المركز الافريقي للتنمية والاستثمار

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Sierra Leone Natural Resource Wealth: Forging ahead towards sustainable growth despite the Elements

Sierra Leone's monthly review features her strides to simultaneously mend the losses of the civil war and its long-term economic and social impacts while building a solid economy using her vast natural resource wealth (minerals, forestry, fishing, water, and expanses of land), against the backdrop of the global economic slowdown and the surge of petroleum product prices exacerbated by the Russia-Ukraine conflict. The latter has intensified the energy shortage, increased transaction costs, and created hardship for local businesses and consumers. In 2022, inflation (about 30%) and high consumer prices triggered social unrest from which the government has recovered, and President Julius Maada Bio's Sierra Leone Peoples Party (SLPP) won the April 2023 elections. The review focuses on Sierra Leone's natural resource wealth and forecasted growth despite the socio-economic challenges.

Sierra Leone Natural Wealth

Sierra Leone is a resource-rich country with vast fertile agricultural lands, perennial water resources, fishing, and minerals (diamonds, rutile, bauxite, gold, iron ore, limonite, platinum, chromite, coltan, tantalite, columbite, and zircon), and promising petroleum potential. The civil war (1991-2002) The Sierra Leonean Tragedy), resulted in the loss of over 50,000 lives, the destruction of property and infrastructure, and substantial economic loss and decline. Over ten years after the civil war, Sierra Leone was again drastically affected by the decline in iron ore prices, the Ebola epidemic 2014, the COVID-19 pandemic, and, more recently, the ongoing Russian-Ukrainian war. Below, we lament a few of Sierra Leone's natural resources riches:

Sierra Leone's Agriculture Sector, including livestock and forestry, is the mainstay of the economy. It employs about two-thirds of the labor force and contributes more than 60% of the GDP. The arable land is fertile, blessed with abundant rainfall, a temperate climate, and several rivers show a significant untapped irrigation potential of vast areas ripe for investment. With all its apparent potential for agricultural production, Sierra Leone imports about 80 percent of its food needs. Sierra Leone is suitable to produce various crops, including rice, cassava, maize, millet, cashew, rubber, ginger, vegetables, fruits, sugarcane, and cash crops such as cocoa, coffee, oil palm and livestock.

Sierra Leone is one of the world's richest fishing grounds, with over 500 kilometers of coastline and a continental shelf of 30,000 square kilometers fed by seven significant rivers. The region boasts a viable commercial fish stock, including shrimp, cephalopods, lobster, demersal and pelagic species. Fishery contributes over 10% to GDP and provides an estimated 80 percent of animal protein, with direct employment for more than 100,000 persons and indirect employment to over 500,000 persons along the coastlines (Agriculture and Fisheries - Investing in Sierra Leone).

Rich in minerals, as mentioned earlier, Sierra Leone's domestic revenue from mining was estimated at 10.5% of GDP in 2016 and 11.9% in 2017, compared to 9.8% of GDP in 2015, but it boasts 65% of export earnings and over 3% to employment. According to the MTNDP, one of Sierra Leone's targets is to increase the share of the mining sector's contribution to GDP to 20% by 2023. Minerals and precious metals remain Sierra Leone's principal exports (representing 65.0% of total merchandise exports in 2021), and we believe increasing production, particularly of iron ore, was expected to drive strong export growth of 42.0% in 2022. In May 2022, President Julius Maada Bio commissioned the expansion of the Marampa iron ore mine, with the site expected to produce 3.5mnt this year. The iron ore production was estimated to have increased by 80.0% to 12.8mnt in 2022 (Mineral Exports to Boost Sierra Leone's Growth in 2023).

Sierra Leone has robust mineral policy frameworks guiding minerals for development policy implementation. In 2003, Sierra Leone joined the Kimberley Process to protect the legitimate trade in rough diamonds, and in 2007, enacted the Diamond Cutting and Polishing Act to issue licenses entitling the holder to buy, deal in, export, import as well as cut, polish, crush and set diamonds for trade. In 2006, Sierra Leone joined the Extractive Industry Transparency Initiative (EITI) to improve governance and revenue management in the extractive sector. The Sierra Leone Minerals Policy (2018) and the enactment of several other legislations to protect the country's interests and those of investors, thus opening the country for business.

Conclusions

Sierra Leone has made significant strides in its efforts to lift the country from its dark recent past of a gruesome civil war, which reduced large swathes of the country to a wreckage. Recovering from -20.6% growth rate in 2015 to steady growth of 3 to 4.1% in the following years to 3.9% in 2022 is quite an achievement. It is a feat that should make all Sierra Leonians, proud and duly motivated to work hard not only to sustain this growth but also to use their rich natural resources for the betterment of its population. An already impoverished population and protests cannot sustain an over 28% food inflation. The situation should draw the government's attention to the dire situation in which the population is surviving. Forging ahead, opening the country for national and international investment, and putting the rich natural resources to work for Sierra Leone, despite the elements, must be the collective cry of all.

