic interest rates on 91 day treasury bills rose to 27 percent in 2004 from 20 percent in 2003, reflecting increased Government borrowing as well as inflation.

Exports, mainly of diamonds, grew strongly during 2004, with recorded diamond exports increasing by 65.8 percent over the year.[5] Imports remained high on account of continuing reconstruction activities and higher oil prices. The trade deficit narrowed to

[5] The increase in official diamond exports was largely the result of resumption of Kimberlite mining and continued implementation of the Kimberly Certification Process.

US$120 million in 2004 from US$ 214 million in 2003, and Gross Foreign Reserves of the Bank of Sierra Leone increased to US$125 million (3.1 months of import cover) as of end 2004. Nevertheless, the increased demand for foreign exchange combined with the reduction in supply following delays in donor disbursement and the scaling down of the UN peacekeeping forces (UNAMSIL) and NGO activities, exerted downward pressure on the exchange rate. The average annual exchange rate depreciated by 15 percent to Le2701/US$ in 2004 from Le2345/US$ in 2003.

3 TRADE PERFORMANCE AND POLICY

Sierra Leone has a very small, relatively poor domestic market. Future growth will need to come largely from expanding production for export. Yet exports today are highly concentrated in the diamond sector, as shown in Figure 1. This is partly a reflection of the impact of the civil war, so export performance in the 1980s actually represents a more realistic view of the medium-term export potential of the country. At that time, coffee, cocoa and palm oil were all significant sources of export revenue. Indeed, even current agricultural exports are higher than official figures suggest due to unofficial flows into neighboring countries. Fish products were also a more important export until the EU imposed a recent ban.

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%). Starting in 2004, a flat rate diamond export-license fee has been applied, which is generally considered to be an improvement on past discriminatory rates. This study will review the rationale, impact and utilization of these export taxes.

Although imports are more diversified than exports, demand for them is relatively inelastic. This is because most imports, as shown in Figure 2, are essential goods such as food, machinery and equipment, and petroleum products. Any reduction in these imports would have an adverse effect on the population’s health and nutrition and on economic growth. On the contrary, imports need to expand significantly to support the rebuilding of the economy as well as the basic needs of the population.

Figure 1: Share of Exports as a Percentage of Total Exports, 2004

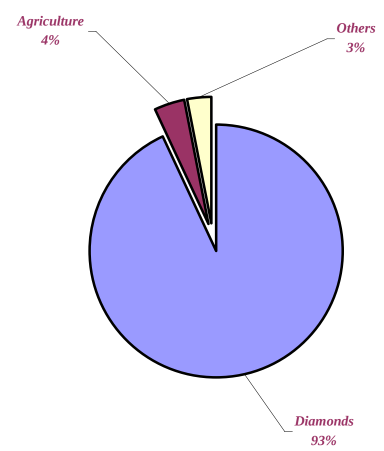
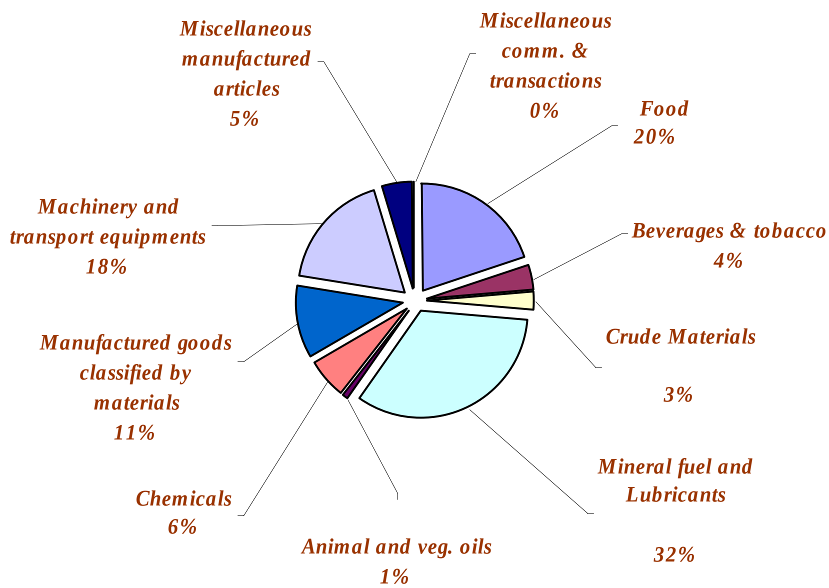
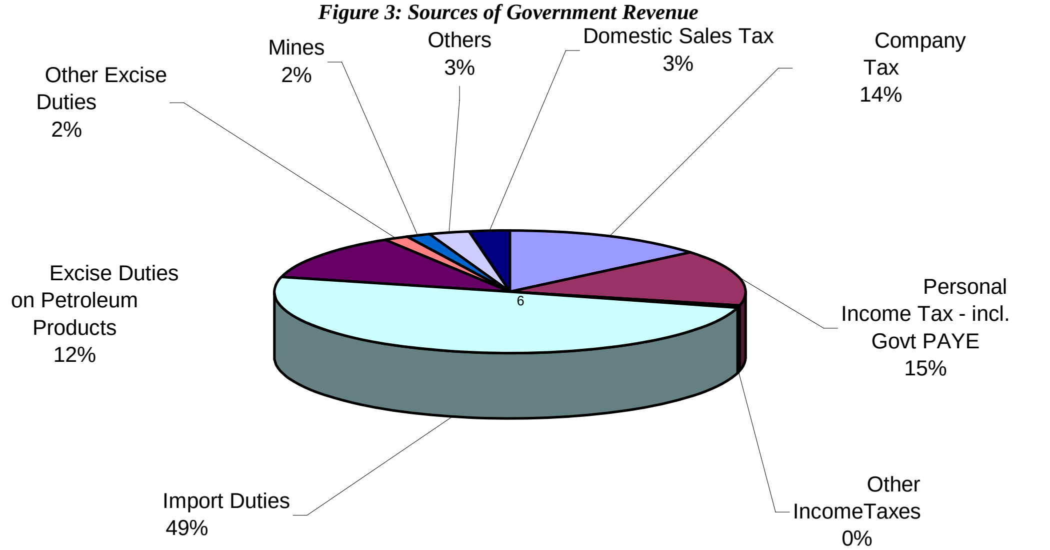


Figure 2: Share of Imports as a Percentage of Total Imports,2004



The tax base in Sierra Leone is very weak, in part because up to 70 percent of the economy is in the informal sector. One result, as shown in Figure 3, is that import duties comprise almost 50% of total tax revenue.

