

**Presentation of the
Investment Policy Review of Sierra Leone**

Geneva, 14 December 2010

**By
James Zhan
Director
Division on Investment and Enterprise
UNCTAD**

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

[slide 1]
Honourable Minister Samura Kamara,
Excellencies,
Distinguished delegates,
Ladies and Gentlemen,

It is an honour and a pleasure for me to present to you the main findings and recommendations of the Investment Policy Review of Sierra Leone. [slide 2]
Since the end of the war, Sierra Leone has been able to achieve remarkable progress, including peace and political stability, and hence a process to re-establish the conditions to enable the economic and social development of the country. The Government has embarked upon a comprehensive reform programme with a view to enhance the business climate, which includes the modernization and harmonization of major investment-related laws. The country has an open regime for the entry and establishment of foreign investors, which can also enjoy a good degree of protection. By making the most of its comparative advantages, which include rich natural resources, a strategic location and an abundant labour force, Sierra Leone is better positioned to reap the benefits of its investment opportunities in numerous growing sectors of the economy.

However, the war has had a devastating impact on both human resources and infrastructure. In addition to the loss of thousands of lives, it is estimated that about 30 per cent of the educated people left the country and basic supplies such as water, energy and transport infrastructure have been particularly hit. Moreover, the experience of post-conflict countries shows that peace can be fragile unless concrete policies are put in place to improve people's living conditions. The global economic downturn also constitutes a risk for the peace process as it might divert the attention of the international community, and reduce trade and investment flows.

[slide 3] The conflict had largely halted all FDI inflows in the 1990s. In the early 2000s, investments by telecommunication companies and renewed mining exploration projects raised FDI inflows to levels similar to the best pre-war years. From 2004 to 2007, investment inflows increased from previous levels, mainly due to the reopening or expansion of mining projects, but declined again in 2008 and 2009 as a consequence of the global economic crisis.

[slide 4] Although levels of investment were relatively high during the 2000s, the relative performance of Sierra Leone remained limited as FDI per capita was lower than that in other ECOWAS countries and least developed countries. The impact of foreign investment has however been positive on infrastructure, notably telecommunications and transport. So far, FDI has had relatively few linkages with the domestic economy, hardly contributed to export diversification and has had a small impact on technology and skills. While there is a very high investment potential in the mining sector, it comes with potential environmental costs which need to be carefully monitored.

[slide 5] Sierra Leone has huge investment potential. The IPR suggests recommendations based on 2 possible scenarios. While **scenario 1** is based on a modest pace of reforms, **scenario 2** reflects an ambitious reform agenda leading to major improvement in the investment climate. FDI can increase significantly if the Government is to follow the over-achiever reform programme. UNCTAD recommends 6 key elements to enable Sierra Leone to follow scenario 2 and stimulate extensively investment in Sierra Leone.

[slide 6] Firstly, the country should tackle its **infrastructure deficiencies**, as they have been hit particularly hard by the war. It should adopt laws to govern private investment in the transport and energy sectors and put in place a Technical Task Force for energy-related issues, which will be responsible for the reform strategy, formulate an action plan and define the regulatory framework. The IPR also recommends launching an industrial zone as it can be a solution to

develop basic infrastructure on a limited and local scale, and use regional programmes for infrastructure development and ensure its fair share in the development of the region.

Secondly, the lack of **skilled labour** ranks high among the challenges Sierra Leone faces. Building human capital is particularly important to pursue the over-achiever scenario. The Government should establish a human capital development strategy, focusing on formal education, vocational training, mobilization of the Diaspora and measures to attract foreign skilled workers. In this regard, simplifying the procedures to issue work and residence permit, together with an incentive package to attract foreign workers, would facilitate the entry of skilled workers. The Government should also provide incentives to businesses to engage in vocational training to ensure that workers have the required skills and revise labour laws to foster a flexible labour market.

