

**PROSPECTS FOR BUSINESS
INVESTMENT IN
SIERRA LEONE**

**STATEMENT BY
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MR. CHAIRMAN

DISTINGUISHED DELEGATES AND PARTICIPANTS

I want to express profound thanks to the Organisers of the Congress for the kind invitation to the Bank of Sierra Leone to participate in this august gathering, and the honour conferred on me to serve as one of the speakers.

The Congress no doubt will add value to the global debate and actions required for optimal harnessing and use of the enormous human natural and biodiversity resources of Africa, for the benefit of its teeming population.

My presentation will focus on the huge business potential of a tiny country in West Africa – Sierra Leone, which has had its fair share of conflict

and destabilisation that has characterised the African continent in the past two decades or so.

1. Background

Sierra Leone is a small country in West Africa, bordering the North Atlantic Ocean, between Guinea and Liberia, with a land area of 71,740 sq km. The Freetown Peninsular is one of the World's most natural and beautiful landscapes covering a 174km stretch of coastlines with ideal resort locations and avenues for surfing, Aqua diving, boat racing and deep sea fishing. Bounce Island off the Western Area and Sulima in the South are historic landmarks with slave fortresses depicting the past including the **Amistads** connection.

The country possesses rich marine resources with a Biomass estimated at over 850,000 metric

tons stretching over 210 miles of Atlantic coastline. Mineral deposits are extensive, including the best GEM Diamonds in the World, both alluvial and kimberlite, and vast deposits of Gold, Bauxite, Rutile, Iron Ore and other minerals. The landmass for agricultural cultivation spans over 850,000 hectares, comprising inland valley swamp, bolliland, mangrove, river rain grassland, upland etc. and suitable for the cultivation of rice, coffee, cocoa, oil palm and citrus fruits, to name but a few.

2. Role of Investment and Investment Opportunities

In 1990, the World Bank initiated a study to identify constraints to growth and private sector development in Sub-Saharan Africa (SSA). The study concluded that the most severe constraint

was the scarcity of capital or credit allocation to the Private Sector. Many SSAs have since then embarked on comprehensive structural and financial sector reforms in order to enhance savings mobilisation and credit allocation to the Private Sector for growth and poverty alleviation.

It is now recognised by academics and policy makers in Sub-Saharan Africa (SSAs) that Private investment should be the leading stimulus for economic growth and development.

The Sierra Leone experience is instructive. Output and investment growth have displayed contrasting performance over time. While real GDP has grown from 3.8% in 2001 to 6.5% in 2003, Private Sector investment rose only marginally from 1.3% of GDP in 2001 to 1.7% in 2003.

In response, wide ranging structural and legal reforms have and are being put in place to create a more conducive environment for private investment especially Foreign Direct Investment (FDI). These include revision of the legal framework, which regulates the activities and procedures governing business investment in the country. In this regard, The Investment Promotion Act, 2004 has been formulated and promulgated by Parliament.

In order to eliminate the bureaucratic bottlenecks and cumbersome administrative procedures which had come to characterise the establishment of businesses, the Sierra Leone Export Development and Investment Corporation (SLEDIC) has been transformed into a **One-Stop Shop** with a view to facilitating business registration; assisting investors in obtaining

permits, licences, and certificates required for the commencement of business; and providing relevant information to potential investors. Specifically, SLEDIC will, within seven working days, assist potential investors obtain Business Name Registration Certificate, Certificate of incorporation, Business Registration Certificate, and Business Licence Certificate, and at the request of the investor, facilitate the process of renewal of Business Certificate.

The Investment Promotion Act 2004 provides wide ranging investment incentives, including 100% foreign participation, although joint ventures with Sierra Leonean partners are encouraged. Some of the other investment incentives include:

- Industries are exempted from payment of sales tax for importation of plants, machinery and spares
- Packing materials, plants, machinery and spare parts for industries, agricultural inputs, fertilizers, seeds, pesticides, tractors and spare parts for agricultural machinery shall be exempted from customs duty
- Capital allowance on development and production expenditure shall be an initial allowance of 40% in the year of expenditure and an annual allowance of 20% for the three years succeeding
- Expatriate personnel automatic quota ties to investment capital of varying amounts

- Exemption from payment of payroll tax for exporting \$1M worth of goods, employing 30 indigenous Sierra Leoneans and 40% of Investment capital held by a single contributor
- Tax relief for research and development (applicable to industries)
- Training and technology transfer
- No obligation to acquire export license for goods produced in Sierra Leone except for gold, diamond and any item that may be prescribed by the Government of Sierra Leone from time to time
- Pioneer status – three years tax holiday and sales tax exemption for first three years

- Repatriation of profit – 100% subject to a 5% withholding tax
- Corporate income tax is currently 35%.

In addition to the above, Sierra Leone now offers investment protection through the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, the International Centre for Settlement of Investment Disputes (ICSID) and Bilateral Investment Protection Agreement with the United Kingdom.

In addition to the above, the Investment Code makes provision for arbitration of disputes in accordance with the rules of procedure for arbitration of the United Nations Commission on International Trade Laws (UNCITRAL), and within the framework of other bilateral and

multilateral agreements on investment between Sierra Leone and other countries.