Figure 3: Sources of Government Revenue



The WTO has recently completed a Trade Policy Review (TPR) for Sierra Leone, so the DTIS will not need to revisit many of the basic elements of trade policy. Instead it will draw on this Review as necessary and focus on a few of the choices currently facing the country. It will also devote some time to the institutional capacity for trade policy-making, a subject which was less well-covered in the TPR.

Sierra Leone's tariff regime is being harmonized with that of other ECOWAS members who are now collectively adopting the West African Economic and Monetary (WAEMU) common external tariff (CET). The first steps were taken to implement the CET in January 2005, with full implementation expected by January 1, 2008. In addition, Sierra Leone is party to the ECOWAS Trade Liberalization Scheme (ETLS), which seeks to develop a free trade area within West Africa. This scheme provides for free movement of primary products and handicrafts within West Africa and for elimination of tariffs on the internal movement of industrial goods that satisfy certain rules of origin. However, thus far, Sierra Leone has had only three industrial products approved under the ETLS. Implementation of the program is proceeding cautiously subject to improvement in supply constraints and because of the loss of tariff revenue that is involved.

As the tariff regime is now being aligned with the ECOWAS common external tariff, there is no room for further unilateral liberalization. However, Sierra Leone still faces a period of negotiation with other ECOWAS member states to address the various changes being proposed by different non-WAEMU members to the WAEMU CET, as well as the issue of exemptions. The study will examine some of the key products under discussion (e.g. rice) and outline options open to Sierra Leone.

Sierra Leone is also making an effort to benefit from the numerous non-reciprocal preferential trade arrangements that are made available by, or negotiated with, its developed trading partners. As a Least Developed Country, Sierra Leone benefits from duty-free and quota-free access to the EU market under the EU’s "Everything but Arms" initiative. It is also participating in the negotiations for the conclusion of an Economic Partnership Agreement (EPA) with the EU. Sierra Leone is eligible for the trade preferences granted by the United States under the African Growth and Opportunity Act (AGOA). In addition, strong ties are developing with China in both trade and investment, and it will be useful to assess the advantages and risks involved.

The AGOA agreement has proven particularly beneficial for promoting clothing exports to the huge US market, and the Sierra Leone government is keen to explore the potential to follow in the footsteps of such countries as Lesotho, Madagascar and Kenya. However, the global clothing market has become even more competitive in the last year with the end of the Multi-Fibre Agreement and hence the removal of quotas on Chinese and other Asian exporters. Countries such as Sierra Leone, which are not already well-established in this field, will have a very difficult time entering the market. The study will provide some advice on this matter and seek out alternative ways to exploit the AGOA.

Finally, there are the on-going WTO negotiations in the context of the Doha Development Agenda. As a member of the WTO, Sierra Leone needs to participate in these to the extent feasible. However, the Ministry of Trade and Industry has very limited capacity to assess trade policy issues and coordinate across the different ministries concerned. Other Ministries are equally unprepared to determine the implications of trade negotiations for their areas of responsibility. This DTIS will review the various opportunities and risks associated with the different trade agreements and provide guidance to the government as to how it might prioritize, and what types of technical assistance and capacity-building should be sought.

4 DYNAMIC COMPARATIVE ADVANTAGE AND CONSTRAINTS IN POTENTIAL EXPORT SECTORS

Sierra Leone offers considerable potential in the near to medium term for expanded trade and growth in the areas of agriculture and agro-industry, fishing, mining, and tourism. These are all areas in which the DTIS will concentrate. Some attention will be paid to manufacturing, particularly in the area of agro-processing. However, the mission's working hypothesis is that the immediate challenge for this sector is to satisfy local demand and that significant exports of manufactured goods are unlikely to occur in the short to medium term. Nevertheless, many of the recommendations in the action plan will pave the way for the development of this sector. In the meantime, the DTIS will concentrate on those sectors likely to have the biggest payoff within the next few years.

4.1 AGRICULTURE AND AGRO-INDUSTRY

A recent Agricultural Sector Review shows that Sierra Leone has a comparative advantage in the production and export of improved inland valley swamp rice for regional markets and of cocoa, coffee, and oil palm for the overseas market. This assumes the use of improved technology. However, the Agricultural Sector Review is focused primarily on production for the domestic market and does not examine new export potential in any detail. The country could benefit from lessons learned in Côte d'Ivoire and other countries with similar agro-ecological conditions concerning the use of new technology to penetrate other export markets. Examples include rubber, cashews, pineapples, and other tropical fruits and vegetables.

Before the war, there were substantial areas planted to cocoa (42,000 ha.) and coffee (67,000 ha.) in Sierra Leone, but most of the trees are old, and lack of maintenance has led to a sharp decline in yields. Very few chemical and other inputs are being used. There is no planting of the hybrids now standard in Ghana and Côte d'Ivoire. Processing in Sierra Leone is very poor. There appears to be scope for increased production through improved maintenance and disease control of existing trees, and there is a considerable potential for new planting of improved hybrid varieties, though lack of transport infrastructure is a major problem that will be addressed in the DTIS. The reasonably strong world price for cocoa at present, and ongoing efforts by small farmers to relaunch exports, suggest that this sector deserves top priority. Although coffee prices on the world market are still lower in real terms than they were during the 1980s, they have recovered substantially from their very low levels during the past few years, and prospects for the future are quite favourable. Given the low cost of rehabilitating some plantations, the long tradition of growing both coffee and cocoa, and the dominance of small, poor farmers in production, a key focus of this study will be to assess the potential for rebuilding these two sub-sectors and the next steps to be taken in this direction. At the same time, the study will review the medium term projections for international demand and prices, as well as their potential volatility, and propose recommendations to manage the attendant risks.

The third major agricultural export prior to the war was oil palm, which was planted over about 18,000 ha. on both public and private nucleus estates and outgrower farms. Most of the trees are still in place, albeit suffering from 12 years of neglect. However, farmers are already beginning to attend to this. There is a considerable potential for replanting, though a major problem is lack of improved seed varieties. There is also need for training in plantation management . Although considerable potential exists for increasing production through improved maintenance and new planting, there will have to be substantial increases in productivity if Sierra Leone is to be competitive in exporting to the world market. There is room for producing much more for the domestic market, as well as for sale to neighbouring countries if transport links can be improved. These possibilities will be explored in the DTIS.

