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TRADE POLICY REVIEW

REPORT BY

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Revision

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Sierra Leone is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Sierra Leone.

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1 INTRODUCTION

1.1. Sierra Leone continues to make progress since 2005. It successfully conducted two successive peaceful parliamentary and presidential elections in 2007 and 2012. The security remains stable and coordinated by the Office of National Security (ONS) working with the Sierra Leone Police (SLP), the Republic of Sierra Leone Armed Forces (RSLAF) and the International Security Advisory Team (ISAT). Currently, Sierra Leone is contributing to peace in the continent and has troops deployed in Somalia and Darfur as part of the UN international peace keeping mission.

1.2. Sierra Leone aspires to reach middle level income by 2035 and a donor nation where extreme poverty would have been eradicated. By 2035, it aspires to be an inclusive, green, middle-income country with less than 5% of people seeking jobs. Sierra Leone aims to have a stable, export-led economy, based on sound macroeconomic fundamentals, with inflation close to 5% and Government revenues increased significantly to 35% of GDP. It seeks also to have a Private sector-led economy, creating value-added products, and providing jobs for its people. It desires to be a model in responsible and efficient natural resource exploitation among other things. Efforts in realizing this dream have begun by designing and implementing sound Government programmes in various sectors including energy, infrastructure, public financial management and private sector development.

1.1 Overview of Macroeconomic Performance

1.3. Sierra Leone's macroeconomic performance has improved tremendously since the last review. Real GDP[1] almost doubled from Le 5.4 trillion in 2005 to Le 10.1 trillion in 2013, with an annual growth rate of 8.0%. The economy marked double-digits growth in 2012 and 2013 as a result of the recent development in the mining sector. Inflation is gradually falling despite the difficult global economic climate characterized by financial crisis and high commodity prices. National CPI[2] returns to single digit (8.2%) for the first time since 2006.

1.4. In recent years, Sierra Leone achieved significant gains in stabilizing the economy and ensuring broad-based growth. Economic growth accelerated reaching 20.7% in 2013 on account of the resumption of iron ore mining, scaling up of infrastructure investments, and robust activity in the non-iron ore economy.

1.5. In 2014 and 2015, the economy was seriously affected by two major shocks: the Ebola epidemic and the collapse in global iron ore prices, which resulted in the closure of the two mining companies. Thus, the economy contracted by 20.6% in 2015 relative to a moderate growth of 4.6% in 2014, due largely to the lingering impact of the Ebola and the cessation of iron ore mining. However, excluding iron ore, the economy grew by 1.4% from about 0.8% in 2014, reflecting the gradual recovery in agriculture, construction and services sectors.

1.6. Before 2010, the current account deficit was well below 9.0% of GDP. However, the mining boom has led to an increasingly large current account deficit through the importation of mining-related equipment and machineries. The current account deficit peaked at US$1.3 billion (or 44.9% of GDP) in 2011 and fell back to US$512 million (or 10.5% of GDP) in 2013, as two major iron ore investors shifted from investment phase to production phase. During the global financial crisis, the exchange rate of Leone against other major currencies depreciated substantially. As a result, the overall budget deficit excluding grants increased to Le 2.1 trillion (9.4% of GDP) in 2015 from Le 1.7 trillion (7.5% of GDP) in 2014. The deficit, including grants, also increased to Le 0.92 trillion (4.1% of GDP) from Le 0.75 trillion (3.3% of GDP) in 2014. The deficit was mainly financed from external sources. The current account deficit, however, improved to 15.5% of GDP in 2015 from 20.1% of GDP in the previous year, mainly on account of increased donor transfers for post-Ebola support and the reduction of services payments for expatriates. The financial account remained in surplus although it decreased to US$323.1 million (7.3% of GDP) in 2015, from US$541.8 million (10.8% of GDP) a year ago, due largely to reduction in net direct investment and other net investment flows. On the whole, the overall Balance of Payments (BOP) recorded a deficit of US$73.8 million (1.7% of GDP) in 2015, compared to a surplus of US$39.0 million (0.8% of GDP) in 2014. The official mid-average rate between Leone and

[1] Uses 2006 as base year.
[2] End-of-period inflation - Notice that IMF reports Freetown CPI instead.