With assistance from the United Kingdom's Department for International Development (DFID), the judiciary has undergone comprehensive reforms, providing the platform for the prompt and fair domestic settlement of investment disputes. The country's membership of the ACP-EC Lome Convention provides the opportunity for duty and quota-free entry of Sierra Leonean products in the European Union. The country has also acquired the visa for participation in the Africa Growth and Opportunities Act (AGOA) which provides access to the American market. Furthermore, there is the Generalised System of Preferences (GSP) which extends preferential treatment to goods of Sierra Leone origin destined for Europe, the US

and Japan. Easy market access to 15 other countries of the ECOWAS sub-region with a population in excess of 210 million is also guaranteed. Plans are also well advanced for the establishment of export processing zones and a free port.

The country has also put in place an extensive privatisation programme. Established under the National Commission for Privatisation Act, 2002, the National Commission for Privatisation is charged with the responsibility for undertaking divestiture and reform of public enterprises.

The Commission has developed a Strategic Plan for Divestiture of Public Enterprises spanning the period 2003–2006, with over twenty enterprises slated for privatisation, including commercial banks, utility and telecommunication companies.

It is expected that improved and efficient services from public utilities such as telecommunications, electricity, sea ports, airports, roads and the water sector will further enhance creation of an attractive environment for the promotion of investment in the private sector. The objective of this policy, is to send a clear message to the international community and investors that Sierra Leone is once again an attractive and friendly environment for business.

Ten years of civil conflict has had devastating effects on the country's infrastructure, with the destruction of road links, telecommunications network and other business infrastructure. Since the conclusion of the conflict, government and donor partners have instituted a series of measures aimed at rehabilitating and further improving the state of the nation's infrastructure.

Several trunk and feeder roads are being rehabilitated, maintained or constructed. Programmes are also in place for efficient electricity generation using natural hydro sources across the country.

Communications and technology has improved tremendously, with land telecommunications restored to most of the districts in the country. At least two internationally recognised mobile phone networks now operate in the country and have taken wireless communications deep into the Provinces, including the mining areas. Plans are underway for more such companies to commence operations. Internet communication is now freely available and at reasonable cost.

For business investment to thrive, the macroeconomic environment has to be right. A

major adverse consequence of the civil conflict was macroeconomic instability characterised by spiralling inflation, depreciating exchange rates, deteriorating balance of payments position, and widening government budget deficits.

Policies and measures have been instituted aimed at addressing these imbalances. The Central Bank continues to pursue restrictive monetary policies based on intensified open market operations and succeeded in reducing the rate of inflation from 66.92 percent (year-on-year) at the height of the war (in 1997) to 14.1 percent at the end of September, 2004.

External shocks, especially the surging world market price of petroleum products, have over the past year resulted in further increase in prices of both consumer and capital goods. The

Central Bank has so far contained the rate of increase and is currently instituting measures aimed at reversing the trend, including an increase in the reserve requirement ratio of commercial banks, the introduction of repurchase agreements in open market operations and other attractive financial instruments, and the development of secondary market trading in financial securities. The exchange rate continues to be market-determined through a weekly foreign exchange auction at the Bank of Sierra Leone. In addition to stabilising the exchange rate, the auction provides an avenue for businesses, with the proper documentation, to secure foreign exchange to undertake external transactions.

The recent establishment of the National Revenue Authority (NRA) clearly points to the

country's desire to mobilise substantial domestic revenues for financing economic operations. This is bound to culminate in reduction in the country's dependence on donor funds and resort to central bank financing of the budget deficit which is potentially inflationary. In this regard, there has been a move away from the administrative determination of interest rates to a system of market-driven money market interest rates which provides for an efficient allocation of resources amongst market participants.

In order to broaden and deepen the financial market and enhance the transmission of monetary policy, the central bank is currently spearheading establishment of a Stock Exchange. The Sierra Leone Stock Exchange was incorporated and registered as a company

limited by guarantee in June 2002. When fully operational, the Stock Exchange will facilitate medium and long term lending and borrowing transactions in money and money denominated instruments, leading to the development of both the private and public sectors. Implementation of the privatisation programme will also be facilitated through the Stock Exchange.

Distinguished participants, the following have been identified in this paper as key policy and strategic measures for attracting investment to Sierra Leone:

- Enhanced investment climate, access to basic services including information, telecommunication, infrastructure, for attracting domestic and foreign direct investment.

- Creating opportunities for markets (domestic/external).
- Sound and stable macro economic environment.
- Enhancing the capacity of business enterprises.
- Access to Financial Services
- Broadening and deepening the financial market through the creation of Capital Market.
- Direct public support to the private sector and
- Sound Legal/Regulatory Framework
 - * commercial/bankruptcy/land/ money laundering laws

I believe that this Forum will add value to the debate and dialogue in building alliances and structures for investment flows to Africa

particularly to small disadvantaged countries like Sierra Leone that have great potential for growth and development.

On this note, let me once again thank the organisers for inviting me to speak in this congress.

I thank you all for your attention.