

Chapter II.

THE STRUCTURE OF THE SIERRA LEONE ECONOMY

1. INTRODUCTION

Sierra Leone's national accounts reveal that the Gross Domestic Product (GDP) originates primarily from agriculture and mineral exploitation. These sectors together account for an average of 48 per cent of GDP during the period of study. Agriculture and mining are followed in order by wholesale and retail trading, transport and communications, manufacturing and handicrafts, ownership of dwellings, public administration and defence, construction and services including banking and insurance, and public utility services.

Since the bulk of its non-subsistence agricultural products and all its mining products are for export, it may be defined as an export economy for one-third of its GDP derives from them.

The national accounts also show that the country has a high consumption propensity and a low savings propensity. In recent years consumption has fluctuated between 91 per cent and 83 per cent of GDP leaving savings floating between 9 per cent and 17 per cent respectively. Private consumption is high, swinging around 88 per cent of GDP, and public consumption around 8 to 12 per cent. Most of the private consumption is taken up by direct consumer

expenditure on food and beverages, clothing, rents and utilities which together account for some 80 per cent of the private consumption outlay, nearly 50 per cent of which is food alone.

An alternative way of analysing the economic structure is through the manpower distribution in the sectors of activity which together account for the gross domestic product. The result of this analysis is as follows:

Sectors	Number of persons engaged (‘000)	GDP 1975/1976 (million Le)	Output per worker (‘000) (Le)
Agriculture, forestry, fishing, etc.	732	88.6	0.12
Mining and quarrying	21	41.0	1.95
Manufacturing	48	16.2	0.34
Transport and communications	27	34.6	1.28
Electricity and water supply	2	3.4	1.70
Construction	18	11.2	0.62
Wholesale and retail trade	97	40.8	0.42
Finance, insurance, real estate, etc.	2	21.1	10.55
Public administration and other services	63	36.6	0.58
All industries	1,010	293.5	0.29

Source: Central Statistics Office, *Sierra Leone's National Accounts*, Freetown, Government Printer, June 1977.

The most striking feature of this analysis is that the active population of 1,010,000 represents only 45 per cent of the total population. It can therefore be inferred that the responsibility for producing the GDP rests on less than 50 per cent of the total population.

The table reveals that the bulk of the labour force is in the agricultural sector. This is followed by wholesale and retail trade,

mining, public administration and manufacturing. However, the contribution of these sectors to GDP is not at all commensurate with the labour deployed in them. To illustrate, whereas the agricultural sector employs about 75 per cent of the working population, its contribution to GDP averages 31 per cent only.

2. INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT

Table 1 reveals that during the thirteen-year period 1963/64 to 1975/76 the Sierra Leone economy achieved only a moderate expansion in GDP measured at constant 1963/64 prices. During the period under review GDP increased by Le 90.5 million, that is, from Le 202.9 million in 1963/64 to Le 293.5 million in 1975/76. This represents an annual growth rate of about 3.4 per cent. Growth was particularly high between 1967/68 and 1968/69 and between 1972/73 and 1973/74 when GDP went up by about 10 per cent in each case. During the years 1965/66 - 1967/68 and 1970/71 - 1971/72 GDP declined by 4.1 per cent and 9 per cent respectively. The economy revived somewhat in 1972/73 as a result of higher world market prices for virtually all Sierra Leone's exports. Besides, rising public expenditure also contributed to an increase in the overall level of aggregate demand. The economic revival of 1972/73 continued through 1975/76, although during this latter year economic activities slowed down considerably.

As already stated, pride of place goes to the sector comprising agriculture, forestry, hunting and fishing accounting for an average of 31 per cent of GDP. This sector however achieved an average growth rate of 1.9 per cent only in real terms and its contribution to GDP declined from 36 per cent in 1963/64 to 31 per cent by 1975/76. This rather unimpressive performance of the sector probably reflects the low support the sector received during the period of study.

Investment in agriculture is still less than 1 per cent of GDP. Because the volume of investment in the sector has been small over the years, its impact has been minimal given the very large number of farm holders. Also, supporting services have not been effective either for they accounted for only 5 per cent of recurrent budget for 1975/76.

Some of the problems include inadequacy both in the number of trained field staff especially instructors, and in the lack of mobility due to inadequacy of transport facilities. But the main problem is that of finance. Expenditures on extension services have been only around 5-7 per cent of total allocations to the Ministry of Agriculture.

The mining sector, with an average of 17 per cent of GDP, is the second largest sector. Growth was particularly rapid during the years 1967/1968 to 1970/71 when its rate averaged 4.3 per cent. Since 1971/72 however there has been a continuous drop in the mining sector's contribution to GDP due mainly to a decline in diamond production. With the suspension of iron ore production and export in 1975 and a further fall in diamond output, the mining sector's contribution to GDP was only about 13 per cent in 1975/76 as compared with 16.6 per cent in 1963/64. The indirect effects of the mining sector on the economy may be quite considerable when one takes into account the fact that mineral exports account for about 80 per cent of export earnings, with diamonds alone accounting for about 60 per cent; and that during the period 1963/64 - 1975/76 it accounted for an average of 12 per cent of direct taxes.

Transport and communications contribute an average of 10.1 per cent to GDP. This sector achieved a very rapid rate of growth, an average of 8.8 per cent due to the rising demand for transport facilities especially in the urban areas. But the main contributory factor to growth in this sector has been the large public investment in physical infrastructure.

TABLE 1

INDUSTRIAL ORIGIN OF GDP AT CONSTANT 1963/64 PRICES
(million Le)

Sectors	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
Agriculture, hunting, forestry and fishing	72.4	72.3	72.1	74.9	73.9	78.1	77.4	78.4	78.1	80.1	80.5	85.3	91.1
Mining and quarrying	36.6	40.9	45.5	39.6	37.4	39.7	46.7	46.6	48.0	43.4	40.0	42.3	39.1
Electricity and water supply	1.1	1.3	1.4	1.6	1.8	2.0	2.3	2.4	3.0	3.2	3.4	3.4	3.4
Manufacturing and handicrafts	12.0	12.9	13.4	13.1	12.8	14.6	14.9	14.8	14.3	14.8	15.8	16.1	16.2
Construction	7.1	7.5	8.4	7.0	6.6	8.3	11.4	11.8	10.8	9.9	12.3	11.1	11.2
Wholesale and retail trade, restaurants and hotels	27.6	31.6	33.5	29.1	28.8	34.7	40.1	44.4	40.0	40.0	44.1	41.0	40.2
Transport, storage and communications	14.8	16.3	19.6	20.0	21.9	24.9	26.7	28.5	28.2	31.9	33.9	34.3	34.6
Finance, insurance, real estate	12.9	13.9	15.3	15.3	15.2	15.7	17.5	18.3	18.5	19.3	20.4	21.4	21.1
Public administration and other services	18.4	19.2	20.1	20.6	21.4	23.4	26.2	27.0	28.8	32.4	35.1	37.1	36.6
GROSS DOMESTIC PRODUCT	202.9	215.9	229.3	221.2	219.8	241.4	263.2	272.2	269.7	275.0	285.5	292.0	293.5
AT FACTOR COST													

Source: Central Statistics Office, *Sierra Leone's National Accounts*, various years.

Manufacturing including handicrafts accounts for an average of 5.7 per cent of GDP. These industries produce mainly for the domestic market. The rate of growth of this sector averaged 2.7 per cent during the period under review. It was affected by the depression during the years 1965/66 - 1967/68 and achieved a 15 per cent growth between 1968/69 and 1969/70. Between 1969/70 and 1971/72, however, it experienced a stagnation. Even with the recovery in 1972/73, the sector has not achieved its pre-depression rate of 6 per cent. The progress of the manufacturing sector in fact has, to a great extent, been limited by the small size of the Sierra Leone market. Because most of the industries are mainly capital intensive and rely on imported raw and semi-finished materials, depending on a high degree of protection, their contribution in terms of value added has been very low. At the same time, the impact of these industries on the economy in terms of foreign exchange savings and employment is considerably reduced when account is taken of the loss to the economy in the form of taxes and customs duties foregone, of the reverse flow of investment in terms of foreign remittances of profits, and of the higher prices of the locally manufactured goods.

The electricity and water supply sector which accounts for 0.9 per cent of GDP achieved the fastest growth rate. Here, however, the base is quite low with the result that in spite of the high growth rate vast areas are still without these facilities. And in the case of electricity, about 40 per cent of the total is generated by the mining companies.

Construction contributes an average of 3.7 per cent of GDP. During the period under review, growth in this sector was very rapid averaging 4.5 per cent. An important element in this very high growth rate has been the government's road construction programme. In addition, the growing demand for better residential and commercial accommodation from Sierra Leoneans, foreign residents and business organisations, particularly after independence, resulted

in substantial investment in real estate and the building industry.

