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Managing development challenges by attracting beneficial FDI to Sierra Leone

Main findings and recommendations of the Investment Policy Review

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Sierra Leone is a country of important investment opportunities, endowed with rich natural resources (including minerals, fertile land, water, fish stocks and energy), a strategic maritime location, abundant labour at relatively low cost, as well as growth potential in various sectors of the economy, including services (e.g. tourism and transport), agro-business and, as expected, mining. Since 2002, the Government has made significant progress, with the support of the international community, towards achieving peace and stability and the promotion of a comprehensive reform programme. In this context, attraction of foreign direct investment (FDI) has become an important element of the national development strategy.

The war in 1991–2001 had very high human cost and a devastating impact on the country's economy. In addition to the loss of thousands of lives, a large number of people became refugees or were displaced. It is estimated that about 30 per cent of the educated people left the country, further adding to the loss of human capital. The war also resulted in the destruction of an already fragile infrastructure network, leaving the supply of electricity, water, transport infrastructure and other backbone services well behind the basic needs of the population.

The experience of post-conflict countries shows that the hard-found peace is often fragile unless concrete policies are in place to generate employment and improve living conditions. In this respect, the current global crisis is a particularly unwelcome development, as it affects negatively economic conditions in Sierra Leone. The deterioration of the economic situation in turn causes a threat to the peace process. In addition to decreasing commodity prices, reduced trade and investment flows and remittances, developed countries may scale down official development assistance, thereby jeopardizing further the development objectives of the country.

Against this background, this review urges the international community to continue supporting the peace and economic reform processes in Sierra Leone. Regarding the specific measures for investment, the review takes note of an open and favourable FDI regulatory regime. The country has an open regime for the entry and establishment of foreign investors. In addition, the overall protection of investors is guaranteed against expropriation. Access to dispute settlement and a free transfer of funds are also guaranteed. The international framework is, however, a bit weaker as Sierra Leone has only three bilateral investment treaties (BITs) (China, Germany and the United Kingdom) and four double taxation treaties (DTTs) (Denmark, India, Norway and the United Kingdom) signed so far, with three of them being more than 50 years old. The government policy should thus target the negotiations of BITs and DTTs with key partners as they would boost the country's FDI attractiveness.

At the specific request of the Government of Sierra Leone, the report outlines the key elements of a strategy to stimulate investment (both domestic and foreign) by tapping into international best practices. The strategy is articulated around two scenarios. Scenario 1, which is consistent with a shorter-term approach, is based on a moderate overall pace of reforms, and would result in maintaining or slightly increasing FDI inflows. Scenario 2 builds upon a longer-term and more ambitious approach, which should pave the way to significantly higher levels of FDI inflows. To fully asses the impact of the inflows on the national economy, the statistical system of data collection and analysis needs to be significantly improved. A better understanding of the role and impact of FDI would in turn enable a better formulation of the FDI attraction policy.

The overall strategy proposed in this report is anchored on six pillars: (a) tackling infrastructure deficiencies; (b) building human capital; (c) establishing a competitive and effective fiscal regime; (d) facilitating business and trade; (e) promoting and facilitating FDI; and (f) targeting investment in selected sectors. The main recommendations outlined in the report can be summarized as follows:

A. Tackling infrastructure deficiencies

The analysis provided in the report confirms the importance of a better infrastructure if Sierra Leone is to attract and benefit from higher levels of domestic investment and FDI inflows. This is particularly true for electricity and transport infrastructure, hard hit by the war and long periods of underinvestment. The report also points to the need to develop an industrial zone to provide potential investors with adequate and efficient access to services, including electricity, water and transport links to the mainland. Furthermore, the report calls for increased involvement in the regional integration processes and programmes aimed at addressing infrastructure deficiencies, which are in turn supported by donors and development banks. While the report recognizes that it will take time to fill the infrastructure gap, it provides a number of recommendations to tackle the infrastructure challenge. While the first three recommendations are consistent with scenario 1 (shorter-term solutions), the last one would unfold in the medium term as suggested under scenario 2.