US dollar depreciated by 45% from Le 2,981/US$ in 2008 to Le 4,349/US$ in 2011 and stabilized in the past two years.

1.7. In response to the Poverty Reduction Strategy Paper 11-Agenda for Change (AfC) and the Poverty Reduction Strategy Paper 111-Agenda for Prosperity (AfP), Sierra Leone raised expenditures on infrastructure (e.g. roads, electricity, and water supply), agriculture, education, and health services. The overall deficit[3] expanded from 1.9% of GDP in 2005 to 5.2% of GDP in 2012. The fiscal position improved in 2013 as Government pursued fiscal consolidation through enhancement in domestic revenue collection and the rationalization of expenditures, with the deficit narrowed to 1.6% of GDP. The fiscal deficit was financed largely by foreign concessional loans and domestic securities market. In addition, domestic interest rates declined dramatically in 2013 on account of Government's stance of zero borrowing from the domestic securities market during the first half of 2013.

1.8. Price stability remains the primary objective of the Bank of Sierra Leone. To this end, the Bank of Sierra Leone continued to use Open Market Operations (OMO) and weekly foreign exchange auction as key monetary instruments. The Monetary Policy Rate (MPR), which has stayed at 20% for many years, was reduced several times[4] in 2013 to reflect the decline of Treasury bill rates in the domestic securities market.

1.9. The economic outlook for short and medium term is bright. GDP is projected to grow at 11.3% in 2014 and an average growth rate of 8.5% is expected for 2015 and 2016. Inflation will remain tamed. Current account deficit will be further reduced with strong export performance. The accumulation of foreign reserves is expected to cover 4 months of imports by 2016. The exchange rate will remain stable due to increasing export earnings, constant FDI inflows, and remittances from overseas. The depreciation of the Leone against major international currencies is fuelling the increase in prices for basic commodities. Since the second half of 2014, the Leone had been under immense pressure, with the Leone depreciating by 13.4% against the US dollar in 2014 and by 13.5% in 2015, reflecting uncertainty in the foreign exchange market. This was precipitated by the huge loss of export receipts, especially iron ore (which forms half of the country’s export) as well as the winding down of Ebola related inflows, coupled with increased demand pressures for trade related imports. Furthermore, market sentiments have had an adverse effect on the developments in the foreign exchange market. This has led to speculative behaviour by economic agents, thereby undermining the smooth operation of the foreign exchange market.

1.2 Real Sector

1.10. Although agriculture remains the largest sector in the economy, its dominance is gradually shifting to the industrial outputs after 2011. A similar declining trend is observed in services sector.[5] The main driver of this changing pattern is the commencement of iron ore mining.[6] Two major iron ore producers are African Mineral and London Mining. The GDP contributions from the other major industries, such as manufacturing, construction, and electricity supply stayed relatively unchanged between 2005 and 2013.

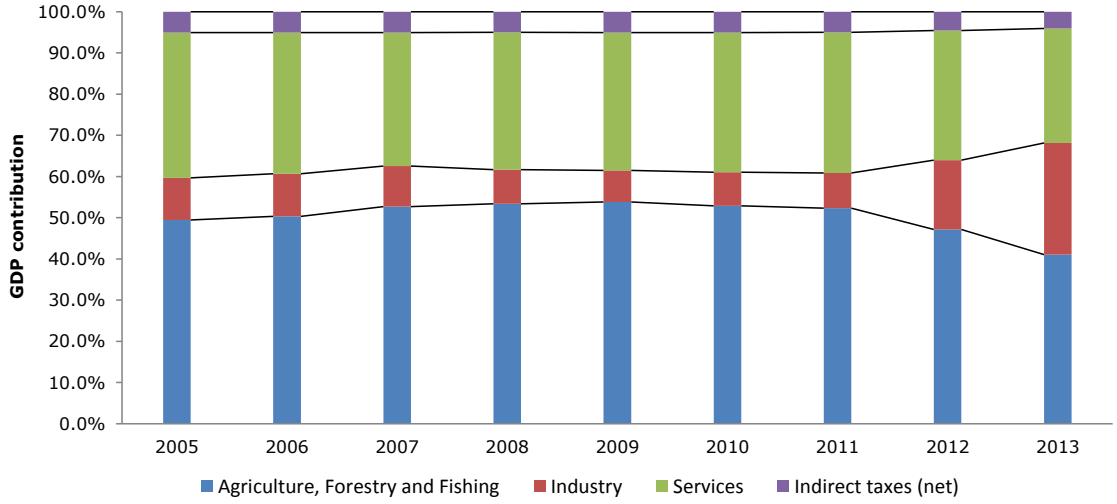
[3] Overall deficit, including grants receivable.