The service sector, comprising wholesale and retail trade, banking and finance, real estate, personal, business, professional and domestic services, public administration and defence, contributes an average of 41.7 per cent of GDP. Although this sector grew at an average rate of 7.9 per cent during the period under review, in general it followed the basic trend of economic activity, that is, it responded to the needs of the economy.

The country's propensity to consume is very high averaging almost 90.6 per cent of GDP between 1963/64 and 1975/76. Of this government's consumption expenditure accounted for about 8.5 per cent while that of the private sector averaged 82 per cent. This compares unfavourably with an average of 73-75 per cent for a large number of developing countries and 64-66 per cent for developed ones.

As there are no capital goods industries, one would expect that durable and semi-durable goods are imported. In addition, however, imported consumer goods account for about 50 per cent of total imports with food, beverages and tobacco being the largest category accounting for an average of 20 per cent of all imports. Obviously, this very high level of consumption is due to the very low level of income. But the direct consequence of the paramountcy of consumption is the marginal nature of investment spending, which averaged 11.8 per cent during the period under review.

3. CAPITAL FORMATION AND ITS FINANCING

Table 2 shows domestic capital formation by type of investment and purchaser. The table reveals that machinery and equipment account for an average of 48.6 per cent of total capital formation during the period under review. More than 80 per cent of these investments were undertaken by the private sector. The private

sector was also responsible for an average of 65 per cent of total expenditure on building and works, the other important category of investment. Hence total investment by the private sector averaged 73 per cent of gross domestic capital formation.

As the mining sector is capital intensive and belongs to the private sector, most of the investment in machinery and equipment by this sector has been in respect of mining. The rest of the investment in the category "Machinery and equipment" is in respect of cars, an average of 20 per cent, and construction which accounted for an average of 17 per cent. Expenditure on "Buildings and works" by the private sector has been mainly in respect of residential and non-residential buildings. Investment by the private sector in agricultural machinery and machinery required for industrial production has been quite small.

The financing of investment, which we have argued is mainly by the private sector, comes from savings and provisions for depreciation. These together accounted for about 80 per cent of total financing during the period of study. The share of savings however has been rather small averaging about 20 per cent and was in fact negative in the depression years 1966/67 - 1967/68 and again in 1975/76. Consequently, investment by the private sector has been mainly through provisions for depreciation. The significance of this is that the economy has merely been maintaining its existing capital intact with very little capital building which partly accounts for the slow growth. The remainder of the financing was through net capital inflow from the rest of the world.

The financing of public investment has been mainly by foreign loans, especially through supplied credit and to a lesser extent through borrowings from the banking system. During the period under review, foreign financing contributed an average of 48 per cent of the resources required for public investment. The result of the undue reliance on foreign loans has been a considerable growth in debt service payments which have risen from 6 per cent of

TABLE 2
GROSS DOMESTIC CAPITAL FORMATION BY TYPE OF PURCHASER AND OF INVESTMENT
(million Le)

Items	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
<i>Government</i>													
Land improvement	0.2	1.0	1.3	0.9	0.1	0.2	0.1	—	0.2	0.1	1.0	1.5	5.0
Buildings and works	4.9	4.9	5.8	7.9	4.8	4.9	8.3	6.2	7.1	9.9	6.3	14.7	33.6
Machinery and equipment	3.1	3.1	5.1	4.2	1.5	2.5	2.3	4.7	5.2	3.7	6.0	9.7	16.3
<i>Total</i>	8.2	9.0	12.2	13.0	6.4	7.6	10.7	10.9	12.5	13.7	13.3	25.9	54.9
<i>Private sector</i>													
Buildings and works	8.6	9.6	11.2	8.7	13.9	17.8	17.6	18.6	15.5	11.7	25.5	21.2	4.8
Machinery and equipment	7.8	13.2	15.5	13.1	16.3	16.6	28.0	17.9	14.7	18.8	17.8	28.9	13.0
<i>Total</i>	16.4	22.8	26.7	21.8	30.2	34.4	45.6	36.5	30.2	30.5	43.3	50.1	17.8
<i>Total fixed capital formation</i>													
Land improvement	0.2	1.0	1.3	0.9	0.1	0.2	0.1	—	0.2	0.1	1.0	1.5	5.0
Buildings and works	13.5	14.5	17.0	16.6	18.7	22.7	25.9	24.8	22.6	21.6	31.8	35.9	38.4
Machinery and equipment	10.9	16.3	20.6	17.3	17.8	19.1	30.3	22.6	19.9	22.5	23.8	38.6	29.3
<i>Total</i>	24.6	31.8	38.9	34.8	36.6	42.0	56.3	47.4	42.7	44.2	56.6	76.0	72.7
<i>Increase in stock</i>	-1.1	-2.7	1.1	0.8	1.1	3.7	2.3	5.9	-1.2	2.0	19.1	14.1	-3.8
GROSS DOMESTIC CAPITAL FORMATION	23.5	29.1	40.0	35.6	37.7	45.7	58.6	53.3	41.5	46.2	75.7	90.1	68.9

Source: Central Statistics Office, *Sierra Leone's National Accounts*, June 1972, Table 12, p. 16, and June 1977, Table 20, p. 22.

government's current expenditure in 1963/64 to 20 per cent by 1975/76.

For the period 1963/64 - 1975/76 the gross incremental capital output ratio (ICOR) was approximately 3.0, reflecting the composition of capital formation. We have noted that the service sector accounted for more than 50 per cent of total growth. The ICOR does not reveal this, since the service sector attracted relatively little additional capital. This underscores the limitations of the ICOR as a basis for projections as changes in the structure of investment will affect its size. Also, an efficient utilization or otherwise of the investment should also contribute to increasing or reducing the ICOR.

4. STRUCTURAL CHANGES

Table 3 which shows the distribution of GDP by economic activity vividly demonstrates the underlying structural problems of the Sierra Leone economy. The average growth rate of the material production sector, comprising agriculture, mining, manufacturing, electricity and construction, was only 2.0 per cent as compared with an overall average growth rate of GDP of 3.4 per cent. At the same time, the service and government sectors together achieved an average growth rate of 7.9 per cent. One of the probable consequences of the disappointing performance of the producing sectors is a decline in the share of the material producing sector from 63.4 per cent in 1963/64 to 54.2 per cent by 1975/76. Because of the decline in production during this period, the country relied increasingly on imports.

The performance of the material production reflects the low growth rate of the agricultural sector. Agriculture which accounts for almost 75 per cent of the population achieved a mere 0.1 per cent growth per annum during the period 1963/64 to 1975/76.

Between 1963/64 and 1965/66 the level of agricultural production increased by 0.4 per cent per annum, and between 1968/69 and 1969/70, and again in 1971/72, agricultural output increased by 0.1 per cent and 2.3 per cent respectively. The highest growth rate of 5.0 per cent was achieved between 1967/68 and 1968/69. Such a structural transformation is unsatisfactory because of the foregone foreign exchange earnings as well as the loss of foreign exchange through imports, and also because of the employment implications for a country with relatively few outlets.

Another important element in the structure of the economy is the dependence on mining, especially diamonds. Unfortunately, however, diamond output has declined substantially between 1969 and 1975. In 1973 for example the decline was as much as 25 per cent. But as we have seen the fall is not peculiar to diamonds but noticeable in other mineral outputs. Thus, on the one hand the economy is highly dependent on mining the production of which has declined significantly during the period under review, and on the other hand the agricultural sector on which most people depend for their livelihood has made negligible progress during the same period.