The abundant natural resources and prime location of Sierra Leone imply a considerable potential for the production and export of tropical fruits, off-season vegetables, and other horticultural products. Another potential market will emerge as tourism develops. However, these products face exacting requirements in terms of quality norms, sanitary and phytosanitary (SPS) standards, and supply reliability. The ability of Sierra Leone to meet these requirements will be assessed in the DTIS

Sierra Leone appears to have considerable potential for cashew production and processing in the Northern Province. This has the advantage of reaching an area of the country that is relatively poor. Sierra Leone should be able to export cashews, but this needs to be investigated further as part of the DTIS. In addition, the feasibility of producing rubber for export will also be explored.

The physical infrastructure for research and extension systems has almost totally been destroyed, there is a dearth of trained manpower in areas of applied research, and existing researchers have limited access to current information for agricultural extension. One reason is that publicly funded extension has virtually come to a standstill due to decreased support from the Government. As a result, NGOs with their decentralised structures are now providing most extension delivery services. The problems this poses for export development will be investigated.

The rural transport system in Sierra Leone is grossly inadequate with less than 6,000 km of rural roads, giving a density of about 80 km/1000 km. Furthermore, much of the existing rural road and bridge network is in a poor state of repair because of destruction during the civil war. It will be essential to link the discussion of agriculture and transport in the DTIS.

Another important constraint is lack of access of farmers to rural finance. Despite the fact that 70-80 percent of the population lives and works in rural areas, formal financial institutions do not provide financial services within these areas. As a result, farmers in Sierra Leone pay high interest rates prevalent on the informal market and have little access to medium and long-term finance, which limits the modernization and expansion of agricultural enterprises. This issue will be considered in the section on development of the financial sector.

4.2 FORESTRY

Sierra Leone is moderately forested with 14% forest cover and another 61% classified as other wooded land. Some timber is produced, primarily from the 4% of forest reserves under government control. A variety of other benefits accrue from these forests, including firewood, soil and water conservation, biodiversity, medicinal and food products, and eco-tourism. Given the limited extent of the forest cover, and these other competing objectives, it is unlikely that timber exports should be promoted. The study will review this issue and assess the opportunities for the promotion of forest product exports that do not entail cutting down the trees.

4.3 FISHING

Along its coastline of 570 km and the continental shelf area of 25,600 square kilometers, Sierra Leone is rich in marine resources. It is also well endowed with inland waters (rivers, lakes, and flood plains), which support a large number of aquatic organisms. The marine waters are fishing grounds for a wide variety of fish, including high value species such as shrimps, lobsters, cuttlefish, breams, and snappers. The rivers, estuaries, and tributaries with their extensive mangrove vegetation provide favorable conditions of shelter and nursery for penaeid shrimp and fish such as bonga, croakers, and wild oysters.

Although there is no recent comprehensive quantitative evaluation of the resources, there is a broad consensus that certain stocks have been overexploited over the past few decades. However, the considerably diminished captures over the last decade because of the civil war are thought to have had a beneficial effect.

Responsibility for management of the fisheries resources within its off-shore Exclusive Economic Zone (EEZ) is vested in the Ministry of Fisheries and Marine Resources and is governed by existing fisheries legislation. The legal framework for fisheries management is considered to be consistent with sustainable exploitation of the resource. However, the level of compliance with and enforcement of fisheries legislation has been low. The reasons can be found in the atmosphere of lawlessness that prevailed before and during the war years. Government attempts to protect the resources have not been successful and there has been no effective maritime surveillance in the Sierra Leone EEZ since 1993. For the same reason, the institutional capacity for monitoring and evaluation of the resource, the capability of the public sector for surveillance, and its potential to determine required infrastructure and supporting services are all nonexistent.

Marine fish production in Sierra Leone has remained between 60,000 and 70,000 mt per annum during the past decade, around 10% of which is exported. The bulk of the fish produced by the artisanal sector is consumed locally. The level of artisanal catch has remained fairly constant over the last two decades while the recorded industrial catch has declined sharply.

Fish exports from Sierra Leone are made up of fish products processed by industrial fishing trawlers operating offshore. These foreign–owned vessels fish in Sierra Leonean waters through joint venture arrangements with Sierra Leonean nationals. They comprise demersal, pelagic, and shrimp trawlers as well as purse seine vessels fishing for tuna and herring. The absence of home–based industrial fishing vessels and land–based infrastructure and facilities to catch and process fish limits the country’s ability to maximize benefits from these resources.

There appears to be a considerable potential to expand fish exports, both to the regional market (Côte d’Ivoire, Nigeria) and overseas. This study will examine this issue as well as the pros and cons of relying on foreign fleets as opposed to developing the domestic industry. It will also look at the tradeoffs between developing artisanal fishing for the domestic market versus industrial fishing for export. Control of overfishing will be another key topic. The capacity to meet new European Union health standards will also get close attention, since fish exports to the EU are currently suspended because of failure to meet these standards unless packing and processing are improved.

4.4 MINING

Sierra Leone is well endowed with various mineral resources. Until the conflict, it produced diamonds, rutile, bauxite, and gold. Artisanal diamond mining continued throughout the 1990s, and expanded again with the return of peace in the rural areas.

Other recognized minerals include lignite, clays, base metals (copper, nickel, molybdenum, lead, and zinc), and chromite.

The mineral sector comprises three sub-sectors: (1) large-scale production of non-precious minerals – rutile and bauxite; (2) large scale production of precious minerals – diamonds; and (3) artisanal and small-scale production of precious minerals – mainly diamonds, and to a much lesser extent gold. Domestic consumption of mined products is negligible, with almost 100 percent of the output being exported.

The quantitative information available on the mineral potential of Sierra Leone is very poor. Rutile and ilmenite continue to represent a large and immediate mining potential, and there is also considerable potential for bauxite Substantial gold exists along streams, but the potential for gold mining remains virtually undetermined in quantitative terms due to lack of systematic exploration. Although in the early 1990s it was generally believed that *alluvial diamonds* had been substantially depleted, it has been more recently established that existing resources are considerably greater than was thought. Based on partner country trade data, in fact, output since 1993 has exceeded forecasts considerably, even on a conservative basis. It is estimated that, overall, there are over 100,000 workers currently engaged in all forms of mining.

Sierra Leone has good potential for additional discoveries of mineral deposits. The general geology suggests that (i) endowments exceed what is known and is being worked; and (ii) under the right conditions, new exploration and development would open new mines. Within a decade, successful realization of the large scale mineral potential of the country – in diamonds, gold, rutile, and bauxite alone – could result in total annual mineral export revenues in excess of US$370 million, as compared with US$126 today. Direct and indirect employment in these mines could amount to about 40,000 people, with an estimated 300,000 people (including dependents and extended families) deriving their livelihood from these mines. Additionally, with an improvement in the environment for artisanal mining, alluvial diamond and gold production could increase due to higher resource recovery and processing efficiency. An improved governance framework could also increase the flow of these minerals through official channels, a process which has already started.