[4] The MPR is lowered to 10% by the end of 2013.

[5] In 2013, within services sector, wholesale and retail contributes the most to GDP (6.8%), followed by transport and communication (6.3%), public services (3.8%), and financial services (3.7%).

[6] The iron ore sector accounts for 8.7% of GDP in 2012 and 19.8% of GDP in 2013.

Chart 1.1 Sectoral contributions to GDP, 2005-13



Source: Statistics Sierra Leone.

1.11. The surge of inflationary pressure during 2009-11 was mainly caused by the global financial crisis and the rise in food and fuel prices. Annual average inflation rate[7] rose from 9.8% in 2008 to 16.6% in 2011. In 2012, inflation started to moderate thanks to the stable exchange rate, increasing domestic food supply, and prudent Government policies. The downward trend continues in 2013, with the inflation rate returns to single digit (8.2%) by the end of the year.

1.3 External Sector

1.12. During the period between 2005 and 2013, domestic exports increased from US$159.0 million to US$1.9 billion, which was largely supported by mounting mineral exports (accounted for 93.4% of total exports in 2013), especially iron ore. The destinations of exports also changed dramatically reflecting China's increasing presence in Africa. The share of exports to the EU fell from 87.4% in 2005 to merely 12.9% in 2013, while the share for other countries[8] (predominantly China) increased from 6.4% to 77.3%.

1.13. Total imports increased from US$300.1 million to US$1.6 billion over the same period, with an averaged 27.7% growth rate. The surge in 2010-12 was the result of foreign direct investment in mining activities. In 2013, imports dropped to US$1.6 billion from US$2.0 billion in 2012. This was largely due to the shift to the production phase by the iron ore mining companies after completing the investment phase of their business plans. The decline in mining-related imports (e.g. machinery and transport equipment) more than offset the increase in petroleum and food import bills.

1.14. The current account deficit widened from US$86.0 million in 2005 to US$1.1 billion in 2012, resulted from growing service imports, mining and construction related imports, and net outflows of income. The deficit was financed primarily by FDI inflows. In 2013, Sierra Leone recorded a trade surplus of US$362.3 million for the first time in recent history. This positive development in the trade balance helped narrowed the current account deficit to US$511.8 in 2013.

1.15. The currency, which depreciated sharply in 2009 and 2010 as a result of the negative impact of the global financial crisis on mineral exports and inflow of remittances, regained its strength in 2011 and has remained relatively stable since then.

1.4 Government Sector

1.16. Sierra Leone continued to implement the modernization Plan of the National Revenue Authority including the introduction of the Automated System of Customs Data (ASYCUDA ++),

[7] The end-of-period inflation follows the same trend.
[8] The EU, USA, Japan, Switzerland, and ECOWAS members are excluded.

which now automates customs clearance procedures; introduction of the tax payer identification numbers (TIN) to tackle tax evasion and tax avoidance; broadening the tax base with the introduction of the Goods and Services Tax and formation of the Domestic Tax Department (DTD) that incorporates both GST and Income Tax Departments. Domestic revenue collection increased from 8.6% of GDP in 2005 to 12.8% of GDP in 2013[9] largely reflecting the improvements in revenue collection monitoring and the decline in duty free exemptions. The recent development of iron ore mining greatly enlarged the tax base by adding more income taxes, royalties, and licenses fees.

1.17. Sierra Leone's expenditure was re-oriented to enhance investment in priority infrastructure projects such as roads, energy, and water supply to support economic growth and poverty reduction. Overall expenditure increased from 18.0% of GDP in 2005 to 20.4% of GDP in 2012 and fell to 14.8% of GDP (amounted to Le 3.2 trillion) in 2013. The decline was mainly due to the reduction in interest payments and domestic capital expenditure.