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Strategic Importance of Remittances for African Economies

In recent years, remittances have emerged as a paramount component of Africa's external financial landscape, directly impacting over 200 million African inhabitants. The importance of remittances to African households cannot be overstated; for a significant number, they demarcate the boundary between mere subsistence and absolute impoverishment, equating to the crucial difference between enduring hunger and securing sustenance.

From a macroeconomic perspective, the decade leading up to 2022 witnessed a doubling of remittance inflows to Africa, culminating in an impressive $100 billion. Notably, this figure eclipses the funds channeled through Official Development Assistance (ODA) and Foreign Direct Investment (FDI). In several African nations, the economic footprint of remittances is evident, accounting for over 20% of their Gross Domestic Product (GDP). This underscores their pivotal role in bolstering these economies. An analytical examination of a study by the United Nations Office of the Special Adviser on Africa (OSAA) elucidates the socio-economic ramifications of remittances. The research posits that remittances engender tangible income-equalizing effects. Furthermore, an inverse relationship between transfer costs and remittance flows is discerned, suggesting that diminished costs bolster the volume of remittances.

Another noteworthy attribute of remittances is their resilience, particularly evident during socio-economic upheavals. A case in point is the COVID-19 pandemic. While myriad external financial sources witnessed precipitous declines, remittances remained notably stable, proffering an economic lifeline to innumerable African families.

In the intricate fabric of Africa's remittance domain, Egypt, Nigeria, and Morocco emerge as predominant nodes, collectively amassing an astonishing 65% of the total remittance inflow to Africa in 2022. However, this surface narrative, while impressive, only unveils a fragment of the broader financial tableau at play. Venturing beneath the veil of formal remittance conduits, a labyrinthine network of informal channels comes to the fore. These clandestine pathways, often circumventing official monitoring and documentation, are significant in the broader fiscal spectrum.

Esteemed institutions, notably the World Bank, proffer an analytical estimation: the volume channeled through these informal avenues could likely be double that of the officially recorded remittances. This presupposes an additional influx of approximately $200 billion, independent of the conventional channels.

When juxtaposing these informal figures with the official remittance data, a holistic volume of $300 billion crystallizes. To contextualize this magnitude within the grander economic narrative of the continent, this sum represents approximately 10% of Africa's entire Gross Domestic Product (GDP) for the said year.

Within the intricate financial landscape of Africa, revelations regarding remittances cast a spotlight on the continent's rich and diverse remittance ecosystems. It becomes imperative for researchers to employ a holistic analytical perspective—one that comprehends not just the manifest, quantifiable financial dynamics but also delves into the vast, albeit intangible, intricacies of informal remittance networks.

A predominant portion of these shadow flows remains rooted in cash-based transactions. These encompass myriad forms: funds physically transported across borders, remittances relayed via trusted intermediaries such as familial connections or cross-border transport personnel, and even unlicensed monetary transfer operators. Among these, the 'hawala' system is a remarkable archetype.

Originating in Southeast Asia during the 8th century, the Hawala system offers a historical testament to the adaptive nature of financial networks. Predominantly favored within the Islamic community, it has transcended its geographical and cultural confines, providing an alternative global fund transfer modality. Contrary to the standardized method of bank wire transfers, hawala operates through an intricate web of 'hawaladars' or dealers. These agents maintain informal ledgers, chronicling credit and debit activities, negating the need for standardized paperwork.

Settlement of debts within the hawala framework can transpire in diverse forms—be it cash, property, or services. However, an unwritten code of trust and honor is central to the system's functioning. Any hawaladar reneging on their obligations is swiftly ostracized, not merely from the hawala network but often from the broader community. Such punitive measures underscore the profoundly ingrained ethos of trust that the system predicates upon.

In the matrix of global remittance mechanisms, the 'Hawala' system, along with similar frameworks, occupies a unique niche, especially when considering the preferences of migrant workers. Such workers, seeking to support their kin in countries of origin financially, often find themselves entangled in the bureaucratic complexities and prohibitive costs of formal banking systems. This predicament is accentuated in economically challenged regions where traditional banking structures are either exorbitantly priced or scarcely accessible. Enter Hawala.

The Hawala system presents a myriad of compelling advantages. Foremost among these is its inherent accessibility. Given its informality, Hawala sidesteps the conventional banking system, rendering it particularly pertinent in areas where formal banking is an elusive luxury. Moreover, the speed and efficiency associated with Hawala transactions are noteworthy. Hawala ensures prompt fund transfers, unlike the often cumbersome and time-consuming processes affiliated with banks.