The major constraints on the development of the mining sector include the need for geological mapping to expand the base of information, and the lack of an adequate legal and regulatory structure that rewards investors at the same time that it assures an adequate return to the state as well as access to mineral resources on an equitable basis. (Foreign companies complain of presumptive income taxes before they are making profits, and taxes on expatriate employees.) Particularly important is the need for a modern system for licensing all mineral rights on a first-come, first-serve basis with rapid and transparent processing; improved access to finance for the purchase or lease of equipment; and extension advice to artisanal and small-scale miners regarding location and planning of their activities, processing of ores, environmental and health safeguards, and product evaluation.

There are ways that the Government of Sierra Leone could improve earnings from the mining sector: collecting taxes from people that have never paid them before, terminating mining, exploration and prospecting licenses when they expire, chasing companies for license fees when they fall due, reviewing the licensing regime and the fees structures and so on. There are also other matters that could be considered such as setting up a transparent assaying, valuation and buying scheme for the artisanal gold that is mined in many parts of the country. The DTIS will assess these and other ideas in relation to other trade capacity building needs and will prioritize the next steps to be taken, recognizing the actions related to mining that are already outlined in the PRSP.

4.5 TOURISM

Sierra Leone is endowed with abundant and diversified natural and cultural attractions, including beautiful beaches, picturesque landscape (islands, hillsides, mountains, waterfalls), wildlife sanctuaries and parks, agreeable weather, a rich cultural heritage, and hospitable people. The potential is great, therefore, for a variety of different forms of tourism: mountain climbing, ecotourism, bird watching, cultural tourism, rural and village tourism, water sports, and deep sea fishing, as well as, and perhaps anchored by, traditional beach tourism.

A small but thriving tourism industry did exist in the 1980s. Although a number of studies have been made of the potential for tourism, few concrete steps have been undertaken to develop that potential. The sub-sector suffers today from lack of transportation, water, and communications infrastructure; inadequate hotel and restaurant facilities; poorly trained and often illiterate staff; and absence of a well organized publicity campaign.

The biggest problem has of course been the lack of peace and security, and the lingering impact on the country’s image. However, tourism has also not been an important priority of the Government. This is reflected in low budgetary allocation to the Ministry of Tourism and Culture. There is no defined and constituted national tourism and cultural policy, which impedes access to foreign donor assistance. Few professionals have been trained in tourism and cultural development and promotion. Access to land for tourism development is costly and difficult.

The DTIS will examine the various areas in which Sierra Leone has a comparative advantage in tourism, ascertain how realization of that advantage is inhibited by these constraints, identify the actions that are likely to realize the greatest gain in this area in the short and medium term, and develop an action plan that prioritizes and sequences these actions. European tour operators will be contacted to get their assessment of the likely potential. A major hotel project proposed by the Chinese will also be examined to see if it can serve to put Sierra Leone back on the international tourism map.

5 GENERAL CONSTRAINTS TO TRADE

In addition to constraints on the exports of specific sectors, there are also a number of constraints that operate across the board on all sectors. These include complex customs procedures, inadequate trade facilitation, lack of capacity to meet international norms and standards, costly and unreliable public services, and a weak financial sector. The DTIS will examine each of these and will identify priority actions to be taken to alleviate these constraints in order to build greater capacity for trade. In the areas of customs procedures, trade facilitation, and norms and standards, it will make specific recommendations based on analysis by team members of the importance of each constraint and what can be done to overcome it. With public services such as transportation and electrical power and with financial services and access to credit, it will prioritize the actions recommended in existing sector assessments from the perspective of building trade capacity.

5.1 CUSTOMS OPERATIONS AND TRADE FACILITATION

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. Pre-shipment inspection is mandatory and importers bear the associated costs (1.10% of f.o.b. value, 0.25% for rice).

Customs clearance is still done manually and is a major constraint on the movement of goods through the ports and other access routes. 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 but requires further support. The DTIS will assess this need.

Import clearance is one of the most difficult problems private companies face. The process is slow, cumbersome, opaque, and costly. Import clearance involves eight different authorities or agencies, whose operations are not always well-coordinated. These are:

Intertek: A private corporation, contracted by the Government of Sierra Leone to carry out pre-shipment inspection of all imports valued at more than $2000 c.i.f.
National Revenue Authority, Customs and Excise Department: Responsible for import clearance and collection of customs duties and excise and sales taxes on imports. Responsible for the registration of entries, validation of bill of entry, bill of entries examination, calculation of rents, penalties and release of goods.
The Sierra Leone Ports Authority: Operates the port.
The Sierra Leone Maritime Authority: Regulates the port and has become involved in scanning imports.
Shipping agents: Private companies that act as agents for the shipping lines serving Sierra Leone. Responsible for conveying the import and export consignments from the port of origin to the port of destination, accompanied by a bill of lading which contains the name of the vessel, port of origin, port of destination, date of departure, expected time of arrival, description of cargo and the name and address of the consignee.
Forwarding and Clearing Agents: Private companies that handle customs clearance on behalf of consignees and exporters
Sierra Leone Standards Bureau: Ensures conformity to food safety standards and quality standards subject to international standards.
Environmental Health Unit of The Ministry of Health: Inspects exports of foodstuffs such as palm oil, and manioc, and inspects imported food items in collaboration with Standards Bureau.

Import Permits are not required, except for certain "sensitive" goods, which are subject to pre-approval by the responsible line ministry. Examples of such goods include agricultural and pharmaceutical products. The Environmental Health and Sanitation Unit of the Ministry of Health in collaboration with the Standards Bureau have established declaration conditions for some products. A special permit, issued by the Ministry of Agriculture, Forestry and Food Security, is required for the importation of plants, seeds, soil, materials such as agricultural planting materials, and live animals for breeding purposes.

All imports, including those of second-hand merchandise, with an f.o.b. value (in the country of origin) of $2000 or more, are subject to pre-shipment inspection. In March 2004, a three-year contract was awarded to Intertek International to undertake pre-shipment inspections Intertek charges importers a fee equivalent to 1.1% of the f.o.b. value in the country of origin, subject to a minimum charge of $225. Rice is subject to an inspection fee of 0.25%, to cushion the impact of inspection fees on food prices. Intertek does allow appeal against its valuations. Importers can also appeal against valuation decisions or penalties imposed by the Customs & Excise Department, but the mechanisms for appeals are not well established and the chances of obtaining a reversal of a decision are slim.