The establishment of an economic planning unit with the assistance of the United Nations Development Programme in 1971 was the most important development during the period of our study. The Five-Year Development Plan, which was produced by the planning unit with the co-operation and assistance of various ministries and government departments, was launched by the Minister of Economic Planning and Development in August 1974. The Plan envisaged a significant rise in the growth rate of the economy from 3.0 per cent per annum to 6.2 per cent per annum during the period 1974/75 - 1978/79. To achieve this objective a total expenditure of Le 623.1 million was envisaged of which Le 416.6 million were expected from domestic sources. This implies an annual investment expenditure of Le 125 million per annum during the Plan period. The Plan gives top priority to the acceler-

TABLE 3

DISTRIBUTION OF GDP BY ECONOMIC ACTIVITY
(percentage shares)

Items	1963/64	1975/76	1963/64 1975/76	1963/64	1965/66	1967/68	1969/70	1971/72	1973/74	1975/76
<i>Commodity producing sectors:</i>	63.5	54.8								
Agriculture	35.6	31.0	2.2	0.0	1.1	2.5	0.3	1.6	6.8	
Mining	18.0	13.3	0.6	12.1	-9.0	12.5	1.3	-8.3	-1.1	
Manufacturing	5.9	5.5	2.9	5.8	-0.2	8.2	-2.0	5.2	1.2	
Utilities	0.5	1.2	8.2	13.6	14.3	13.9	15.0	6.6	—	
Construction	3.5	3.8	6.8	9.4	-10.7	36.3	-2.6	6.9	-4.4	
<i>Services:</i>	36.5	45.2								
Wholesale trade	13.6	13.7	3.8	10.7	-7.0	19.6	-0.1	5.1	-4.4	
Transportation	7.2	11.8	11.1	16.2	5.8	10.9	2.8	10.1	1.0	
Finance	6.3	7.2	5.3	9.3	-0.3	7.5	2.8	5.1	1.7	
Public administration and social services	9.4	12.5	8.2	4.6	3.2	11.2	4.9	10.9	2.1	
TOTAL GDP			3.7	6.3	-2.1	9.8	1.2	2.9	1.4	

Source: Calculated from Table 1.

ation of growth in agriculture, which is projected to increase from an average of 1.6 per cent to 4.6 per cent during the period 1963-1973. Public investment is projected to constitute 45.6 per cent of the total investment during the Plan period, compared with only 24 per cent during the period 1963/64 to 1970/71. It is expected that about 36.6 per cent of the public investment will be made in the commodity producing sectors. This is in contrast to an investment of 5.6 per cent previously. Thus, not only does the Plan envisage considerable increase in the volume of investment, it also expects that a greater proportion of total expenditure will be in the producing sectors, and a significant rise in the government's contribution to total investment.

5. AGRICULTURE

Agriculture accounts for about 75 per cent of Sierra Leone's total active population, and provides a third of the country's GDP. There is no private ownership of land in the Eastern, Northern and Southern Provinces. In these areas land is communally owned. In the Western Area (the former colony area) there is private ownership of land, but since 1962 such land can be legally owned only by Sierra Leone citizens.

Plantation agriculture does not exist on any significant scale and agriculture is thus mainly in the hands of small farm holders who cultivate the land on traditional lines. It is estimated that they have brought about 63,000 acres of additional land into production each year since 1964. In spite of this however, only about 7.4 per cent of the cultivable land of approximately 15 million acres is estimated to be under cultivation.

Of the 357,756 farm holders, about 65 per cent cultivate less than five acres each and about 19 per cent cultivate between 5 and 10 acres each. Thus, about 84 per cent have farms of less than 10

acres each. These farmers are largely illiterate and their method of cultivation is of the mixed cropping system. The method of production is largely by shifting cultivation with implements which have remained the same over the years and with the use of fertilizers.

From the farmer's point of view, that is, taking into consideration the resources available to him, shifting cultivation is the only rational alternative open to him.¹

But however rational the methods of cultivation are in relation to available resources, any upward shift in income would require substantial improvements in the current method of production.

Agricultural export crops

Palm kernels, harvested mostly from wild palms, are the principal export crop accounting for an average of 50 per cent of total agricultural exports during the period under review. Whereas only a very small quantity of the oil from the kernels is produced and consumed locally, the bulk of the oil obtained from the palm fruit is retained for domestic consumption. Production of palm kernels which amounted to 39,713 tons in 1964 rose to 41,651 tons in 1965 and thereafter declined somewhat, and was only 18,903 tons in 1967 due to the financial collapse of the Sierra Leone Produce Marketing Board discussed below. Production thereafter rose substantially and amounted to 56,340 tons in 1970. There has since been a considerable reduction in palm kernel production and by 1976 it was only 37,548 tons.

Cocoa and coffee are produced almost entirely for exports. Production of cocoa showed continuous increase between 1964 and 1972 rising from 2,649 tons in 1969 to 7,281 tons by 1972. By

¹ E. R. Leach, "Some Economic Advantages of Shifting Cultivation", Proceedings of the Ninth Pacific Science Congress, 1959; and R. G. Saylor, *The Economy of Sierra Leone*, Durham, N. C., Duke University Press, 1967, p. 51.

the end of 1976, however, cocoa production had declined to 5,943 tons. In the case of coffee, production increased from 5,934 tons in 1964 to 9,377 by 1971. Two years later, that is at the end of 1973, production amounted to 11,782 tons. Since then, production has declined considerably and was only 4,431 tons in 1976. The remaining agricultural export crops are kola nuts, ginger, ground-nuts, benniseed and piassava.

One of the major projects aimed at raising agricultural production is the Integrated Development of Agriculture Project. This project is now in full operation in the Eastern Province and has also been extended to the Northern Province. It is a supervised credit scheme operating in particular areas of the Eastern Province. Credit is given both in cash and in kind to palm oil and rice producers. Through the schemes, farmers receive tools, planting materials and credit facilities. The project has contributed towards: firstly, making agriculture more attractive, thereby helping to reduce the rate of rural exodus; secondly, training farmers in the most modern techniques of farming. All these are geared towards raising the production of the crops and improving the standard of living of the farmers. It is hoped that project units will be set up for the other provinces, and that in the next five years production will increase considerably.

The Sierra Leone Produce Marketing Board

The Sierra Leone Produce Marketing Board (SLPMB) has been assigned the responsibility for the purchase and marketing of all agricultural export crops. The SLPMB fixes producer prices in advance of the crop season, in order to ease the impact on farmers of world-wide price fluctuations. The purchase and delivery of the crops to the place of shipment are handled by buying agents selected by the SLPMB. The Sierra Leone Producing Marketing Company

in London, a wholly-owned subsidiary of the SLPMB, takes care of the Board's overseas sales.

As a result of its pricing policy the SLPMB has been able to build up huge reserves, part of which was used to establish a Price Maintenance Fund, and a Reserve Fund; part has also been paid to the government in the form of a development levy. As a result of the SLPMB's pricing policy, the farmers' share of the F.O.B. export price averaged about 50 per cent for palm kernels and about 46 per cent for cocoa and coffee.

Between 1964 and 1966, the SLPMB against expert advice embarked on a programme of investment in industries and plantations. The SLPMB's plantation programme involved a total of 416,000 acres planted with oil palm trees, bananas, citrus fruits, coconuts, pineapples, rubber, coffee, cocoa, cashew and cotton. Land was acquired for the programme and plantations started in 1965. It was estimated at the commencement of the plantation programme that 60,000 additional jobs for labourers would be created while at the same time increasing the SLPMB's profits substantially. Other investments by the SLPMB were as follows: Wellington Palm Kernel Mill, Le 1.7 million; Palm Oil Mills (Massanki, Gambie, Hangha, Sahn Malen), Le 0.9 million; Feed Mill (Moyamba), Le 81,483; Instant Coffee Mill (Kenema), Le 0.17 million; Polythene Bag Machine (Kissy), Le 17,727; Coconut Dehusking Machine (Bo), Le 12,000; Chicken Incubator (Bo), Le 4,000; Fibre Making Machine, Le 17,942. The SLPMB had embarked on this programme of plantations and industrialization on the assumption that overseas sources of finance would be available. The expected overseas finance did not materialize, with the result that the SLPMB's liquid funds were completely absorbed by mid-1966. By that date, the Price Maintenance Fund as well as the Reserve Fund had been virtually used up. The immediate consequence was that the SLPMB was unable to make regular cash payments for produce received, and buying agents in turn were not able to pay producers cash for their pro-

duce. The SLPMB at this stage started to issue IOU's for produce received. This led to lack of confidence in the Board which was reflected in the volume of business handled by the SLPMB during 1967.

Purchases by the SLPMB during the period 1965 to 1968 were as follows (in tons):

Years	Palm kernels	Coffee	Cocoa
1965	41,651	3,318	4,062
1966	38,785	8,400	4,389
1967	18,903	2,799	2,710
1968	52,761	4,140	4,456

The decline between 1966 and 1967 was not due to a fall in world prices of the commodities in question, but rather to smuggling and withholding of produce — the result of lack of confidence in the SLPMB. As part of an International Monetary Fund Supported Stabilization Programme introduced in November 1967, the SLPMB was re-organized and its activities limited to marketing. To ensure that only purely economic and commercial considerations would guide the decisions of its Board of Directors, the Governor of the Bank of Sierra Leone, the chief Economist and a representative of the Sierra Leone Chamber of Commerce were brought into the Board. The viable plantation programmes of the Board were transferred to the Ministry of Agriculture and Natural Resources while the Palm Oil Mills were given an independent management. At the same time, the SLPMB negotiated an external loan of Le 3.9 million with the head office of one of the local commercial banks. With that loan, the SLPMB was liquid once again and was able to honour outstanding obligations. The devaluation of the Leone in November 1967, following the British devaluation, together with higher world

prices, especially for palm kernels and cocoa, enabled the SLPMB to increase the producer prices for produce. These higher prices together with the reorganization of the SLPMB improved confidence with the result that business handled by the Board more than trebled in 1968.