From a fiscal perspective, Hawala is undeniably enticing. The fees associated with Hawala transactions are typically modest, especially when juxtaposed against the often steep charges levied by banks. This cost-effectiveness becomes particularly pronounced in the context of foreign exchange transfers. Some hawaladars, recognizing the importance of fostering diaspora connections and incentivizing remittances, might even waive these fees for expatriates. Additionally, the ease of transaction underpins the Hawala system's appeal. The procedure is relatively straightforward for users: identify a reputable hawaladar, entrust them with the funds, and the transaction is set in motion: no tedious paperwork, no exorbitant fees, just a system rooted in trust.

While the formal banking system has its merits, alternative remittance systems like Hawala stand out for their efficiency, affordability, and accessibility, especially for migrant workers seeking reliable avenues to support their families in regions where conventional banking might fall short. The significance of remittances in Africa transcends conventional monetary transactions. These financial inflows, irrespective of their modalities or transmission paths, are pivotal in shaping the continent's macroeconomic landscape, socio-cultural dynamics, and development agendas. Remittances are not just about money; they serve as strategic linchpins, underpinning various economic and social structures within African nations. Far from being cursory transfers, they entail profound analytical implications, casting light on the intricate interplay between the diaspora and the homeland and the continual oscillation of capital and its effects. It is essential to understand remittances not merely as economic transfers but as vital agents in the complex matrix of Africa's evolving socio-economic tapestry.

From a macroeconomic vantage, remittances emerge as pivotal agents of stabilization. Their perennial nature often provides a cushion against external shocks, in stark contrast to the more volatile sources of foreign exchange like direct investments or aid. Additionally, on the socio-economic front, remittances play an instrumental role. They act as potent tools for poverty mitigation, channeling funds directly to households, invariably elevating living standards. Simultaneously, they facilitate greater financial inclusivity as beneficiaries increasingly interact with formal banking systems to access these funds. The influx of remittances also fosters human capital enhancement. They effectively bolster long-term developmental prospects by redirecting a segment of these funds towards sectors like education and healthcare. Furthermore, this financial conduit stimulates entrepreneurial initiatives, igniting local economic dynamism and job creation.

Balance of payments, a crucial macroeconomic parameter, too, finds stability through remittances, reinforcing smoother international trade engagements and ensuring efficient debt management. Beyond these tangible realms, remittances subtly enhance cultural ties and social cohesion. They are, in essence, financial embodiments of the diaspora's enduring connection to their homeland.

A symbolic manifestation of the transformative potential of remittances is witnessed in Ethiopia's strategic deployment of diaspora bonds. Aimed at sourcing low-cost capital, primarily invigorated by a sense of national allegiance, these bonds were pivotal in amassing several hundred million USD for the Grand Ethiopian Renaissance Dam project.

The intricate tapestry of African economic development is undeniably intertwined with remittances. When harnessed strategically—primarily through policies optimizing transfer costs and ensuring judicious allocation—remittances have the latent potency to redefine the developmental paradigm of the continent. Brookings. Boston University. World Bank

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World Bank and IMF 2023 Marrakech Summit:

Historical Milestone or Geopolitical Pageantry?

On the heels of the devastating earthquake in Morocco, which resulted in an approximate economic loss of $12 billion, critical global financial decision-makers have redirected their attention towards Africa as a nexus point in the pursuit of a stabilized and burgeoning global economy, particularly in the face of warfare, pronounced socio-economic disparities, and the difficulties of climate change. As a result, for the first time in half a century, the International Monetary Fund (IMF) and the World Bank, two of the world's paramount financial institutions, are convening their yearly assembly on African soil. This shift in venue is symbolic, especially in the context of mounting critiques that these institutions perpetuate a structural underrepresentation of economically less affluent nations.

As a tangible manifestation of their commitment, the IMF and the World Bank have announced tentative plans to augment Africa's representation within their respective executive committees, thus potentially amplifying the continent's voice in international financial discourse. During the Marrakech conference, although granular specifications and resolutions remained in the nascent stages, the overarching sentiment resonated unambiguously.

The eloquence of IMF Managing Director Kristalina Georgieva, as she shared a platform with distinguished African entrepreneurs, encapsulated this sentiment: "We're here, Africa."

In the contemporary landscape of global economics, Africa's ascent as a pivotal actor has been underscored by recent shifts in the policies and focuses of leading financial institutions, and this annual meeting is a particularly salient example of this phenomenon. Historically, the continent's influence on the international economic discourse has been as a spectator and rule-taker. However, as manifested in the declarations and policies of these paramount financial entities, the renewed emphasis on Africa indicates its burgeoning importance in molding the contours of global economic paradigms.

As IMF Managing Director Kristalina Georgieva further opined, "A prosperous 21st century requires a prosperous Africa", highlighting the continent's integral role in ensuring a prosperous global future.