Average customs clearance time for imports in Sierra Leone is 14 days, though it tends to be somewhat less for non-food items, since food inspection takes a minimum of two to three days. It is not uncommon, however, for clearance to take substantially longer; the Sierra Leone Department of Environmental Health (DEH), which inspects food imports, reports that it can take up to three weeks for it to inspect a shipment, mainly because of a lack of trained staff, vehicles, and access to adequate laboratory facilities.

Importers often face a problem with currency conversion. The Bank of Sierra Leone sets the foreign exchange rate at its weekly foreign exchange auction, held each Thursday. For valuation, and for duty and tax assessment purposes, foreign currency amounts are converted into Leones at the current rate. The Customs Department uses its own exchange rate, which is based on, but not identical to, the weekly auction rate. If an importer's goods arrive in port but then fail to complete the clearance process before the Thursday forex auction, all amounts must then be recalculated using the new rate, which can add significantly to clearance time and can increase the likelihood that wharfage and demurrage charges will start to accrue.

A combination duty drawback and suspension scheme exists for importation of inputs used in the production of goods that are later exported, but there is no mechanism in place for processing claims and making reimbursements and the scheme is therefore dormant. Bonded warehousing is a similar scheme, under which a company is allowed to import goods directly into the warehouse and to pay import duty on the goods only when they are released from the warehouse into production or sale. Such schemes can substantially reduce the cost of working capital to large importers. Sierra Leone does have such a program, but only three to four companies use it. Draft legislation has been drawn up in the past on the development of Export Processing Zones (EPZs), but this legislation was not enacted. Recently an industrial zone has been established and is operating in the east of Freetown. A previous law was drafted in the 1990s but was never enacted. A free trade zone has been opened at the port. EPZs have proven useful in a few African countries, and ineffectual in many others. The study will provide guidance on whether priority should be given to the establishment of free trade zones and an EPZ at this point.

Smuggling is prevalent along the entire border of Sierra Leone, both on the import and export side. Importers smuggle products into Sierra Leone from neighboring countries to avoid paying import duties and taxes. Many exporters find it more profitable to sell in nearby countries rather than grapple with the poor transport infrastructure and disorganized state of domestic institutions. One of Sierra Leone's objectives in pursuing trade and fiscal integration within the context of ECOWAS is to eliminate the divergences with neighboring countries in taxes and tariffs that create incentives and opportunities for smugglers. However, the welfare of poor farmers and their intermediaries must be considered, and compared to the practicality of exporting through Freetown at competitive prices.

Diamond smuggling is a more critical problem. During the civil war, smuggling was a way for the rebels to finance their operations and the revenues from diamond smuggling were a primary incentive for the conflict to continue. The arrival of smuggled "conflict diamonds" on international markets sparked significant changes in the way diamonds are marketed globally. Considerable success has been achieved in preventing the sale of "conflict diamonds" and redirecting diamonds through official channels, but more could be done. The DTIS study will review some of the options.

5.2 NORMS AND STANDARDS

The institutional framework for standards in Sierra Leone comprises the Standards Bureau (SLSB)[6] and the National Standards Council (SLNSC), which was created in 1996 but started operating only in 2000, mainly due to the civil conflict. The SLSB develops and adopts standards as well as providing testing/quality control services.

The SLSB is seriously under-funded, which has delayed the implementation of activities. Qualified staff need to be recruited and trained in areas such as metrology, standards testing, and quality management. A central laboratory needs to be created and equipped, in order to allow regional laboratories to provide testing services, to provide national coverage to metrology standards testing and quality management activities.

The National Codex Committee and the Industrial Standards Board were inaugurated in October 2002 and February 2003 respectively. Sierra Leone is not a member of the International Organization for Standardization (ISO), due to financial constraints. According to the authorities, the 2005 SLSB budget includes a special provision to apply

[6] Information available at: http://slstandard.tvs.com/ [7 October 2004].

for membership to the ISO. In principle international standards are used as the basis for the preparation of Sierra Leonean standards. No information is available on the number, and product coverage, of these national standards, nor the extent to which they comply with international ones.

The SLSB is mandated to coordinate all standards activities in Sierra Leone, and is the national Codex contact point. However, the Environmental Department of the Ministry of Health and Sanitation is entrusted with the implementation of sanitary regulations; and the Phytosanitary Division of the Ministry of Agriculture, Forestry and Food Security for phytosanitary measures. All food standards in Sierra Leone are based on Codex Standards.

The capacity to meet international standards is clearly an important constraint in the fisheries sector where exports are currently blocked for this very reason. This is not typically a major problem for such commodity exports as cocoa and coffee, though quality control certainly is. The study will offer recommendations on the relative importance to be assigned to these issues and the extent to which national or regional approaches may be cost-effective.

5.3 TRANSPORTATION

During the period of civil unrest (1991-1999) Sierra Leone's transport infrastructure suffered from widespread destruction and lack of maintenance. Seriously degraded roads left whole sections of the country and isolated communities cut off from the rest of the country, while the Port of Freetown and Freetown International Airport underwent successive rounds of destruction, endangering the country's economic lifelines to the outside world.

As the security situation stabilized in 2001, Bank and other donor programs were focused on emergency reconstruction/rehabilitation on the road network and restoration of port and airport operations. The National Transport Strategy and Investment Plan 2003-2007 (SLNTP) was developed, which updated the prioritized framework for immediate and longer term investments and laid out key sector policy reforms and strategies.

Roads. The official public road network of Sierra Leone totals about 11,000 km, of which some 8,000 km are classified in the National Road System (NRS) and the remaining 3,000 making up local networks and unclassified roads and tracks. Even the most essential segments of the primary core network have deteriorated to the point where certain sections are impassable in the rainy seasons. The Sierra Leone Roads Authority (SLRA) is in the process of bringing the core and feeder road networks up to a minimum functional standard. Faced with limited domestic and external funding, SLRA has identified a core primary network of about 2,000 km that will ensure basic access to the country's regions, complemented by feeder and local road networks, which link communities to the primary network. Despite donor commitments, there remain major gaps and under-funding of the core road network, which still have to be brought up to a maintainable standard. At the same time, district linkages from the core road network on secondary and feeder roads are only partially covered by donor programs, with additional scattered community-based programs designed to provide purely localized improvements not geared to overall connectivity to the main network.