[slide 7] Thirdly, although recent progress has been made, the **fiscal regime** could be more attractive in order to attract investment. The corporate income tax could be reviewed while tax simplifications and compliance measures should be adopted. The National Revenue Authority needs additional equipment such as computers and software as well as training to modernize its operations. The Government should negotiate additional double taxation treaties with key partners and approve the ECOWAS convention on double taxation treaties. Specific incentives should be adopted to stimulate activities in strategic sectors, such as the agro-processing industry, light manufacturing and mining.

Another key element to address is the **facilitation of business and trade**, as unnecessary and inefficient administrative requirements remain despite recent changes. Improvement is still needed in business registration and licensing with a specific role for SLIEPA to facilitate the registration process. It is also important to facilitate trade through improved customs procedures, notably by approving the new Customs Law, adopting an integrated customs information

system (ASYCUDA), and implementing capacity-building programmes for customs officials. Besides, due to the dual system of land tenure, it is recommended in the short run, to improve access to secure land right titles and conditions for market transactions. The Government should also modernize the laws related to sectors that have been identified as potential sources of growth such as mining, agro-processing, fisheries and tourism.

[slide 8] The fifth key element of an FDI attraction strategy is to pursue efforts in **investment promotion and facilitation**. In terms of facilitation services, SLIEPA should ensure that existing and potential investors have facilitated access to all information needed throughout their project exploration and realization. The internet website, which forms an excellent basis for all the necessary documents and laws, should be regularly updated. Enhancing SLIEPA's capacity to track investors is also desirable. As for aftercare services, SLIEPA should, in particular, implement a programme to foster linkages between FDI and domestic suppliers of goods and services. As the war has impacted the image of Sierra Leone vis-à-vis foreign investors, SLIEPA should enhance image building efforts through a good internet portal. It should also initiate a regional promotion campaign focusing on ECOWAS members in order to promote investment opportunities and target regional investors.

Finally, Sierra Leone presents clear **sectoral opportunities**. Short-run actions should primarily focus on the mining sector, which has traditionally attracted investment. The Government should review certain taxes, carry out institutional reform at the Ministry of Mineral Resources, and intensify promotion efforts on the part of SLIEPA. In terms of commercial agriculture, FDI targets should be investors attracted by agro-processing activities in specific export products such as coffee, cocoa, palm oil and ginger. Opportunities in commercialization services, trade finance services, farming inputs, inspection and packaging should then also be exploited. In addition, Sierra Leone has a comparative advantage in fisheries. The positioning of investment in this sector should be focused on small

scale production that could capture high revenues from product quality. Sierra Leone should also implement actions, including the development of sanitary food inspection in order to re-establish fisheries exports to the EU. Lastly, to cope with the high regional competition in the tourism sector, the most feasible approach would be to integrate Sierra Leone as part of a West Africa tour stop. Tourism should also be integrated within new image building campaigns.

[slide 9] In order to pursue such a comprehensive reform programme and attract a significant amount of investment, a strong Government commitment to moving the development agenda forward and the implementation of the IPR recommendations, which will require long-lasting and sustained efforts as well as strong coordination of actions and adjustment of strategies. Institutional reforms and human capacity building are also essential elements as well as a strong and continuous support of the international community.

[slide 10] In conclusion, I wish to sincerely thank the Government of Sierra Leone, and its high-level representatives present today for their active and constructive collaboration throughout the IPR process. Our appreciation also goes to the donors, in particular Ireland and Sweden who have provided continuous support to the IPR programme. Great appreciation should also go to our IPR team led by Ms. Dupasquier, and in particular to Mr. Alexandre de Crombrughe, project manager of the IPR Sierra Leone, who has worked very hard to put together the programme of today. Finally, and as expressed by our Secretary-General, the Division on Investment and Enterprise is fully committed to assisting the Government of Sierra Leone in the implementation of the IPR's main recommendations.

I thank you very much for your attention.