1.18. Since the beginning of 2013, Sierra Leone adopted a policy of zero borrowing from the banking system in order to ease the crowding out effects on the private sector and to correct commercial banks' strong preference for Government securities, which offer higher interest rates, over loans to private sector. The policy has led to a remarkable reduction in domestic interest rates and consequently savings from interest payments. The drop in domestic capital spending was mainly due to the Government's efforts to restore budget credibility[10] by rationalizing expenditures and introducing fiscal disciplines to MDAs. As a result, the overall deficit expanded from -1.9% of GDP in 2005 to -5.2% of GDP in 2012 and narrowed down to -1.6% of GDP in 2013.

1.19. Sierra Leone developed a comprehensive national debt law in 2011. This legislation sets out the framework for public sector borrowing at all levels of Government and provides a clear approach to effective public debt management practices. It also re-enforces the procedures required for sound public debt strategies, policies, reporting. Debt Sustainability Analyses carried out consistently indicate that Sierra Leone's debt remained sustainable with moderate risk of debt distress.

1.5 Monetary Sector

1.20. The Bank of Sierra Leone primarily relies on Repurchase Agreements (Repo/Reverse Repo), known as the Open Market Operation, to maintain domestic price stability. During 2006-13, Money and quasi-money (M2)[11] are more than tripled from Le 900.5 billion to Le 4.2 trillion, mainly due to the massive expansion of domestic credits. Over the same period, reserve money increased from Le 340.2 billion to Le 1.2 trillion. Hence a rising money multiplier[12] from 2.65 to 3.53 was observed.

1.21. Monetary Policy Rate, the signal of monetary policy stance, is determined by the Monetary Policy Committee based developments in the domestic and international markets. In response to Government policies, domestic interest rates which had remained high during the last decade have begun to decline. The interest rates on Government Treasury Securities are currently ranging between 3.4-9.5% compare to 19.0-20.1% in 2005.

1.22. Weekly foreign exchange auction has been in operation, since 2000, to complement the existing foreign exchange sources in the banking system and facilitate the importation of essential goods including rice, fuel, raw materials and intermediate goods for manufacturing industries.

[9] The commencement of iron ore mining in 2011 changed the tax base dramatically. Hence non-iron ore GDP is used here for comparison.

[10] For the past three years, domestic capital expenditure recorded significant overruns resulting in the build-up of arrears. Strengthening budgetary control, especially on the domestic capital budget was accorded top priority.

[11] Includes foreign currency deposits.

[12] Money multiplier = *M2 / Reserve money.* It measures the maximum amount of money that can be issued by commercial banks given unit of central bank money.

2 SECTORAL POLICY ANALYSIS

2.1. Sierra Leone's key productive sectors continue to be agriculture, mining, fisheries and tourism. Sierra Leone has prioritized these sectors in its national development agenda as they have the potential to create employment, improve livelihoods and improve the standard of living of the people.

2.1 Agriculture

2.2. The agricultural sector (including livestock, forestry, and fisheries) is the backbone of Sierra Leone's economy. Its contribution to GDP exceeded 50% until 2012, when it declined to 42% due to the boost in the mining sector. The sector employs about 75% of the labour force. Crop products are by far the most important output. Between 2005 and 2012, their share in the agricultural GDP increased to 70.9% (up from 63.6%). Rice and cassava are the two major crop products. Between 2006 and 2012, the production of rice paddy doubled to over one million tonnes, owing to the implementation of policies geared toward increasing the productivity and extending the cultivated area. Over the same period, the production of cassava increased fourfold as a result of Government's support to farmers through the provision of processing equipment and improved planting materials.