SLRA has been under constant pressure to allocate Road Maintenance Fund resources (funded through road user charges) to "emergency" works by a government agency. This has made it impossible to implement an annual maintenance program, and effectively stymies the development of private sector participation in road works. The situation is further aggravated by the current Road Maintenance Fund setup, in which the Fund is directly managed by SLRA, who finds itself with an inherent conflict of interest and under constant pressure to respond to the ad hoc emergency demands. In addition, the current emphasis on feeder roads by several donors is leading to the development of engineered roads for which there is no secure maintenance funding.

Port. With World Bank financing, operations at the Port of Freetown were restored after years of neglect and damage by civil unrest. This included physical investments in port infrastructure and equipment, and institutional support and assistance in moving toward a landlord port model. Although traffic has improved with increased ship calls, the Sierra Leone Port Authority (SLPA) has been plagued by low productivity, inefficient operations, insufficient maintenance, and uncompetitive costs. In addition, further investment in infrastructure and equipment is needed to address the medium to long term handling capacity of the port and to meet internationally recognized environmental, safety and security standards.

Airport. Following the cessation of hostilities, the Sierra Leone Airports Authority (SLAA) restored commercial operations at Freetown (Lungi) International Airport. However, further infrastructure and equipment inputs are needed to meet internationally-accepted aircraft and passengers' security and safety standards. SLAA is in dire need of an improved management information system (MIS), as well as training support.

Trade Facilitation. While infrastructure problems are huge in Sierra Leone, trade and transport services can often be equally important constraints, and ones which are frequently overlooked because they are less obvious. The DTIS will include a Trade and Transport Facilitation Audit (TTFA) to establish a comprehensive analysis of supply chain management constraints in terms of costs, governance, regulations, private sector practices and organization. The audit will focus on:

- Procedural and documentary requirements necessary to move goods through borders or in transit operations.
- Availability and quality of logistics services and infrastructure offered to exporters and importers and obstacles to their modernization and development (such as through third party logistics providers).
- Market structure and national and international competition in transport and logistics services.
- The magnitude of costs and delays supported by trade operations at various stages along the supply chain for imports, exports and transit goods.
- Transit issues regarding access to the interior of Guinea and eventually Mali.

The audit will aim to provide statistics and indicators to help monitor future improvements in the logistics of exports and imports. Furthermore, to address the shortcomings identified by the audit, the audit will include a proposed action plan and an implementation strategy for short and medium term.

5.4 ELECTRICAL POWER

Electricity services in Sierra Lone are provided mainly by the National Power Authority, within an interconnected system, centered around the capital city of Freetown in the western part of the country. The installed generation capacity of the system is 27 MW. Much of this capacity is obsolete, however, and available capacity has now declined to around 11 MW. There are also a number of isolated systems serving provincial centers and mining areas in the east. Available generating capacity in these centers is small and subject to erratic supplies of high cost diesel fuels.

Total electricity supply in the western interconnected system was 79 GWH in 2004, and accounted for about 85 percent of electricity publicly provided in the country. Overall, total publicly delivered electricity supply translates to a per capita electricity consumption of around 18 KWH. This is well below the sub-Saharan Africa average of 460 KWH per capita.

It is generally agreed that the high cost and lack of reliability of electrical power, particularly in the western area of Sierra Leone, is a major impediment to industrial and agro-industrial production and trade. Sierra Leone has some of the highest costs of electricity generation and delivery in the world. Even with varying degrees of subsidy, these high costs translate into very high tariffs relative to regional and global benchmarks. Together with unreliable service and poor quality of supply, these tariffs translate into major competitive problems for commercial and industrial enterprises.

A second major constraint is the poor technical and financial performance of the National Power Authority (NPA). There also is under-investment in the power sector, inability of the GOSL to provide financial support to the sector when NPA is unable to cover its costs, and poor coordination and oversight of the sector by the Government. In this regard, recovery of NPA's financial position through performance improvement measures, exploitation of lower cost electricity sources such as hydroelectric power at Bumbuna, and more appropriate sector policies and regulatory approaches to create an enabling environment for private participation should enable the company and the government to respond better to both growth and equity needs.

There is a broad consensus that electrical supply needs to be quickly improved in order to support private sector development generally, and export growth more specifically. This study will assess the relative importance of this constraint for exports, and comment on the different approaches to address the problem which are currently under consideration.

5.5 FINANCIAL SERVICES AND ACCESS TO CREDIT

The financial sector of Sierra Leone exhibits problems that are similar to many developing and transition economies. Excessive public debt, lack of competition, unavailability of long-term credit, non-existent capital markets, and inefficient use of contractual savings funds are some of the main issues. The series of reforms initiated so far in the financial sector are by and large positive. There has also been good progress towards implementation of these new initiatives. The priority and sequencing of reforms in all cases, however, may not be optimal and needs to be assessed.

In the case of Sierra Leone, the first and foremost priority is macro stability via sound fiscal management, which is fundamental to an effective and a well functioning financial system. Next priorities include a well functioning legal system for enforcement and effective disposal of financial contracts, enforceability of entry and exit policies, strong regulation and minimum capital standards for banks and other financial institutions, privatization of state owned commercial banks, expanding access to financial services, and development of savings and financing mechanisms. Other priorities include development of capital markets and financial instruments such as leasing, housing, and development finance and credit information services.

The recently completed Financial Sector Review concludes that there is a good case for a Financial Sector Assessment Program conducted jointly by the Bank and IMF. This would not only benchmark core financial sector areas against international standards and codes but would also provide a sound basis for the government to address future development challenges. The DTIS will assess this need in relation to the building of trade capacity and will incorporate next steps into its Action Plan. It will not attempt to do a detailed sectoral analysis.

6 OBJECTIVES AND APPROACH OF THE DTIS

The purpose of this Diagnostic Trade Integration Study will be to identify key constraints to Sierra Leone's integration into the multilateral trading system and the global economy, how these constraints can be relieved, and where the countries priorities might lie. The Government of Sierra Leone has developed a Poverty Reduction Strategy Paper, which sets out its major objectives and approach for reducing poverty. However, this document does not provide much detail on the role of expanding trade and growth to achieve this end, a shortcoming which the Government is now keen to correct. The DTIS will focus on trade and growth in ways that are coherent with the goal of poverty reduction.

Both diamond production and agriculture are dominated by small-scale, poor producers, so trade has, or could have, a direct impact on poverty reduction. In the former case, the focus will need to be primarily on improving the share of the world price going to the miners, as there is relatively little room for expansion. In the latter, the potential for renewing and expanding exports is much greater. Thus the DTIS will give top priority to agricultural exports that can be produced by a large number of smallholders in the short-term, such as cocoa and coffee. Estimates will be made of the likely growth in such exports, the impact on farmers' incomes, and the potential to lift them and other members of their communities out of poverty.

