Sierra Leone’s economic freedom score is 47.5, making its economy the 167th freest in the 2019 Index. Its overall score has decreased by 4.3 points, with a steep plunge in fiscal health and lower scores for labor freedom, monetary freedom, and business freedom overwhelming improvements in the tax burden, judicial effectiveness, and government integrity. Sierra Leone is ranked 42nd among 47 countries in the Sub-Saharan Africa region, and its overall score is well below the regional and world averages.

Fiscal consolidation measures such as reductions in rice subsidies should be policy priorities. Growth is also hampered by a restrictive regulatory environment, inadequate infrastructure, and weak enforcement of contracts. Protection of property rights is nearly nonexistent. The financial system remains in post-civil war recovery mode and lacks capacity. The government has taken some steps to improve the legal framework, tax administration, and public debt management to address pervasive corruption.

ECONOMIC FREEDOM SCORE

47.5 (DOWN 4.3 POINTS)

REGIONAL AVERAGE (SUB-SAHARAN AFRICA REGION) 54.2

WORLD AVERAGE 60.8

RELATIVE STRENGTHS:
Tax Burden and Government Spending

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):
-2.3

CONCERNS:
Fiscal Health and Financial Freedom

BACKGROUND: Sierra Leone became independent from the United Kingdom in 1961, but a civil war in the 1990s killed or displaced about a third of the population. Ernest Bai Koroma of the All People’s Congress, elected president in 2007 in the first peaceful transition of power, was reelected in 2012. Former junta leader Julius Maada Bio of the Sierra Leone People’s Party won the presidency in 2018. Gem-quality diamonds account for high rates of economic growth and nearly half of exports, but Sierra Leone remains extremely poor, with many depending on subsistence agriculture. Political instability has hindered development of substantial mineral, agricultural, and fishery resources. The 2014 Ebola epidemic killed nearly 4,000, and the country was not declared Ebola-free until 2016.
A deficient legal framework leaves property rights and contracts insecure. There is no land titling system. Low salaries, police unprofessionalism, and lack of resources impede judicial effectiveness. Corruption remains endemic at every level of government. Transparency International’s 2017 Corruption Perceptions Index ranks Sierra Leone 130th out of 180 countries and reports that it is perceived as one of Africa’s most corrupt countries.

The top individual income tax rate has been cut to 15 percent, and the top corporate tax rate is 30 percent. Other taxes include goods and services and interest taxes. The overall tax burden equals 12.2 percent of total domestic income. Over the past three years, government spending has amounted to 22.8 percent of the country’s output (GDP), and budget deficits have averaged 7.4 percent of GDP. Public debt is equivalent to 58.4 percent of GDP.

In an effort to move away from dependence on diamond production, Sierra Leone has taken measures to improve the regulatory framework, but the overall business environment lacks efficiency and transparency. With much of the labor force employed in the informal sector, outmoded labor regulations are futile in application. Local activists protesting the government’s reform plan in 2018 have slowed the removal of fuel and rice subsidies.

The combined value of exports and imports is equal to 79.4 percent of GDP. The average applied tariff rate is a relatively high 10.3 percent. Steps to dismantle nontariff barriers, including the elimination of export permits, have been taken. In general, foreign and domestic investors are treated equally under the law, but state-owned enterprises distort investment flows. About 20 percent of adult Sierra Leoneans have an account with a bank.