6. MINING

Over the past decade to 1976, mineral exports have accounted for about 80 per cent of the total value of Sierra Leone domestic exports with diamond exports being the most important. Whereas diamond exports had formed 78.6 per cent of the total value of mineral exports in 1964, rising to 83 per cent in 1976, the contribution of mineral exports in 1964 to the total value of exports declined from 21 per cent in 1964 to 14 per cent in 1976. Bauxite production since 1964 has risen steadily although its contribution to the total value of mineral exports is only a modest 5 per cent. The rutile industry began operations with an output of 20,000 tons, from whence it ceased production as a result of technical and financial difficulties.

Diamonds

The mining of diamonds was begun in 1923 by the Sierra Leone Selection Trust Ltd. (SLST Ltd.), a wholly-owned subsidiary of Consolidated African Selection Trust. Prior to 1955 the company had exclusive mining rights over all diamonds found anywhere in Sierra Leone. The discovery of diamonds in large quantities in areas outside the immediate interest of the SLST Ltd. led to illicit mining and diamond smuggling on a large scale. One estimate puts the value of smuggling at between Le 8 million and Le 12 million per annum. Largely as a result of the loss to the economy through smuggling, the mining agreement with the SLST

Ltd. was re-negotiated in 1955, the result of that review being the limitation of the SLST Ltd. leased land to 450 square miles. The other areas were made available to Sierra Leonean miners under the Alluvial Diamond Mining Scheme introduced in January 1956. Under this scheme Sierra Leoneans, or companies in which Sierra Leoneans have majority interests, are permitted to prospect for diamonds on payment of a fee of approximately Le 40. In December 1970, the company's name was changed to National Diamond Mining Company (S.L.) Ltd., following the acquisition of a majority interest by the Sierra Leone government. The SLST Ltd. now has a 49 per cent interest in the new company and appoints five of the eleven directors. Diamond production rose 44 per cent between 1964 and 1970 but since then there has been a continuous decline in production. In fact in 1973 production amounted to only 1354.9 carats as compared with 1486.7 carats in 1964.

Official purchases and sales of diamonds are handled by the Government Diamond Office (GDO) which is managed by a foreign-owned company, the Diamond Corporation of West Africa Limited (Dicorwaf). Dicorwaf is also a part of the De Beers Central Selling Organisation which operates from London and distributes over 80 per cent of the world's diamonds. The GDO is obliged to buy all diamonds offered to it for sale at guaranteed minimum prices. The GDO minimum prices were raised several times during the period of our study in response to price increases by the Central Selling Organization. At least 50 per cent of the National Diamond Mining Company's output must be sold to the GDO and the rest is sold to three U.S. buyers licensed by the government. Local diggers under the Alluvial Diamond Scheme also sell directly to the GDO or through dealers. But they can also sell abroad should they so desire; in this case, the exporter must pay, in advance, the diamond export levy of 7.5 per cent on the assessed value of the diamonds to be exported.

In 1964 purchases by the GDO amounted to Le 23.2 million. The volume of diamonds purchased declined by Le 0.4 million and Le 3.4 million in 1965 and 1966 respectively. From Le 19.1 million in 1966, diamond purchases rose to Le 33.7 million in 1969 due mainly to favourable world prices for diamonds. By 1973 diamond purchases had increased to Le 34.9 million, whereas in 1976 they had declined to Le 32.9 million.

Iron ore

The mining of iron ore began in 1933 by the Sierra Leone Development Company (Delco), a subsidiary of William Baird of Glasgow. Since it commenced operations, the company has enjoyed the monopoly of mining iron ore in the Marampa and Tonkolili areas although the latter area has still not been developed. Output throughout the period 1964-1974 was constant. The industry's performance was greatly affected by fluctuations in world prices; in 1972, for example, the average price of iron ore was 20 per cent lower than in 1963. Another problem during the period under review was the falling ore grade. The ore grade which was originally 64 per cent has steadily fallen to 40 per cent.

A major development during the period under review was the conclusion of a sales contract with three Japanese steel mills in 1968. The contract provided a ready market for nearly half of Delco's annual production, i.e. 1.2 million tons, for ten and a half years ending in 1979. However, because of financial difficulties the company went into liquidation in 1975; as a result, there has been no production of iron ore since then.

Bauxite

The mining of bauxite started in 1963 by the Sierra Leone Ore and Metal Company, wholly owned by Alusuisse of Zurich. The mine is at the Mokanji Hills in the Moyamba District which is ap-

proximately eighty miles from the sea. Thus the ore has to be transported by trucks into barges before being loaded into large ships. In 1963 output was 90,000 tons. Since then production has increased steadily, rising to just over 300,000 tons in 1967 and over 400,000 by 1970. Annual production since 1972 has averaged about $\frac{1}{2}$ million tons and reached 1.1 million tons by 1976, and it is expected that output will amount to 2.3 million tons annually by 1978. There is no local processing of bauxite, which is exported in its crude form to the parent company in Switzerland.

Rutile

Rutile deposits were first discovered in the Bangbama area in 1954. The 1959 agreement between the Sierra Leone government and British Titan Products granted mining and prospecting rights to the latter. That company abandoned its lease in 1963. In 1964, Sherbro Minerals was formed as a joint venture between British Titan Products and Pittsburg Plate Glass Company. This firm continued operations until 1971 when they closed down due to financial and technical difficulties.

During the period of operation of the company, total production amounted to 113,000 tons which were valued at Le 5.4 million. In 1972, the Sherbro lease was taken over by Sierra Rutile, which is jointly owned by Bethlehem Steel (80 per cent) and North Resources (20 per cent).

The company has been experimenting with a pilot plant since 1972, and expects to commence production in 1978. The planned capacity of Sierra Leone rutile is put at between 70,000 to 150,000 tons per annum. With the world price of rutile escalating, this mineral could be an important source of foreign exchange. Proved reserves are estimated at 3.5 million tons which could permit mining for about 30 years.

7. MANUFACTURING

The manufacturing sector, as we have seen, accounts for about 5.7 per cent of GDP. About 40 per cent of the output value of this sector is accounted for by small-sized industrial establishments employing between 6 and 50 persons. On the other hand, industries employing less than 6 workers account for 60 per cent of the value of output in this sector. The industries can be grouped into four categories. The first group are all government owned industries operated either by public corporations or by a government department. Here we have the government printing works, the furniture factory operated by the Forest Industries Corporation; rice mills operated by the Rice Corporation; palm oil mills, operated by the Sierra Leone Produce Marketing Board, and the oil refinery which is managed by a foreign firm. The second group are industries with varying degrees of government participation. Here we have a cement factory, a brewery, a distillery and the diamond cutting and polishing firm. The third group comprises factories which are entirely owned by foreign private firms. This is the largest group. Commodities produced are beer, cigarettes, canned tuna, tobacco, umbrellas, furniture, soft drinks, oxygen and carbon dioxide, confectionery and paints. The final group are foreign firms with Sierra Leone participation. These produce knitted fabrics, clothing, nails, cardboard cartons, and re-treated tyres.

Since independence Sierra Leone, like other developing countries, has pursued an industrial policy aimed at import substitution. To achieve this objective a number of incentives have been provided under the Development Act of 1960. Under this Act, the Ministry of Trade and Industry is authorized to issue a "Development Certificate" to industries which are likely to utilize local resources and manpower. In general the possession of a Development Certificate entitles the company to a tax holiday period, which varies from 2 to 5 years depending on the degree of risk involved and

TABLE 4

PRODUCTION OF MANUFACTURED COMMODITIES

Years	Cigarettes (million sticks)	Beer and stout ('000 imp gall)	Spirits ('000 imp gall)	Acetylene ('000 cubic feet)	Oxygen ('000 cubic feet)	Carbon dioxide ('000 lb.)	Plastic footwear ('000 pairs)	Nails (Cwt)	Umbrellas (dozens)	Paint ('000 imp gall)	Matches (gross boxes)	Confectionery ('000 lb.)	Motor spirit (imp gall)	Gas diesel and fuel (million imp gall)	Kerosene (million imp gall)	Salt ('000 lb.)
1964/65	897	450	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1965/66	986	733*	—	698	1,804	170	—	—	—	—	—	—	—	—	—	—
1966/67	908	831*	—	876	2,060	139	432	204	3,515	8	—	—	—	—	—	—
1967/68	798	895*	—	1,021	2,209	136	603	12,866	4,997	73	45,000	—	—	—	—	—
1968/69	605	1,310	16	1,034	2,424	189	721	13,333	4,458	96	62,975	—	5.4	20.0	2.5	—
1969/70	454	1,365	36	945	2,435	210	599	12,667	3,108	95	68,000	1,833	12.0	41.8	8.8	—
1970/71	575	1,273	34	949	2,475	227	499	11,842	353	95	42,750	2,116	12.1	47.4	9.7	4,634
1971/72	818	1,346	17	778	1,874	183	585	12,854	—	93	58,000	2,638	12.3	49.7	9.9	14,328
1972/73	999	1,544	11	821	2,002	206	598	12,182	—	109	54,175	2,905	11.7	53.8	7.8	18,642
1973/74	1,513	2,004	16	962	2,336	225	557	7,903	—	121	73,985	2,815	11.9	38.7	9.9	13,705
1974/75	1,841	2,273	19	648	1,665	176	603	11,279	—	54	18,605	2,863	11.7	28.5	8.3	6,852
1975/76	1,544	2,356	21	665	1,725	239	454	10,675	—	80	24,485	3,067	12.1	27.9	10.8	5,709

* Figures relate to manufactures subject to excise duty.