Table 2.1 Evolution of crop production and livestock, 2006-13

Crop	2006	2007	2008	2009	2010	2011	2012	2013
Food crops ('000 metric tonnes)								
Paddy	552.0	562.0	588.0	680.1	888.4	1,026.7	1,037.7	
Maize	16.2	20.3	22.9	23.5	44.5	51.4	53.2	..
Cassava	1,120.6	1,456.8	1,893.9	1,988.6	2,818.6	3,250.0	6,261.2	..
Sweet potatoes	99.9	104.9	110.2	113.5	177.0	206.2	392.0	..
Pulses	48.0	52.0	58.0	59.0	70.0	82.0	81.0	..
Cash crops ('000 metric tonnes)								
Cocoa	30.9	35.5	40.9	93.1	107.1	112.5	..	..
Coffee	76.9	88.4	101.7	116.9	134.7	141.4	..	..
Oil palm	1.6	1.6	1.9	2.9	3.4	3.6	..	..
Livestock ('000 heads)								
Cattle	271.3	325.5	390.6	470	517	568.7	625.6	688.1
Sheep	326.7	392	470.4	620	682	750.2	825.2	907.7
Goats	382.1	458.5	550.2	730	803	883.3	971.6	1,068.8
Chicken	4,161.8	5,202.3	6,502.9	8,600	9,460	10,406	11,446.8	12,591.3
Ducks	389.1	486.4	608	729.6	802.5	882.8	971	1,068.1
Rabbit	5.9	7.4	9.2	11.1	12.2	13.4	14.8	16.2
Pigs	23.0	28.7	35.9	43.1	47.4	52.1	57.3	63.0

.. Not available.

Source: GOSL/MAFFS.

2.3. However, there are key challenges facing the sector. These include inadequate rural financial services, limited large scale irrigation facilities, weak rural infrastructure, and weak extension services, heavy reliance on rain fed agriculture, weak capacity in research and statistics and low value addition.

2.4. To this end, in 2009, the Ministry of Agriculture Forestry and Food Security developed the National Sustainable Agriculture Development Plan 2010-2030 (NSADP), in line with the framework of the Comprehensive African Agriculture Development Programme (CAADP) to support government's vision for Agriculture. The NSADP focuses on four major investment sub-programmes: commodity commercialization, infrastructure development, private sector promotion, and sector coordination and management.

2.5. With the support of the development partners, various programmes are now been rolled out. Key amongst these is the Smallholder Commercialization Programme (SCP) which was launched in 2010, with the aim of moving the sector away from subsistence to commercialization thereby increasing productivity, value addition, market access expansion, provision of adequate rural financial services, and the development of small-scale irrigation projects.

2.6. The Sierra Leone Produce Marketing Company (SLPMC) was established in 2013 to operate as the primary exporter of agricultural produce while guaranteeing fair prices to farmers. Organize groups into cooperatives. In February 2014, the Government approved the national cooperative development policy, in order to guide the cooperative sector. The Government provide funding to cooperatives. However, it does not have a monopoly over the export of agricultural produce. Its activities cover cocoa, coffee, rice, cashews, sorghum, and palm oil (including industrial palm oil).

2.7. On the export side, there is a 2.5% tax on certain cash crop exports, including cocoa and coffee. Some agricultural products are subject to export ban (timber), licensing or permit requirements (agricultural produce, plants, and charcoal).

2.8. In 2009, the Government adopted a set of incentives specific to investors in the agriculture sector. These include complete exemption from corporate income tax until 2020, and 50% exemption from withholding taxes on dividends. Investments in tree crops and rice are eligible for a ten-year tax holiday. Businesses in the agriculture sector, like in most of the other sectors, are eligible for full duty exemption on their imports of machinery and equipment. In addition, they are entitled to full exemption on parts and other equipment for three years, and a reduced rate of 3% on any other raw material. Seeds and fertilizers are exempted from import duties and from the goods and services tax. Businesses in the agriculture sector are allowed to fully deduct from their taxable base, expenses incurred on research and development, training, and export promotion.

2.2 Fisheries

2.9. The fisheries sector currently contributes about 10% to the country's GDP and fish is a major source of animal protein for over 80% of the country's population. Between 2006 and 2013, its contribution to GDP varied between 5% and 7%. The sector employs about 100,000 persons directly and an estimated one million people indirectly mainly engage in fisheries and fisheries related activities (including related processing). The sector can be subdivided into: the capital-intensive industrial subsector, operating mostly off-shore; the low-technology artisanal fishery, operating in the in-shore marine fisheries; and the aquaculture and inland fisheries subsector. Between 2005 and 2010, the production, largely derived from artisanal fishing, averaged 135.8 tonnes.[13]

2.10. The sector is mainly challenged by the illegal, unreported and unregulated fishing (IUU) which is estimated to cause an annual revenue loss of US$30 million. Sanitary and phytosanitary issues in fishing also remain a problem. At present Sierra Leone is struggling to meet international standards, a factor that has made it difficult to take advantage of the EU Market.