1. Adopting laws to govern private investment in the transport and energy sectors. The regulatory framework is not clear nor complete enough on the role of, and relationship between, private and public entities in infrastructure development. A new framework is therefore required to govern, among others, partnership agreements, bidding processes, role of other stakeholders (such as civil society), the role of independent regulators in approving and monitoring projects, and competition issues. The absence of an adequate framework and institutional deficiencies has led to legal disputes, which tend to discourage potential investors to undertake new projects.

2. Putting in place a technical task force for energy-related issues. As highlighted in the report, supply of electricity in Sierra Leone is a critical problem, with only 2 per cent of households having access to it. To tackle this problem, a technical task force consistent with the Energy Sector Strategy Note of 2007 should be put in place as soon as possible to move forward the power sector reform strategy and the related action plan. The task force should also define urgently the regulatory framework governing the Special Purpose Company which will be responsible for an important hydro-electric project – Bumbuna – which is currently slowed down by its undefined relationship with the National Power Authority.

3. Launching the development of an industrial zone. Presently, there are very limited manufacturing activities in Sierra Leone due to many deficiencies extensively discussed in the Investment Policy Review (IPR). While the perspective for the exports of manufacturing goods is likely to remain gloomy in the short term, there is a potential to better serve the local market by providing potential manufacturers with a location where they could have easier access to basic infrastructure. In addition to producing simple manufacturing products, the experience gained through such an initiative could pilot start a longer-term multi-facility zone with export promotion features.

4. Using regional programmes for infrastructure development. There are many ongoing and emerging projects in West Africa to fill the infrastructure gap. These projects range from transport corridors, electricity generation and transmission to water supply and sanitation. By engaging fully in the regional integration process and in the New Partnership for Africa's Development (NEPAD), Sierra Leone could tap more benefits from these projects and ensure its fair share in the development of the region.

B. Building human capital

Close to 30 per cent of educated people left the country during the war. As a result, the lack of skilled labour ranks high among the many challenges Sierra Leone faces. Thus, in spite of a large labour force and the abundance of slack labour looking for jobs, investors have difficulties finding workers who possess the right skills for the jobs they can offer. The lack of appropriate training programmes further exacerbates these problems. To address them, the report makes the following proposals:

- Establish a **human capital development strategy,** which should focus on formal education, vocational training, mobilization of the Diaspora and measures to attract foreign skilled workers;
- Facilitate the **entry of skilled workers** by simplifying the procedures to issue work and residence permits and accompany this measure by an incentive package to attract workers. These measures should extend to the important community in the Diaspora to incite them to return and contribute to the development of the country;
- Provide incentives to **business to engage in vocational training**. Formal education is a necessary but not sufficient condition, even in developed countries, for ensuring that workers have the required skills. As the economy develops, this recommendation will become increasingly important to follow up;
- Revise, over the medium term, labour laws that foster a flexible and **competitive labour market** which reflects best practices in comparator or neighbouring countries.

C. Establishing a competitive and effective fiscal regime

An attractive fiscal regime is an essential element of a package that stimulates investment as well as ensuring adequate revenue streams to finance public expenditures. As highlighted in the section on taxation, several measures, both general and sector-specific, should be adopted to ensure the transparency, simplicity, stability and competitiveness of the fiscal regime. In addition to the rapid introduction of the value added tax, the general measures proposed in this report also include, among others, to:

- Review the corporate income tax;

- Remove restrictions on the utilization of loss carry forward;
- Provide equipment (computers, software for an integrated information system) and training to modernize the operations of the National Revenue Authority;
- Negotiate DTTs with key partners and approve the Economic Community of West African States' (ECOWAS) DTT convention.

These general measures should be accompanied by specific ones to stimulate activities in sectors recognized as important by the Government. These include special fiscal conditions for the agro-processing industry, light manufacturing and mining. The measures could also take the form of additional incentives to investors in priority sectors with large-scale employment impact, or those that could self-provide infrastructure.

D. Facilitating business and trade

Sierra Leone has made progress in terms of procedures to establish a business, as highlighted by the latest edition of the World Bank's Doing Business Report. Further changes are, however, needed to identify and eliminate remaining inefficient and unnecessary administrative requirements, particularly with respect to business registration and licensing. The Sierra Leone Investment and Export Promotion Agency (SLIEPA) could play a role in facilitating the registration process through a single window for collection and submission of documentation. Other strategic actions that could further improve the business environment include the effective implementation of the new Companies Act, and the efficient functioning of the newly created Corporate Affairs Commission, which is in charge of harmonizing and streamlining business registration. Its role could be extended to simplifying licensing requirements, computerizing procedures and providing technical training to officials.

