

COUNTRY REVIEW

Sierra Leone



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EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Freetown
GDP:	USD2.04bn (2009e)
Population:	5.7mn (2009e)
GDP per capita:	USD360 (2009e)
Currency:	Leone (SLL)
Form of state:	Republic
Head of government:	President Ernest Bai Koroma
Next elections:	Presidential and parliamentary by August 2012

Internal security is much improved following a decade of military coups and civil war to January 2002 that severely disrupted the economy and the institutional framework. However, there remain significant **regional security problems** that may yet disrupt Sierra Leone's push for a sustained period of peace. In particular, the situation in neighbouring Guinea, Liberia and Côte d'Ivoire remains fragile and refugee flows over **porous borders** present significant logistical and humanitarian problems. The country's war crimes trials are continuing, although ex-Liberian President Charles Taylor is absent. In 2007, the then vice-president, Solomon Berewa of the Sierra Leone People's Party (SLPP), was selected as the ruling party's candidate for **presidential elections** in August of that year. He was expected to succeed Ahmad Tejan Kabbah, who stood down. However, the All People's Congress (APC), with a reform agenda, won 59 out of 124 parliamentary seats and its leader, Ernest Koroma, became president. The **transfer of power was largely peaceful** and the SLPP (43 seats) now provides an effective opposition.

Despite a rich mineral and agricultural base, the country is one of the poorest and least developed in the world. Indeed, in the 2009 UN Human Development index it ranks 180 out of 182 countries assessed, with only Afghanistan and Niger rated worse. Life expectancy is around 47 years, adult literacy is 38% and 47% of the population does not have access to an improved water source. Economic disruption during the prolonged civil war has resulted in the country being **dependent on international aid and multilateral support**. These are contingent on governments continuing with the country's monitored economic reform programme under an **IMF Extended Credit Facility** (ECF, formerly PRGF). To date, progress has been relatively good, albeit from a very low base, and the latest ECF will run until June 2013. **In its latest review (June 2010), the Fund was broadly satisfactory with progress.** Nevertheless, with the international community focusing on the need to indicate good governance, reports of corruption could adversely impact donor perceptions and possibly delay some disbursements. In this regard, Transparency International's 2009 Corruption Perceptions ranks the country 146= (with Cameroon, Ecuador and Kenya) out of 180 states assessed.

The economy remains based on agriculture, with that sector accounting for around 50% of overall GDP, although subsistence farming indicates a higher level of dependence. Mineral production is mainly diamonds, rutile and gold. Under the Kimberley Process, the international trade in gemstones is being closely regulated to prevent sales of 'blood diamonds', the revenues of which are used to buy arms and fuel regional conflicts. As a corollary, increased diamond sales through official channels should improve state finances. After contracting by an annual average 5.3% in 1992-2001, **real GDP expanded strongly (we estimate over 10% 2002-08)**, although the global downturn since Q4 2008 and associated reduced demand for commodities is likely to reduce **annual average growth to 4-6% in 2009-11**. The fiscal and current account deficits remain large (4% and 10% of GDP in 2010) and are only reconciled through foreign and multilateral (IFI) aid and other disbursements. Aid flows have improved FX accumulation but the external sector will remain fragile and the dependence on external assistance will remain pressing for some years to come. In January 2007, agreement was reached under the Highly Indebted Poor Country (HIPC) and G8 initiatives to cancel 100% of debt obligations outstanding to the Paris Club of official creditors, including USD1.6bn owed to the World Bank and IMF. Overall, however, Sierra Leone **remains a "post-conflict" country**.

The **business environment is weak** and the country ranks 157 out of 179 in the Heritage Foundation's 2010 Index of Economic Freedom, classifying it as 'repressed'.

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