2.11. Sierra Leone therefore took steps to reduce the IUU and decided in 2010 to close their international shipping registry to foreign owned vessels. Government with the support of its development partners engaged in major infrastructure investments including the construction of fish processing plants, dry dock facilities, vessel repair operations, and a new fishing port.

2.12. In 2010 Sierra Leone developed a Policy Framework for Fisheries with the goal of turning fisheries into an ecologically sustainable and economically viable sector. Sierra Leone's strategy for the sector includes promoting freshwater fishing and aquaculture, and establishing a semi-industrial fishing subsector operating in the inland waters.

2.13. Support has been received from various development partners (in various forms) including the EU and FAO to improve the operations of the sector. Other key partners in the sector include the World Bank which is supporting the West Africa Regional Fisheries Programme (WARFP) which Sierra Leone is benefitting from.

2.3 Tourism

2.14. Sierra Leone's tourism sector since 2005 has been growing steadily. The tourism sector contribution to GDP since 2006 has been around 7%. Estimates indicate that tourism's annual contribution to GDP was around US$25 million in 2007, growing to around US$37 million in 2011. The tourism sector accounted for US$42 million of Government revenue generated in 2012,

[13] Estimates and information provided by the Ministry of Fisheries and Marine Resources.

coming from local hotel accommodation, restaurants, transportation, and souvenirs. The number of employees in the tourism sector reached an estimated 5,600 in 2012. Since 2006, the number of arrivals by air has nearly doubled to 59,730 visitors (Table 2.2). Nearly half of the visitors travelled for business purposes.

2.15. Sierra Leone's tourism assets include its beaches, tropical environment and scenery, the diversity of its wildlife, and its cultural heritage. Development of the industry has suffered from the decade-long political instability in the country. As part of its strategy to promote the concept of "root tourism", the authorities are undertaking efforts to restore some historic sites such as the Bunce Island Facilities.

Table 2.2 Basic indicators in tourism,2006-12

Year	2006	2007	2008	2009	2010	2011	2012
Arrivals	33,704	32,223	35,670	36,775	38,615	52,442	59,730
No of hotels	22	25	28	27	33	37	22
No of employees	2,620	2,583	3,238	2,940	3,650	4,687	2,620
Contribution to GDP	7.5	7.2	7.0	6.9	7.0	7.2	5.9

Source: National Tourism Board.

2.16. In a bid to revive the sector, Sierra Leone in 2007 developed a seven year Tourism Strategic Plan, with support from the Integrated Framework. Sierra Leone in 2009 as part of its National Investment Policy, adopted a set of incentives for the development of the tourism industry that includes: a reduced-rate of 15% for the corporate tax during the first five years of a new investment (instead of the standard rate of 30%); a duty-free treatment for the importation of materials, machinery and equipment used in new construction, and for extension or renovation of existing tourism-related facilities (provided that such materials are not easily available locally); and a three-year exemption from the payroll tax for up to six non-national employees (provided that the skills are not available locally).[14] The sector continues to enjoy a number of significant investments in hotels by the private sector as well as improvement in roads and other tourist related structures by the Government. Big entities like Radisson Blue and Hilton are now investing in the sector.

2.17. Notwithstanding all these, the sector still remains challenged by limited infrastructure, Sierra Leone's international image, the relatively high costs of travelling to Sierra Leone, the weak institutional and legislative frameworks for the sector and the long-term sustainability of key tourist sites.

2.18. Sierra Leone's overall goal in the medium term therefore is to have an eco-friendly tourism sector which can compete with other West African tourist hubs in terms of value-for-money, and ensure jobs for Sierra Leoneans.

2.19. Sierra Leone's effort has been complemented by the Enhanced Integrated Framework (EIF) to the tune of US$2,990,000 to implement the Sustainable Tourism and Promotion Project geared towards developing an Eco tourism policy, marketing Sierra Leone internationally, rehabilitating the Hotel Tourism and Training Centre (HTTC) and improving five key product sites. Sierra Leone and UNESCO and have also started the process of declaring three key sites as world heritage sites. These include the Bunce Island a slave fort which was renounced during slavery, the Old Fourah Bay College, the oldest college in West Africa and Kings Yard Gate.