A number of measures could also be taken to facilitate trade, notably through improved customs procedures. As investors depend heavily on imported inputs for their activities, unnecessary delays and lengthy procedures impose high operational costs on them. While several programmes are being delivered with support from the international community to strengthen customs operations, the Government of Sierra Leone should move forward with the:

- Approval of the new Customs Law and the finalization of the corresponding regulation to operationalize it;
- Adoption of an integrated customs information system. In this respect, Sierra Leone is in the process of launching, with the support of UNCTAD, the Automated System for Customs Data (ASYCUDA ++). In addition to facilitating the processing of import and export information, such a system will also improve customs declaration, risk management, revenue collection and statistical reporting. It will also allow for the elimination of the costly pre-shipment inspection;
- Implementation of a training programme to build capacity of customs officials.

Another area where the IPR has highlighted significant problems for investors, both domestic and foreign, is land tenure. In Sierra Leone, as in many African countries, there is a dual system of land tenure. The two systems are governed by different laws, making it unclear and difficult for investment decisions. While the reform of land tenure is a complex and long-term endeavour, it is urgent, in the short run, to improve access to secure land right titles and conditions for market transactions.

Finally, an important area of work is the modernization of the laws. Due to the war and a lack of resources prior to it, Sierra Leone is left with numerous outdated laws, some of which date back to the colonial era. Several laws have already been reconsidered since the end of the conflict. However, much more remains to be done. While this is going to be done over a long period of time, priority should be given to laws related to sectors that have been identified as potential sources of growth, such as mining, fisheries and tourism.

E. Promoting and facilitating FDI

The consequences of the war have also had an impact on the image of Sierra Leone vis-à-vis foreign investors. After close to a decade of peace, it still remains challenging to picture the country as a destination for FDI. In this context, it is critical for SLIEPA to offer efficient facilitation services and help project a different image. SLIEPA's services could include:

- **Facilitation services.** SLIEPA should ensure that existing and potential investors have easy access to all information needed throughout their project exploration and realization. Currently, this is not the case. Facilitation services should also include a website which contains all the necessary documents and laws and is regularly updated. Enhancing SLIEPA's capacity to track investors is also desirable. In addition to being used as a source of statistics related to foreign investment, such a system would help the agency to better understand investors' needs and requirements;

- **Aftercare services.** The resources, especially in the short run, may not be available to provide an extensive aftercare programme. However, SLIEPA could consider implementing a programme to foster linkages between foreign-owned firms and local suppliers of goods and services. In addition to fostering the localization of foreign investors and their reinvestment, such a programme would stimulate domestic economic activity while reducing the informal sector, thereby enhancing the beneficial impact of FDI. For example, Sierra Leone could benefit from training programmes delivered by Empretec centres located in the subregion (Ghana and Nigeria);

- **Image-building.** As highlighted in the report, the image of Sierra Leone as a peaceful and stable country needs to be promoted, including with a well-designed and marketed Internet portal. Furthermore, since Sierra Leone will likely not attract large investors outside the mining sector in the short run, it is recommended, as a first stage, to launch a limited programme of investor targeting that will focus primarily on ECOWAS.

In the longer run, SLIEPA could develop as a full-fledged agency providing a wider range of services, including research and analysis, extensive promotional campaigns, aftercare and policy advocacy. Sierra Leone could also, in the longer term, create its own Empretec centre, which would work closely with SLIEPA in view of enhancing the development of small and medium-sized enterprises and promoting their linkages with transnational corporations.