Source: Comptroller of Customs and Excise.

the size of the capital invested. Furthermore, such companies were granted duty free importation of such machinery, plant and building materials as were required for input.

Although quite a large number of companies availed themselves of these incentives, not all of them have succeeded in fulfilling the objectives of the Act. The original intention of the Act was to stimulate the use of local resources; most of the industries which have been set up still continue to import their raw materials and semi-finished goods. Because the overall effects of these industries have been far from what was anticipated, the Ministry of Trade and Industry has been applying more stringent criteria for granting a Development Certificate. As a result only two have been issued since 1968. Furthermore, in 1970 the government appointed a committee of experts to examine the effects of the concessions on the economy, and to make recommendations regarding the desirability of maintaining, modifying or repealing the 1960 Development Act.

Already, however, the deficiencies of existing industries have been recognized. These include their reliance on imported raw and semi-finished materials as well as their being highly capital intensive. In recognition of these shortcomings the development of agro-based industries is being stressed at the moment. Another area of industrial expansion which is being examined is export promotion. This change in emphasis is borne out clearly in the National Development Plan already referred to. Table 4 shows output of some of these industries. It should be noted that the cement and umbrella factories have ceased production.

8. EMPLOYMENT, WAGES, COST OF LIVING

As can be seen from Table 5 the change in the level of employment during the past 13 years has been very marginal, rising from 62,221 in June 1964 to 65,661 by June 1976.

TABLE 5

EMPLOYMENT IN ESTABLISHMENTS WITH SIX OR MORE WORKERS BY INDUSTRIAL SECTOR

Years	Agriculture, forestry and fishing	Mining	Manufac- turing	Construction	Electricity, water and sanitary services	Commerce	Transport, storage and communica- tions	Other services	All industries
1963/64	4,829	6,936	4,994	12,051	1,645	4,839	8,666	18,261	62,221
1964/65	6,922	6,384	6,300	13,073	1,582	5,610	10,753	20,112	70,736
1965/66	5,171	7,302	5,173	11,180	1,842	5,519	10,239	20,126	66,552
1966/67	4,398	7,602	6,792	9,541	1,920	6,558	10,173	19,817	66,801
1967/68	3,623	8,329	6,559	7,764	1,851	6,607	8,848	20,250	63,831
1968/69	3,202	9,197	6,670	7,475	1,857	6,197	8,444	20,564	63,606
1969/70	3,369	9,790	3,575	7,932	1,893	5,931	8,694	20,545	61,729
1970/71	3,226	9,988	5,355	7,183	1,210	5,733	8,633	21,949	63,277
1971/72	3,500	9,718	5,729	7,613	1,861	5,792	9,265	22,478	65,956
1972/73	4,027	8,340	5,812	7,664	1,746	5,770	9,526	23,325	66,210
1973/74	4,869	9,668	5,897	7,122	1,953	5,143	8,161	21,254	64,067
1974/75	5,003	8,523	5,888	7,586	1,980	5,208	9,187	22,286	65,661
1975/76	5,003	8,523	5,888	7,586	1,980	5,208	9,187	22,286	65,661

Source: Ministry of Labour.

Probably, the main explanation for the behaviour of recorded employment during the period is the rise in the capital-labour-output ratio. For example, technological change in the construction industry has reduced the labour-absorptive capacity of the industry. A more likely explanation however is the slow pace of growth of the economy.

From 12,100 in 1963/64 registered unemployment rose to a record level of 16,620 in 1968/69 and was 12,318 by the end of 1975/76. It must be pointed out, however, that caution must always be exercised when analysing the unemployment data since no precise definition for the term "Unemployment" has been provided by the Ministry of Labour. In actual fact, the bulge in the unemployment figures does not always explain the true state of unemployment in the country, as it is usual for most people even when already employed to register with labour exchanges in the hope of securing better jobs. Furthermore, it must be pointed out that not all those who are unemployed register with labour exchanges. A high proportion of the unemployed are unskilled, and most of them are migrants from the rural areas. Table 6 shows registered unemployment at exchange centres during the period 1964-1976.

Wages and other conditions of service in the private sector are determined largely through a system of joint industrial councils and wage boards on which trade unions and employers are represented. Since these arrangements applied only to workers whose unions belonged to the joint industrial councils, some workers in the private sector, for example bank employees, were not covered by the council. To deal with this anomaly, in September 1971 the government enacted the Regulation of Wages and Industrial Relations Act. This Act established a Joint National Negotiation Board to determine and fix minimum rates of pay, the number of paid public holidays and maximum hours of work for all employed persons below the supervisory level. The Act also provided for the

establishment of trade group councils to negotiate wages, terms and conditions of services for employees of particular trades below the supervisory level. The Act stipulated that where the minimum rate confirmed by the Commissioner of Labour is not paid by an employer, such an employer shall, on conviction, be liable to a fine not exceeding Le 40 and subsequently to a fine not exceeding Le 10 for each day on which the offence is continued after conviction.

The joint industrial council negotiates uniform basic wage rates for broad categories of workers. Between 1964 and 1968 there were no changes in the basic daily wage rates in the private sector. In April 1969 the basic daily wage rate for labourers was raised by 10 per cent. Between September 1969 and June 1970 all other classes of workers received the same percentage increase.

In the case of the civil service, in which there had been no revision of salaries since 1957, the government set up a commission of enquiry in 1969 under the chairmanship of Mr. Hugh Clarke to review salaries and the salary structure. At the same time, the government made two interim awards. First, the minimum salary paid to government workers was fixed at Le 312 per annum with effect from 1st December 1969. In addition, government employees with a salary of Le 1,224 per annum or less were granted an allowance of Le 36 per annum. The Clarke Commission reported in 1970, and in September 1971 the salaries of civil servants were revised upward on a graduated basis. Employees with an income of Le 500 per annum or less were awarded a 10 per cent increase. Those in the income bracket Le 1,001 to Le 2,000 per annum received 5 per cent. Civil servants in the salary range Le 2,001 to Le 4,698 received an increase of 2.5 per cent. There was no award to civil servants earning Le 4,700 and over. These salary increases have been followed by increases in the salaries of employees in public corporations and commercial enterprises.

During 1972 and 1973 collective agreements were signed by employers and unions' representatives on four of the trade nego-

tiating councils established under the Regulation of Wages and Industrial Relations Act of 1971. These agreements dealt with the terms and conditions of service of workers in the mines (October 1972), industries (March 1973), building and construction (April 1973), and commercial insurance and accounting firms (May 1973). In general these agreements were to remain in force for a period of three years. Following these negotiations the minimum daily wages and salaries currently in force are as follows:

Classes	1964	1974
Labourers	Le 0.85	Le 1.03
Mine workers	» 1.35	» 1.60
Manual workers	» 1.20	» 1.58
Non-manual workers	» 0.85	» 1.03
Junior clerks	Le 360 per annum	Le 378-415 per annum

These basic wage rates do not take into account benefits such as rent allowances, bonus earnings or food provided at subsidized prices.

Information on price movements in Sierra Leone is available only for Freetown and the diamond and iron ore mining areas. The price indices are based upon the consumer budgets of workers earning up to Le 40 per month. As a result they are heavily weighted with domestic food prices. Only a few imported items are included, namely sugar, sardines, coffee, milk and ovaltine. Taking these indices in turn, the weights for the Freetown price index are based on a survey undertaken in 1961. Hence, the series for the period 1964 to 1971 have been calculated with weights obtained in 1967. Between 1961 and 1971 however, the weight underwent some marked shifts. The share of food and drink which was 58 per cent in 1961 dropped to 52 per cent by 1971.