However, other sources of export growth can also have a significant impact on poverty. Plantation-based agriculture can employ the landless who are usually poorer than smallholders. It can also engage independent farmers through outgrower schemes. Since cocoa and coffee are only grown in some parts of the country, such alternatives will be particularly welcome if they are appropriate for other regions. Large-scale mining, industrial fishing and tourism will have a less direct effect on poverty, but will nonetheless generate some employment as well as indirect jobs through backward and forward linkages. They may also be important for increasing government revenues. Each sector or principal export will be assessed within a rudimentary cost-benefit framework in order to determine where limited government and donor funds might most effectively be invested to reduce poverty.

The role of the DTIS will be to provide a comprehensive view of the extent to which current and planned initiatives will promote trade, and where additional measures may be necessary. This will require analyzing plans being formulated in domains such as transport, electrical energy, and finance as well as key export sectors and those areas more directly related to trade - customs, trade facilitation, and standards. Synergies between different planned interventions will be analyzed, priorities identified, and the appropriate sequencing suggested. For example, a reduction in transport costs may be required to elicit a response to other initiatives promoting export activities in rural areas. Setting targets for the decline in transport costs may be necessary to ensure that resources devoted to developing transport are effective in delivering higher prices to producers at the same time that interventions are undertaken in agriculture and agro-industry.

Increased trade and growth depend ultimately on private sector investment. Therefore, it will be important to identify those measures that are necessary to improve the investment climate. The DTIS will examine the revised investment code and the recommendations of the recently completed study on administrative barriers. It will also look at the institutional structures linking the public and private sectors around issues related to trade and growth.

The DTIS will include the following components:

1. The team will conduct a review of current trade flows as well as historical data, which will give a more accurate idea of the potential now that peace has returned. The DTIS will analyze the range of trade negotiations in which MTI and the GOSL are currently involved (Doha Development Round, Economic Partnership Agreement, ECOWAS customs union) and provide some guidance on how it might prioritize among them. The study will build on the recent WTO Trade Policy Review.

2. Various aspects of the macroeconomic situation will be studied to determine the extent to which they may be an impediment to trade: the fiscal balance, inflation, interest rates, and the real effective exchange rate.

3. Specific sectors and sub-sectors to be looked at in detail will include agriculture (cocoa, coffee, oil palm, rubber, pineapples, cashew nuts, fruits and vegetables), agro-industry (canning, drying, and freezing of fruits and vegetables, oilseed pressing and refining, forest products), fishing, mining (industrial and artisanal), and tourism. The analysis will focus not only on domestic supply constraints but also access to markets overseas and within the region.

4. Customs and trade facilitation will receive strong emphasis. Two international consultants will examine customs administration, export-import procedures, pre-shipment

inspection, port handling, road transport services and other areas where policy reform and capacity building are needed.

5. The issue of norms and standards will be explored in detail with the help of a UNIDO-organized survey.

6. A recently completed study of administrative barriers will be used to identify priorities for trade not directly related to customs and trade facilitation.

7. Existing sector assessments will be used in the areas of transportation, energy, water, telecommunications, and financial services to identify priorities as they relate to trade development. In addition, the analysis of agriculture, agro-industry, and mining will contribute to identifying transport priorities.

8. The DTIS will review the current institutional structure related to trade, along with a number of recent studies and reforms currently underway, in order to identify and prioritize reforms and capacity building needs. This will pertain not only to the government but also to public-private partnership arrangements. These institutions include the Ministry of Trade and Industry (MTI), the National Coordinating Committee on Trade, the Sierra Leone Export Development and Investment Centre (SLEDIC), the Public-Private Forum, and various private sector organizations.

9. The study will summarize how and to what extent international trade can play a role in poverty reduction. This will help the Government mainstream trade into the PRSP, in keeping with one of the primary objectives of the IF process.

Specific recommendations will be made in the DTIS for policy reforms, institutional capacity building, and investments to remove bottlenecks and seize opportunities identified in the study. These will be discussed within a sub-committee of the National Coordinating Committee on Trade, and translated into a consolidated Action Plan. This Plan will then be presented at a national validation workshop, with participation by a broad range of public officials, private business leaders, donor representatives, and other stakeholders. After final revisions, MTI proposes to submit the Action Plan to cabinet for final approval and implementation. A special sub-committee of Cabinet has been established to oversee the Integrated Framework process.

7 PROPOSED OUTLINE, TEAM COMPOSITION, AND CALENDAR

7.1 OUTLINE

The following is the proposed outline for the DTIS

i. Executive Summary
ii. Action Matrix
1. Introduction and Socio-Economic Background
2. Sierra Leone's Position in the Global Economy
3. Trade and Poverty
4. Comparative Advantage and Constraints in Potential Export Sectors
    a. Agriculture and Agro-Industry
    b. Fishing
    c. Mining
    d. Tourism
5. Overall Constraints on Trade
    a. Macroeconomic
    b. Customs Administration and Trade Facilitation
    c. Norms and Standards
    d. Public Services
        i. Transport
        ii. Electrical Power
        iii. Other
    e. Financial Services and Access to Credit
    f. Other Administrative Barriers
6. Institutional Structure in Support of Trade
7. A Comprehensive View

Annexes

7.2 TEAM COMPOSITION

Phil English, regional trade coordinator, AFTP4, task team leader

Dirck Stryker, AIRD, lead consultant, macroeconomics, public and financial services, administrative barriers (supported by Dr. Lovetta Sesay, EPRU)

Paul Brenton, World Bank, trade policy, performance and institutions; norms and standards (supported by Edison Borbor, MTI)

Alan Hall, World Customs Organization, customs (supported by Raymond Kamara, NRA)

Peter Jaeger, cocoa, coffee, agricultural marketing

Jan Ketelaar, mining (locally-based consultant)

Richard Lacroix, agro-industry, processing

David McEwen, tourism (supported by local consultant, Daniel Siaffa)

René Meeuws, transport and trade facilitation

Dunstan Spencer and Tom Roberts, agricultural production (locally-based consultants)

Lynn Salinger, AIRD, trade and poverty (desk study)

Gert van Santen, fisheries (supported by local consultant, Dr. Abu Kamara)

The mission will be joined by representatives from the FAO and UNIDO. The former will support the team on agricultural issues; the latter will organize a survey on standards.