F. Targeting investment in selected sectors

Sierra Leone has good investment potential in different economic activities. Short-term actions should primarily focus on the mining sector, which has traditionally attracted FDI. Longer-term actions should focus on activities such as commercial agriculture, fisheries and tourism, which present a solid potential for attracting foreign investment and should be supported. In this regard, the report proposes:

- **Mining.** The sector will continue to play a leading role in attracting FDI to Sierra Leone. For the country to get its fair share of world FDI in the sector, the Government should review certain taxes and levies with a view to offering a competitive fiscal treatment for investors while at the same time meeting long-term domestic revenue needs. There is also a need to clarify the mandate of the Ministry of Mineral Resources as well as reform and strengthen the institution to enable it to fulfil its mandate. These measures should be accompanied by intensified promotion efforts on the part of SLIEPA;

- **Commercial agriculture.** While the potential of the sector is likely to unfold in the medium-to-long term, some investment could materialize more rapidly through some targeting campaigns. Potential has been recognized in terms of coffee, cocoa, palm oil and ginger exports, and for a few other basic or processed products. Increased prospects for the production of these goods should in turn generate additional investments in irrigation, machinery, fertilizers, tree nursery and seeds. To fully tap the benefits of the sector, there will be a need for establishing phytosanitary inspection and certification capacities;

- **Fisheries.** The coast of Sierra Leone is well known for its abundant wild fish and shellfish. To capitalize on this competitive advantage, investment promotion and sector plans for this industry should target the niche markets for wild fish products where premiums tend to be higher. SLIEPA should play a central role in identifying these markets and potential investors. At the same time, there is also a need to promote the adoption of a regulatory framework which is consistent with the sustainability of these resources. It is also essential to negotiate with the European Union agreements that would re-establish the possibility for exports to that market. This notably includes the development of safety requirements for food processing and facilities for sanitary food inspection and certification.

- **Tourism.** Various efforts are being made to revitalize the tourism industry, but these have been mostly unsuccessful so far due to high operating costs and strong regional competition. By finalizing the strategic plan for the sector and initiating legal and institutional reforms, the Government could pave the way for the development of tourism. Moving forward with pilot projects such as the Western Peninsula Development Project of the World Bank should play a catalyst role for the development of the whole sector. In this regard, a simplification of the process to obtain tourism visas and a review of the fee structure is desirable. To cope with regional competition and trigger new investments, it is recommended to integrate Sierra Leone into a West African tour as one of the stops. Finally, a marketing programme initiated with the assistance of SLIEPA to promote Sierra Leone's image should be put in place, as well as a training programme for potential workers in the sector.

G. Conclusion

Moving the development agenda forward in Sierra Leone is a long-term process. This report has presented concrete policy recommendations to reach such an objective through the contribution of increased FDI inflows. While a solid commitment of the Government is essential, it needs to be complemented by the involvement of the international community. In this context, UNCTAD can also take part in the process and provide the Government of Sierra Leone with assistance in a number of areas, including FDI promotion, FDI statistics, human capacity-building, drafting of laws and treaties, and improving access to – and dissemination of – information.

Overview of the investment policy review programme

Over the past few years, UNCTAD has experienced a growing demand from member States for strategic advice on FDI with concrete and actionable recommendations. The IPR programme, launched by UNCTAD in 1999, provides an independent and objective evaluation of the policy, and regulatory and institutional environment for FDI, and proposes recommendations to Governments to attract and maximize the benefits from increased flows of investment.

The IPR is a multi-phase programme that starts with a country-specific evaluation and advisory report. This report undergoes a national and international technical peer review and intergovernmental review at the ministerial level. The report’s outcome leads to technical assistance activities to support beneficiary countries in implementing the policy recommendations.

The IPR programme has had significant impact in generating consensus among stakeholders and obtaining the endorsement and commitment of national authorities at the highest levels to implement the recommended actions. It also benefits from continued support from donors and has been recognized as valuable for evaluating the investment environment.

The programme has played a key role in consolidating UNCTAD’s solid reputation as a provider of technical assistance on FDI-related policies. Through the IPRs, UNCTAD has advised and assisted many countries in Africa, Asia and Latin America, including least developed countries, post-conflict countries, middle-income economies and economies in transition. Since its inception in 1999, 27 member States have completed IPRs, 3 countries are being reviewed and an additional 27 countries have requested an IPR.

Note: for additional information, see UNCTAD (2008). *The Investment Policy Review Programme: a Framework for Attracting and Benefiting from FDI*. March. New York and Geneva (UNCTAD/ITE/IPC/2008/3).