The share of housing on the other hand rose from 22.8 per cent to 32 per cent during the same period. The share of clothing and miscellaneous items showed small decreases. As a result of these changes which are due to a combination of income, supply, and price factors and rural-urban migration, another survey was undertaken in 1966 and hence the weights used after 1971 are based on the 1966 expenditure survey.

The housing and food components of the index have been largely responsible for the behaviour of the general index. During the period 1964 to 1976 the housing index went from 158.1 to 207.7. This is largely the result of rents which increased sharply during the period. The rise in the housing index reflects the shortage of low-cost housing which has been aggravated by migration from the rural areas. Furthermore, there has been a growing demand for better residential and commercial accommodation from Sierra Leoneans in the higher income groups, foreign embassies and business organizations. The food index on the other hand showed an even more dramatic rise from 101.6 in 1964 to 279.3 by 1976. It should be noted that the increase rate of the food index understates the true position since it excludes the greater part of imported foodstuffs, prices of which have been rising even more rapidly. Nevertheless, the rise in the food index reflects lower production of rice especially since 1970.

With these increases in the housing and food indices, the overall index rose at an annual average rate of about 10.5 per cent between 1964 and 1976.

Different weights are used for the component items on the price index for the mining areas. There is yet another set of weights for the diamond areas and the iron ore mining areas. Like the Freetown index these weights are based on a budget survey undertaken in 1961. Again as in the case of Freetown, a budgetary survey undertaken in 1966 and the index after 1971 have used the weights obtained in 1966.

The general index for the mining areas has risen less sharply than that of the Freetown index. During the period under review, the index went up from 110.3 in 1964 to 195.6 by 1976. This reflects the availability of subsidized facilities, for example, food and housing in the diamond and iron ore mining areas. In spite of the subsidized element in food in these areas, the food index in the mining areas grew faster than that of Freetown, rising from 108.0 in 1964 to 232.2 by 1976.

9. GOVERNMENT REVENUE AND EXPENDITURE

Except for a drop of Le 4.3 million, Le 0.9 million, Le 2.0 million and Le 2.1 million in 1963/64, 1970/71, 1971/72 and 1975/76 respectively, government revenue rose continuously throughout the period under review and amounted to Le 83 million in 1975/76. The main sources of revenue have been taxes on foreign trade, taxes on incomes (personal and companies) and taxes on internal transactions (excise, licences and duties). From Table 7 we can see that taxes on foreign trade contribute the largest share, an average of 50 per cent.

The share of taxes on income which was 30.6 per cent of total taxes in 1963/64 declined to 21.1 per cent in 1966/67 and was 27 per cent in 1975/76. Other taxes which together contributed about 26 per cent in 1963/64, contributed 19.4 per cent by 1975/76. With several public corporations making losses during the period, contributions from that source have been slight. Of the main sources of revenue, only foreign trade taxes and taxes on internal transactions show some growth but their rate has been modest. Total revenue as a percentage of GDP (at current prices) averaged 16.9 per cent for the period under review. The ratio increased from 16.9 per cent in 1963/64 to 18.2 per cent in 1965/66,

TABLE 7

GOVERNMENT REVENUE

(million Le)

Items	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
<i>A. Tax revenue</i>	26.0	26.3	33.7	32.4	34.4	46.7	50.3	50.4	48.8	54.9	79.2	80.2	76.5
1. Taxes on net income and profits:	10.5	7.2	6.8	8.0	10.4	12.6	13.5	18.1	12.6	16.1	27.8	30.0	22.3
Company taxes	6.0	0.9	0.8	1.9	6.2	7.4	8.5	8.1	8.2	11.0	22.8	21.7	13.4
Personal taxes	1.5	1.9	3.7	3.1	3.0	2.2	2.4	2.7	2.8	3.3	3.8	4.3	6.0
Other taxes on mining companies	3.0	4.4	2.3	3.0	1.2	3.0	2.6	7.3	1.6	1.8	1.2	4.0	2.9
2. Taxes on consumption:	0.5	1.1	2.0	2.7	2.6	4.4	9.4	9.5	10.6	10.8	12.0	11.8	14.5
Excise duties	0.5	1.1	2.0	2.7	2.6	4.4	9.4	9.5	10.6	10.8	12.0	11.8	14.5
3. Taxes on foreign trade:	15.0	16.0	24.9	21.7	21.4	29.7	27.4	22.8	25.6	28.0	39.4	38.4	39.7
Import duties	13.3	15.7	22.4	18.3	18.4	25.3	22.7	19.1	21.7	23.1	30.7	29.6	29.8
Export duties	1.7	2.3	2.5	3.4	3.0	4.4	4.7	3.7	3.9	4.9	8.7	8.8	9.9
<i>B. Non-tax revenue</i>	8.3	9.8	8.5	5.5	4.5	4.4	6.3	5.3	4.8	4.6	5.4	4.8	6.5
TOTAL REVENUE (A+B)	34.3	36.1	42.2	37.9	38.9	51.1	56.6	55.7	53.6	59.5	84.6	85.0	83.0

Source: *Financial Reports and Estimates of Sierra Leone's Revenue and Expenditure*, various issues.

dropped to 15.6 per cent in 1966/67 and by 1967/68 it was only 15.4 per cent. There was some improvement between 1969/70 and 1972/73 when the ratio averaged 17 per cent. In 1973/74 the ratio reached an all time high of 19.6 per cent, but has since declined reaching 14.9 per cent by 1975/76.

Using the broad classification of direct and indirect taxes, indirect taxes (import, export and excise duties) account for the bulk of revenue averaging 58.6 per cent of total revenue. In the period 1963/64 to 1975/76 revenue from this source grew at an annual rate of about 20 per cent. Growth was not uniform however. Whereas export duties receipts increased at an annual rate of 50 per cent, those from import duties went up by only 15 per cent. At the same time, excise duties receipts which rose by about 43.1 per cent accounted for less than 30 per cent of total indirect taxes.

The relatively slower rate of growth of import duties in comparison with export duties is due to the fact that goods imported by the government or by contractors performing work for the government are duty exempt. So are also all imports of industries that have been granted Development Certificates. Another contributory factor is the existence of specific rates of duties on a number of imported items.

Relating indirect tax receipts to GDP, the share of these taxes rose continuously from 7.6 per cent in 1963/64 to 11.9 per cent in 1973/74. It has since declined to 9.7 per cent in 1975/76.

Direct taxes which comprise income tax and taxes on companies and other taxes on mining companies accounted for an average of 24.8 per cent of total revenue over the period 1963/64 to 1975/76. These receipts increased at an average annual rate of 9 per cent although sharp annual fluctuations occurred throughout the period. The share of direct taxes to GDP dropped from 5.1 per cent in 1963/64 to 2.9 per cent in 1965/66, and increased to 6.4 per cent in 1973/74. It has since declined to 4 per cent by 1975/76.

Total current expenditure which was Le 30.4 million in 1963/64 totalled Le 101.1 million by 1975/76. At the beginning of the period total current expenditure was 14.1 per cent of GDP. The ratio increased to 18 per cent by 1965/66. There was a small decrease of 2.3 per cent between 1966/67 and 1968/69. Since then, the share of expenditure to GDP has risen significantly and was 18.8 per cent in 1975/76.

The functional classification of government expenditure is given in Table 8, which shows that "General and social services" have increased their share of total expenditure. Expenditure on economic services however has fallen from 34.5 per cent of total current expenditure in 1963/64 to 17.1 per cent in 1975/76. Thus whereas total expenditure has been rising, expenditure on economic services has been declining.

Not only has the level of capital expenditure been falling, but also not all expenditure on economic services is "productive" in the sense of contributing directly to future income. With the exception of 1963/64 and 1968/69, capital expenditure on economic services has dropped sharply, from 53 per cent to 25.7 per cent.

Comparing expenditure figures with those of revenue given earlier, the observation is that the period under review has been characterized by large overall budget deficits.