7.3 CALENDAR

The following calendar is proposed for the DTIS:

Pre-DTIS Mission	July 1-6, 2005
Concept Note submitted to GOSL	August 31, 2005
Concept Note Bank review	October 6
Main DTIS Mission	October 10-31
- including UNCTAD launching workshop	October 17-19
First draft of chapters completed, circulated to GoSL	November 30
Comments provided to authors	December 31
Second draft of chapters completed	January 25, 2006
Distribution to IF agencies/donors	February 1
Internal Bank review	February 8
Second draft completed and delivered to GoSL	February 28
Validation Workshop	April, 2006
Final DTIS Report and Action Plan completed	May, 2006

ANNEX 1

INTEGRATED FRAMEWORK
FOR TRADE-RELATED TECHNICAL ASSISTANCE
TO LEAST DEVELOPED COUNTRIES

(The IF)

8 OBJECTIVE OF AND PARTICIPATION IN THE IF PROGRAM

- Inaugurated in 1997 by six core agencies: IMF, ITC, UNCTAD, UNDP, WTO, and World Bank. A number of multilateral and bilateral donors also participate in the program.

- The IF is a multi-agency multi-donor program aimed to coordinate technical assistance to the least developed countries (LDC) to assist them in enhancing their trade opportunities. Its main objective is to assist LDCs to identify the main barriers to expansion of trade and provide trade-related technical assistance in a coordinated way to remove these barriers.

- This will be achieved by assisting LDCs in mainstreaming trade priorities into their national strategies such as Poverty Reduction Strategy Programs (PRSP) and building their capacity to formulate trade policies, to negotiate trade agreements, and to tackle supply-side challenges in responding to new market access opportunities.

- Strong country ownership and commitment, and an effective participatory process, which brings together all stakeholders in the government (Ministries of Trade, Finance, Planning, Agriculture, etc), outside the government (private sector, civil society), and in the donor community, are essential for the success of the IF.

9 STAGES OF THE IF PROCESS

- Preparation phase. This would include: an official request from the country to participate in the IF process; a technical review of the request prepared by the World Bank and considered by the Integrated Framework Working Group in Geneva (IFWG); and a pre-DTIS mission to the country to lay the groundwork for the IF process, to discuss the scope of the diagnostic study with all stakeholders, and agree on a timetable for processing of the IF.

- Diagnostic phase. A Diagnostic Trade Integration Study (DTIS) prepared by a group of international and local specialists in collaboration with all stakeholders. Normally, the preparation of the DTIS is led by the World Bank. Typically, the DTIS includes a review of country's trade policies and performance, an analysis of selected sectors with export potential, identification of main constraints to expansion of trade, and recommendations for policy reforms to remove these constraints. The DTIS also includes an Action Matrix spelling out the policy recommendations of the DTIS and priority technical assistance needs. The DTIS and the Action Matrix are discussed and validated by all national stakeholders, donors, and IF agencies during a National Workshop and revised in light of these discussions. The final Action Matrix is approved by the Government.

- Implementation phase. After the approval of the Action Matrix, the trade policy priorities are incorporated into the country's PRSP or PRSP progress report. A donor meeting is held to secure financing of the technical assistance needs identified in the Action Matrix and integrate them into donors' assistance programs. Implementation of the IF and interactions with donors is a continuous process. Some of the technical assistance projects can be financed from the Integrated Framework Window II funds (see below).

10 FUNDING OF THE IF PROGRAM

- An IF Trust Fund was established in 2001 to finance the IF Program. Contributions have been pledged by both multilateral and bilateral donors towards the fund. The IF Trust Fund is managed by UNDP on behalf of donors.

- The IF Trust Fund has two finance windows operating simultaneously. Window I funds are used to finance the preparation of diagnostic studies, mainstreaming activities in the countries, and the costs of the National Workshop. Window II funds are available to finance concrete, modest, and priority technical assistance projects identified in the DTIS Action Matrix. Window II would provide bridge financing until mobilization of donor funds, and allow prompt funding for follow-up technical assistance projects particularly for trade capacity-building. A maximum amount of $1 million is available for each country under Window II.

- Projects for Window II funding are selected by a Local Project Approval Committee (LPAC) chaired by an appropriate government body. Membership of the LPAC includes as a minimum: The Ministry of Finance or Planning, the Ministry of Trade, UNDP Resident Representative or delegate, the Lead Facilitator, and the World Bank Resident Representative or delegate. During the pre-mission, UNDP organizes a briefing session to inform all parties about project formulation and approval process for Window II projects.

11 IF MANAGEMENT STRUCTURE

- Geneva. The Integrated Framework Steering Committee (IFSC) oversees and governs the IF process. It is a tripartite arrangement with representation from agencies, donors, and LDCs. The day-to-day activities of the IF are managed by the Integrated Framework Working Group (IFWG). The IFWG is chaired by the WTO and consists of representatives of the six core agencies and two representatives each from the least-developed and donor countries. The WTO houses the IF Secretariat which services both the IFSC and IFWG.

- Multilateral donors. The UNDP manages the IF Trust Fund, both Window I and II. The UNDP also manages a fund "Strengthening the National Implementation of the IF ($38,000 for each country)" to support the IF related activities of the Integrated Framework Steering Committee (IFSC) and the Focal Person in the IF country (see below). The lead role in assisting preparation of the DTIS and overseeing implementation of the follow-up activities, with funding provided by the IF Trust Fund, is given to the World Bank.

- Country level. The national management structure includes the following. The Ministry of Trade (MT) is the IF implementing agency. The MT appoints an IF Focal Person (main counterpart of the IF in the government), and sets up an IF National Steering Committee (IFNSC). The IFNSC comprises representatives of the main stakeholders in the government, outside the government and in the donor community, and manages the IF process in the country. The private sector is adequately represented in the IFNSC. In countries where both the IF and JITAP are in place, the government establishes arrangements to ensure synergies including the use of a single national steering committee for both the IF and

JITAP, the appointment of the same focal point, and to link the DTIS and JITAP capacity building activities. The MT also identifies a Lead (donor) Facilitator to assist and support the government in managing the IF process. The Lead Facilitator serves as a focal point for interaction between the country and donors at the country level. Early involvement of the donors at the country level is crucial for a successful implementation of the program.

12 PROGRESS IN IMPLEMENTATION OF THE IF PROGRAM

- To date, DTIS reports have been completed and implementation has started for 14 countries. IFWG has approved the IF program for 14 new countries. Sierra Leone is one of these 14 new IF countries.

- Funds pledged by multilateral and bilateral donors to the IF Trust Fund is presently about $26 million ($15 million for Window I and $11 million for Window II).

13 FURTHER INFORMATION

- www.integratedframework.org