2.20. Sierra Leon's overall goal in the medium term therefore is to have an eco-friendly tourism sector which can compete with other West African tourist hubs in terms of value-for-money, and ensure jobs for Sierra Leoneans.

2.21. The direct contribution of Travel & Tourism to GDP was Le 374.6bn (1.5% of total GDP) in 2014, and 0.4% in 2015, and to rise by 5.8% pa, from 2015-2025, to Le 663.7bn (1.6% of total GDP) in 2025. The total contribution of Travel & Tourism to GDP was Le 887.3bn (3.6% of GDP) in 2014, and 0.1% in 2015, and to rise by 6.1% pa to Le 1,601.1bn (3.9% of GDP) in 2025. In 2014 Travel & Tourism directly supported 21,500 jobs (1.7% of total employment). This is expected to rise by 3.0% pa to 31,000 jobs (1.9% of total employment) in 2025. In 2014, the total

[14] Travel & Tourism Economic Impact 2015 Sierra Leone.

contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 4.0% of total employment (49,500 jobs). This is expected to rise by 3.1% pa to 73,000 jobs in 2025 (4.5% of total). Visitor exports generated Le 120.4bn (1.1% of total exports) in 2014. This is forecast to grow by 2.7% pa, from 2015-2025, to Le 158.9bn in 2025 (0.9% of total).[15]

2.4 Manufacturing

2.22. Results in this sector since the 1st Trade Policy Review has been mixed. The manufacturing base is still narrow with a concentration on a few commodities, namely: beverages, plastics, paints and cement. According to UNIDO, in 2012, Sierra Leone's manufacturing sector contributed only 2% of the country's GDP, significantly below the average 7.7% of GDP recorded for comparable African 'Least Developed Countries (LDCs)'. Moreover, Sierra Leone's manufacturing value-added *per capita* was only one-fifth of the corresponding average for African LDCs. Only around 2% of jobs in Sierra Leone are in the manufacturing sector, which is dominated by informal small and medium-scale enterprises using simple, labour-intensive technologies.

2.23. The sector remains challenged by weak infrastructure, a small domestic market, shortage of skilled workforce especially women, inadequate and unreliable supply of raw materials (e.g. palm oil for soap, granite chips for cement, fruit for fruit juice), high cost of capital limiting the sector's capacity to expand and weak coordination, in the sector.

2.24. Sierra Leone therefore continues to work with its development partners including GIZ and UNIDO to remove the major infrastructural and market constraints that limit the sector's growth and to increase sector-wide output growth. In this regard, the World Bank in collaboration with the Government are now implementing phase one of the Growth Poles Program. Sierra Leone also refurbished the Industrial Growth Centers to promote value addition activities. Government is also participating in regional integration initiatives such as ECOWAS Trade Liberalization Scheme (ETLS) and Common External Tariff (CET) to enable manufacturing industries take advantage of the larger regional ECOWAS market.

2.25. Sierra Leone is developing an Export Development Scheme and is in the process of setting up a SME Fund to support small and medium enterprise (SME) promotion and industrial development.

Table 2.3 Selected products in the manufacturing sector, 2009-14

Product	2009	2010	2011	2012	2013	2014
Beer, stout, and maltina ('000 cartons)	859.1	996.9	1,237.2	1,199.9	946.5	1,001.7
Acetylene ('000 cubic feet)	168.9	166.2	199.6	191.6	235.1	296.7
Oxygen ('000 cubic feet)	244.7	227.5	267.4	230.2	273.6	265.3
Paint ('000 gallons)	149.9	221.2	204.0	201.1	233.1	211.0
Confectionery ('000 lbs)	3,054.9	2,947.9	3,469.9	3,164.5	3,516.3	3,207.4
Cement ('000 tonnes)	236.2	301.0	317.9	335.4	313.4	303.1
Soft drinks ('000 crates)	1,541.8	1,962.0	1,881.3	2,180.0	2,261.8	1,502.8
Soap (tonnes)	585.7	422.0	503.2	643.2	633.6	664.6
Flour ('000 tonnes)	11.4	9.6	13.4	23.2	..	..

.. Not available.

Source: Statistics Sierra Leone.