Up to 1962/63, revenue grew faster than expenditure with the result that the current account generated some surplus which was transferred to the capital budget. In addition, grants and loans were available from the United Kingdom Treasury. Revenue from this source was a feature of the colonial period. In 1961/62 for example, grants from the United Kingdom amounted to Le 5 million. Thus development expenditure was financed mainly from foreign sources but partly also from surpluses transferred from the current budget. In 1963/64 development expenditure rose by approximately 19 per cent when compared with 1962/63. The increase in development expenditure was made possible by two

TABLE 8

GOVERNMENT CURRENT EXPENDITURE
(million Le)

Items	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
General services	10.2	17.5	22.1	18.9	20.3	21.8	27.0	28.2	28.3	36.8	45.0	53.0	53.0
Social services	7.8	4.6	5.7	4.5	3.6	3.8	5.2	5.9	7.5	8.3	9.4	9.9	11.1
Economic services	10.5	9.2	8.0	6.6	7.1	7.4	9.4	8.7	10.2	10.3	13.0	13.9	17.3
Debt servicing	1.9	2.3	6.1	2.0	8.7	9.5	12.0	4.8	6.2	8.2	13.9	19.3	19.7
TOTAL	30.4	33.6	41.9	32.0	39.7	42.5	53.6	47.6	52.2	63.6	81.3	96.1	101.1

Source: *Financial Reports and Estimates of Sierra Leone's Revenue and Expenditure*, various issues.

special circumstances. First was the tax revenue paid in that year with respect to the two preceding financial periods by the Sierra Leone Selection Trust Ltd. This was the case because, due to differences between the company and the government concerning marketing arrangements, diamonds mined in 1962/63 were not exported that year. The second feature were the loans and grants referred to. These two features of the 1963/64 financial year, which explained its very high level of expenditure, did not recur in 1964/65. To begin with, taxes from the SLST Ltd. in 1964/65 reverted to their usual level. But, in addition, in 1964/65 the Sierra Leone Development Company Ltd. undertook an extensive expansion programme and was permitted to write off a large part of the new investment against tax liabilities. The direct result of these developments was that tax receipts from companies dropped from almost Le 6 million to just under Le 1 million. Added to this, external long and medium term loans were not available on their previous scale. Consequently the 1964/65 budget showed an overall deficit of Le 3.5 million financed by suppliers' credit.

But in spite of the inherent difficulties, the 1965/66 budget provided for a larger deficit (Le 17.9 million), which was financed by suppliers' credit and by the running down of external assets. Against this background of poor budgetary performance the government budgeted for an even larger overall deficit for the financial year 1966/67, that is, Le 21 million as compared with Le 17.9 million in 1965/66.

The financial difficulties of the government were worsened by the financial collapse of the Sierra Leone Produce Marketing Board referred to earlier.

To deal with these difficulties, the government obtained the services of the International Monetary Fund with whose assistance they implemented a stabilization programme aimed at reducing the level of expenditure and preventing further depletion of the exter-

nal reserves. The fiscal policies under the programme aimed at limiting the projected deficit to Le 4.1 million. The measures included freezing of all vacancies in the public services; all ministries and departments were instructed to reduce expenditure on fuel, travel and supplies, and overall expenditure was to be 10 per cent less than the budgeted provision. Capital expenditure was reduced substantially except in those cases where contractual obligations existed. The programme also provided for increases in taxes to yield additional revenue. In the banking sector, ceilings were placed on net credit expansion by the banking system to the government, and the value of government securities to be held by the Bank of Sierra Leone was defined. The liquidity ratio of the commercial banks was progressively raised from 15 per cent to 30 per cent by the end of February 1967. To improve the balance-of-payments' position and external reserves, government imports were reduced and at the same time higher import duties on a number of commodities were introduced. For its part, the IMF made available to the government a stand-by credit of Le 3.7 million, drawings from which were related to anticipated progress in the implementation of the programme.

The programme was fully implemented in 1967 and by the end of the year the budget deficit had been reduced and the drain on external reserves halted.

Encouraged by these developments, a second stabilization programme was introduced in 1968. By that programme it was hoped to reduce the deficit further, and to eliminate it completely by 1969. To achieve this objective, additional taxes were introduced; external borrowings were restricted and a condition for new loans was that they should have a maturity of at least 11 years. In addition to the credit ceiling to the government, the Bank of Sierra Leone's rediscount rate was raised by 0.50 to 6 per cent, the Post Office Savings Bank deposit rate by 1 per cent and the Treasury Bill rate by 0.50 per cent. Finally, borrowings by government corpor-

ations were limited. This time the stand-by credit available under the programme was Le 1.8 million, which was not utilized because of the favourable balance-of-payments situation in 1968/69. The favourable budget and balance-of-payments situation continued in 1969/70, with revenue exceeding current expenditure by Le 15 million and the overall budget in surplus by Le 3.3 million.

The next three financial years, from 1969/70 to 1971/72, recorded overall surpluses of Le 3.3 million, Le 3.8 million and Le 11.4 million respectively. Smaller current account surpluses have been realized since 1972/73, with the result that the overall budget has been in deficit since then.

Supplementary expenditure and the increasing burden of debt repayment are the principal explanations. Supplementary expenditure which in 1970/71 amounted to Le 3 million rose to Le 9 million in 1972/73 and totalled Le 13.7 million in 1973/74. Debt repayment, the other worrying feature of the budget, grew significantly between 1970/71 and 1973/74. A remarkable feature of this growth was the predominance of medium term suppliers' credit. In 1970/71 suppliers' credit was Le 4.7 million or 20.9 per cent of outstanding public debt. By 1975/76 however it had risen to Le 29.9 million or 22.2 per cent of total debt obligations, or 32.1 per cent of total external public debt outstanding. As a result of the growth in total public debt, debt servicing has averaged 17.7 per cent of current revenue between 1967/68 and 1975/76.

10. THE BALANCE OF PAYMENTS

As we have seen, the foreign trade sector dominates the Sierra Leone economy accounting for an average of 30 per cent of GDP. The most significant feature of the structure of exports is the heavy dependence on a few commodities: namely, diamonds, iron ore, bauxite, palm kernels, coffee and cocoa, with diamonds alone ac-

counting for an average of 60 per cent of total export receipts. Agricultural exports together account for 20 per cent of total exports with palm kernels contributing 50 per cent towards this. On the import front, the country relies on external sources for a wide variety of manufactured goods, machinery, capital equipment and foodstuffs.

Information on the unit value of imports during the period under review is available only for the years 1971 to 1975. This information reveals that the average prices paid for imports were significantly higher in 1975 than in the previous years for all groups of commodities, with the largest increases occurring in the mineral fuel and food categories. The unit value of exports of uncut diamonds increased by about 50 per cent between 1972 and 1973. The other items of exports together fetched a higher average unit between 1971 and 1974. But as the unit value of imports rose faster, the country's terms of trade were particularly unfavourable in 1975 as can be seen from the following:

TERMS OF TRADE INDEX

	1971	1972	1973	1974	1975
1. Unit value index of exports	58.1	63.6	89.8	100.0	93.4
2. Unit value index of imports	52.1	57.9	63.6	100.0	110.0
3. Terms of trade index	111.5	109.8	141.2	100.0	84.1

A noticeable feature of the country's balance of payments during the period under study has been the persistent deficit on goods and services. The size of the deficit fluctuated widely during this period. In 1964 the deficit was Le 15.8 million, by 1971 it had risen to Le 21.4 million, reaching Le 28.9 million in 1973, and by the end of 1976 it stood at Le 74.8 million. The main factors accounting for this trend were large increases in trade deficits and

comparatively smaller deficits in direct investment, other private services, freight and insurance.

Imports

Throughout the period under review, with the exception of 1968, the value of imports exceeded exports. Imports which were valued at Le 71 million in 1964 rose to Le 177 million by the end of 1976, with most of the increase occurring between 1973 and 1976. During these years imports went up by Le 61 million. Another period which saw a substantial expansion in imports was the period 1968 to 1970 when imports grew by Le 22 million. Between 1965 and 1967, however, imports had declined by Le 12 million. Food, chemicals, manufactured goods, machinery and sport equipment were the principal items explaining the growth in imports during the period under review. Food imports which in 1964 were over Le 9.8 million rose to Le 20.4 million by 1970 and six years later totalled Le 31.6 million. Although part of this phenomenal rise may be attributed to world inflation, there is no doubt that the large expenditure on food imports is the direct result of the sluggish growth of the agricultural sector, and in particular, the poor rice crops since 1970. Imports of chemicals (including fertilizers) almost trebled between 1964 and 1976, rising from Le 3.8 million in 1964 to Le 14.1 million by 1976. Imports of transport equipment and machinery rose by 93 per cent, that is, from Le 18.5 million in 1964 to Le 32.7 million in 1976. These imports largely reflect government expenditures related to transportation and tractor purchases for the mechanical cultivation of rice. Other contributory items were machinery and equipment in connection with various road development programmes of the government. These include the Lungi-Targrin Road, Mile 47 Lunsar Road, the Ronkolili-Kono Road etc. Furthermore, there were substantial investments in plant and machinery by the mining industry in addition

to the investment in connection with the mining of rutile. Also, the period under review saw a considerable expansion in imports of private and commercial vehicles.

Imports of manufactured goods, which in 1964 amounted to Le 20 million, went up by 167 per cent to Le 53.4 million by 1976. Sierra Leone imports a wide range of manufactured goods largely because the country's manufacturing sector is quite small and of relatively recent origin. As was pointed out earlier, the manufacturing sector contributes less than 6 per cent to GDP, the most significant item being textiles.