These shifts are not mere rhetoric; tangible commitments and initiatives underpin them. Apart from bolstering Africa's representation by increasing its executive board seats, the IMF and the World Bank delineated explicit objectives for the continent. Foremost among these is poverty alleviation - an enduring challenge that the continent has grappled with, offering timely assistance to nations beleaguered by calamities and the prioritization of climate finance. The latter resonates profoundly in the global context, given the difficulties of climate change and its disproportionate impact on many African nations. A poignant testament to this commitment was the swift financial assistance extended by the IMF after the Moroccan earthquake, materializing as a $1.3 billion loan. Such endeavors underscore these institutions' responsiveness to immediate challenges faced by African nations and their long-term vision for the continent's sustainable growth and resilience.

Navigating the labyrinthine intricacies of global financial aid and economic governance necessitates understanding the power dynamics deeply embedded within. The International Monetary Fund and the World Bank emerge as the primary custodians of these dynamics. Yet, their largest shareholders, predominantly Western nations, influence their decision-making frameworks substantially. The ramifications of this Western-centric orientation permeate various facets of economic governance, with the contentious issue of funding standing out.

These predominant nations, characterized by their economic clout and geopolitical influence, have historically hesitated to sanction a capital increment. Such an augmentation would compel them to allocate more substantial financial commitments and risk tilting the balance of power in global economic governance. The crux of this reservation is not merely fiscal but profoundly geopolitical. This recent gathering on African soil, convened by Western-backed global financial titans, represents more than a mere acknowledgment of the continent's economic potential.

At its core, it underscores a profound geopolitical and strategic reorientation towards Africa. The financial commitments pledged by the IMF and the World Bank testify to this shift. These institutions have committed to channeling billions to rejuvenate economies showing vulnerability.

A tangible manifestation of this commitment is the projected infusion of an additional $50 billion, designated exclusively for African nations. Ajay Banga, at the helm of the World Bank, has an even more audacious vision, forecasting an investment ceiling reaching up to $125 billion. He predicates this on substantial financial ingress from developed economies and, intriguingly, envisages achieving this without any modification to the existing capital framework of the institution.

Yet, beneath the surface of these financial commitments lies a complex tapestry of global realpolitik. The “Africa Rising” narrative, increasingly embraced by the West, does not merely endorse Africa's economic trajectory. In many respects, it is a counterstrategy to mitigate the expanding influence of geopolitical rivals like China, Russia, and Turkey in the continent. As we stand on the precipice of a technological revolution, Africa's significance is not merely circumscribed to its economic potential.

It is a repository of myriad resources, including, perhaps most fundamentally, Critical Rare Earth Minerals (CRMs), indispensable cogs in the machinery of future technologies. Thus, The West's engagement is dual-pronged: recognizing Africa's intrinsic economic value while ensuring unfettered access to these vital resources. Any miscalculation in this engagement risks sidelining the West in the evolving geopolitical landscape. In global financial governance, the Bretton Woods institutions—The International Monetary Fund and the World Bank—hold a position of prominence. Yet, their strategies and commitments, especially concerning Africa, remain under the lens of critical evaluation. While these institutions extend assurances of cooperation and partnership, the litmus test lies in realizing these commitments into tangible, beneficial outcomes for the involved stakeholders. Historically, the actions of these institutions have attracted criticism. A prevalent contention is that, rather than leveling the global economic playing field, their interventions inadvertently widen economic rifts. A significant aspect of this critique hinges on the imposition of austerity measures, which critics argue disproportionately impacts the economically disadvantaged. Such criticisms are not isolated or restricted to lesser-known factions. In a pointed critique, Antonio Guterres, the United Nations Secretary-General, labeled their response to the COVID-19 pandemic as a "glaring failure." His contention centered on the premise that their strategies have plunged many countries into a debilitating debt spiral.

In the contemporary global landscape, the decision to host this critical summit in Africa signifies more than a mere nod to the continent's significance; it foregrounds Africa's burgeoning role within the matrices of global financial discussions. This gesture, however profound, opens up analytical avenues to interrogate the depth of such recognitions. History is riddled with a deep record of international commitments that were unfortunately unable to actualize and ascend the realm of mere rhetoric. Consequently, one cannot help but pose an analytical question: Will this assembly act as a catalyst, engendering a fundamental reconfiguration in Africa's interactions with formidable financial institutions like the IMF and World Bank? Or will it be relegated to the annals of history as yet another instance of promises made but not kept? The implications of this gathering are multifaceted. In the immediate sense, it offers a potential platform for recalibrating Africa's voice and position in global economic governance structures. Looking towards the long-term horizon, this meeting might be the pivotal juncture in accelerating the unlocking of Africa's latent potential economically and geopolitically. However, for this potential to be realized, the discourse and outcomes of this summit must transcend symbolism and culminate in tangible, actionable strategies that honor Africa's intricate socio-economic fabric.

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