The period under review saw marked changes in the direction of imports. In 1964 and 1974 the main sources of Sierra Leone's imports were (in percentage shares):

Countries	1964	1974*
United Kingdom	39	16
Japan	10	9
Western Germany	8	8
The Netherlands	7	5
U.S.A.	5	9
France	3.5	7.8
Eastern Europe	3.6	6.6

* This is the latest year for which this information is available.

Although in 1974 the United Kingdom was still the largest single source of the country's imports, her share had dropped to 16 per cent.

Exports

Sierra Leone's exports are heavily dependent on mineral products, which account for almost 80 per cent of the value of total ex-

ports. Up to 1971 diamonds, iron ore, bauxite and rutile were the main minerals exported. Production of rutile ceased in 1971 due to technical difficulties.

Diamonds are the most important mineral exports, accounting for an average of 77 per cent of total mining exports during the period under review. In fact, diamond exports have dominated total exports to the extent of predetermining the trend in overall exports. At the beginning of our period diamond exports amounted to Le 39.8 million; by 1967 they had declined to Le 30.1 million. This, in fact, was the lowest value for diamond exports throughout the period. The low level of diamond exports in 1967 may have been due to the uncertain political atmosphere at the time and partly to stockpiling of diamonds by the Sierra Leone Selection Trust Ltd., while negotiations between the government and the company were in progress. In 1968 the value of diamonds exported rose sharply, that is, from Le 30.1 million of the preceding year to Le 48.3 million. The improvement in 1968 continued in 1969 when diamond exports totalled Le 63.2 million. The increase was mainly the result of higher world prices for diamonds which attracted high quality gems to the Government Diamond Office. A sharp decline in world market prices of diamonds in 1970 and 1971 led to a drop in exports to Le 50.1 million. By 1976 exports of diamonds had recovered somewhat amounting to Le 70.5 million.

Exports of iron ore, at Le 10.4 million and Le 10.9 million in 1964 and 1965 respectively, were quite high. Thereafter, however, they have declined to Le 9.0 million by 1967. The low level of iron ore exports in 1967 was partly the result of the high cost of ocean freight caused by the closure of the Suez Canal and partly also due to a sharp drop in demand. Between 1968 and 1975 exports of iron ore averaged Le 11.7 million per annum. There was no export of this commodity in 1976, as the company had gone into liquidation during the previous year.

Exports of bauxite which were only Le 0.4 million in 1964 amounted to Le 4.7 million by 1976. The continuing rise in the bauxite exports is due largely to favourable world prices for this mineral.

The first shipment of rutile was made in June 1967. Exports in that year were valued at Le 0.9 million. By 1968 the company was experiencing considerable technical difficulties and in spite of extensive capital investment and modification in mining methods and techniques, production of rutile was very low in 1968. Exports then were only Le 0.4 million. Although there were some improvements in exports after 1969, the company decided to cease operations in 1971. As has already been indicated, a new company was expected to commence production and export in 1978.

Exports of agricultural produce which in 1964 amounted to Le 10.2 million totalled Le 32.1 million by 1976. There was considerable fluctuation in the value of agricultural exports due to fluctuation in prices of palm kernels, cocoa and coffee. To illustrate, the world average unit price per ton for palm kernels was Le 141.4 in 1968, Le 107.9 in 1969, Le 156 in 1970, Le 103 in 1971 and Le 398 in 1974. Similar fluctuations occurred in cocoa and coffee prices.

Throughout the period under review the United Kingdom received most of the country's exports. The share to the United Kingdom averaged 73 per cent up to 1967 but by 1974 had declined to 71 per cent. Sierra Leone's principal export to the United Kingdom is diamonds which are ultimately marketed in the United States. Exports to the United States, which were only about 2 per cent in 1964, rose to 6 per cent by 1974. Largely as a result of the long term contract for the supply of iron ore, Japan's export share has increased from less than 1 per cent in 1964 to 5 per cent by 1974. The share of Common Market countries (other than the United Kingdom) declined from 17.9 per cent in 1964 to 12.4 per cent by 1974. There were no exports to Switzerland up to 1967;

since 1968, exports to that country have averaged 2 per cent of total exports. What has emerged from this analysis of the direction of exports is that, whereas the sources of imports are more diversified, most exports go to the United Kingdom and other countries of the European Common Market, notably Germany, the Netherlands and France.

Invisibles

The invisible account has been in deficit throughout the period. In 1964 the overall deficit on this account was Le 15.4 million rising to Le 24.8 million by 1976. The main components of this amount are direct investment income, freight and insurance, government and other private services, and transportation.

Direct investment income, comprising dividend and interest payments, generated a net outflow of Le 6.5 million in 1964. These outflows fluctuated widely during the period averaging Le 9.2 million. The largest outflow under this item occurred in 1976 when it amounted to Le 11.2 million.

Outflows in respect of freight and insurance went up by Le 9.8 million between 1964 and 1976 rising from Le 6 million in 1964 to Le 15.8 million by 1976. This is hardly surprising since we have noted that there was a substantial rise in imports during the period under review. Outflows were particularly high between 1970 and 1974 when the average was Le 13.1 million. During the years 1964 to 1969 the average was Le 6.7 million.

Government and other private services, which include expenditure by the government in respect of embassies, management fees, and agent fees, generated net outflows throughout the period. The outflows which in 1964 were Le 4.6 million rose to Le 8.2 million in 1969 and Le 10 million by 1970. They declined between 1971 and 1974 but went up sharply thereafter and amounted to Le 16.7 million by 1976.

The only invisible item which showed a net inflow is transportation (excluding travel) which comprises all charges associated with the unloading of imports, airport fees, the supply of tanker oil and all other port disbursements. The net inflows on this item were Le 5.9 million in 1964, increasing to Le 9.5 million by 1970. At the end of 1976, however, the inflow was only Le 6.2 million. The travel account showed net outflows ranging between Le 0.5 and Le 1.5 million.

Investments

A large proportion of direct investment has taken the form of capital investment in the mining industry. Throughout the period under review there was investment in plants and machinery by each of the mining companies. These investments were particularly large in 1964 and 1965 as a result of the expansion programmes undertaken by the Sierra Leone Development Company Ltd. and the Sierra Leone Selection Trust Ltd. In 1969 capital investment rose dramatically to Le 13 million as a result of the investment by Sherbro Minerals. Other direct investments have been in foreign private enterprises. Capitals from external sources have also flowed into governmental authorities and public utilities in the form of loans. Most of these have taken the form of "contractor financing". Under this system, the government engages a contractor on a specific project, arranging for deferred payments to the contractor over a number of years. One third of the government's borrowings during the years 1964 and 1965 took the form of contractor financing. In 1966 half of all government borrowing was in this form.

During the period 1967 to 1969 when the government implemented a stabilization programme, it limited this form of financing development projects; consequently, by 1969 contractor finance accounted for only 10 per cent of total government borrowing. In 1970, contractor finance remained low at 20 per cent; between

1972 and 1976 it rose sharply and at the end of the period represented 45 per cent of all government borrowing.

Other forms of government borrowing are from institutions such as the World Bank and the African Development Bank, and direct government loans from various foreign governments. Taking all these various sources together, total capital inflow during the period ranged between Le 10 million and Le 40 million.

Against these inflows, however, there were outflows in respect of depreciation write-offs and repayment arrangements for contractor finance projects. Even so, net capital inflows during the period under review have been quite substantial and averaged Le 17.7 million per annum.

In summary, the main features of Sierra Leone's balance of payments were large deficits in the trade account, due to the fact that the growth rate of imports far outstripped that of exports. This was aggravated by deficits in the invisible account, with the result that the current account was in deficit throughout the period of study. However, as a result of the large capital inflows in the form of capital investment, private foreign investment and government loans, the overall balance of payments was in surplus.

11. CONCLUSIONS

The objective of this discussion on the structural features of Sierra Leone's economy is to describe the conditions under which the development of the financial system must take place. The selection of the structural features discussed was therefore influenced by this objective. The significance of a large agricultural sector and of a large agricultural population is that most people depend for their income on export receipts. The size of income, however, depends on the vagaries of the weather and the prices at which the commodities are sold abroad. Consequently, the total amount of

domestic financial resources that can be mobilized for development to a large extent depends on the volatility of export incomes.

The implication for the openness of the economy is that the income multiplier is considerably lower than in an economically advanced country. This is because a large percentage of any investment expenditure goes abroad for equipment, machinery, and services of experts and similar expenditure.

The importance of the high marginal propensity to import is that inflationary pressures will be reflected in loss of external reserves and not necessarily through domestic price increases.

As investments are mainly externally financed, dividends and other payments arising from them flow out of the economy, so that the mobilization of domestic financial resources also depends on the extent to which adverse flows can be reduced.