2.5 Mining

2.26. The sector accounts for about 90% of export revenues annually. Diamonds, and recently, iron ore, are the main minerals exports. In 2010, the country was the 10th largest producer of diamond (by volume), and the 3rd largest producer of rutile. The oil and gas sector is also promising since the announcement of the discovery of oil in the deep water in 2009. Sierra Leone recently had a successful third petroleum bid round for the award of nine open offshore petroleum

[15] Travel & Tourism Economic Impact 2015 Sierra Leone.

exploration block permits. With such continued investment, there is prospect for Sierra Leone becoming an oil producing country.[16]

Table 2.4 Mineral production and export, 2009-14

Mineral	2009	2010	2011	2012	2013	2014
Production (volume)						
Diamond ('000 carats)	400.4	437.6	376.5	532.9	612.4	593.6
Bauxite ('000 tonnes)	742.8	1,089.1	1,457.5	734.5	654.1	1,178.6
Rutile ('000 tonnes)	63.9	68.2	68.0	94.5	122.1	115.1
Zircon ('000 tonnes)	0.0	0.0	7.1	22.5	128.3	2.4
Ilmenite ('000 tonnes)	15.2	18.2	14.7	21.4	32.5	35.8
Gold (ounces)	5,356	8,690	5,284	4,345	3,099	1,396
Iron ore ('000)	0.0	0.0	137.9	967.9	7,482.2	17,497.6
Exports (million US$)						
Diamond	78.3	113.5	129.8	161.7	185.7	..
Bauxite	18.7	31.1	39.0	17.1	13.8	..
Rutile	35.9	40.6	34.4	171.7	129.6	..
Ilmenite	0.9	2.7	4.4	3.8	2.9	..
Gold	4.8	9.3	7.3	5.7	3.7	..
Iron ore	0.0	0.0	..	357.0	1,064.4	..

.. Not available.

Source: Ministry of Mines and Mineral Resources 2014.

2.27. Over the years, the sector has been challenged by resource governance and corporate citizenship issues. As activities in this sector gradually transform into the production phase, The Sierra Leone Extractive industries transparency Initiative was established, Firstly to full verify and publish company payments and government revenue from Oil, Gas and Mining and secondly to create an in-country stakeholder group to steer the process of accountability and transparency in the management of wealth generated from the extractive sector.

2.28. Sierra Leone, also adopted a new Mines and Minerals Act in 2009. It also established the Minerals Advisory Board as the body in charge of monitoring the implementation of minerals related polices, advising and making recommendation to the authorities, and formulating recommendations on minerals-related policies. The Board comprises representatives from the Ministry, local governments, the mining industry, and the civil society.

2.29. Sierra Leone also passed the National Minerals Agency Act in 2012 creating the institutional framework the National Mineral Agency through which the mineral sector will be effectively managed. The National Minerals Agency is expected to provide effective and efficient licensing, geological services and regulatory agency services in a consistent, accountable and transparent manner.

2.30. Sierra Leone was recognized as Extractive Industries and Transparency Initiative (EITI) Compliant by the international EITI Board on 26 April 2014 joining 26 other countries that have met the requirements of the EITI Standard.

2.31. Incentives in the mining sector include full deduction of fees related to prospection and exploration activities from taxable income; a deduction of 40% of production costs from the taxable income during the first year of activity; and a 10% amortization of start-up costs. Individuals may also deduct 50% of some investment expenditures from their personal income taxes, up to a limit of US$150,000. Sierra Leone has participated in the Kimberley Process Certification Scheme (KPCS) since its inception, in 2003. Accordingly, Sierra Lone exports diamonds only to participating countries. The certification process was formally incorporated into Sierra Leone's legal apparatus in 2009.

2.32. In 2007, the Parliament enacted the Diamond Cutting and Polishing Act, subjecting diamond cutting and polishing activities to licensing requirements. A licence, issued by the Directorate of

[16] Agenda for Prosperity – PRSP111. Promoting Manufacturing for Value Addition, p.35.

Precious Minerals Trading for a period not exceeding five years, gives the holder the right to deal in, export and import, as well as cut, polish, crush, or set diamonds. It can be renewed indefinitely for periods of five years each. Only licence holders are allowed to export cut and polished diamonds. Product is subject to valuation by the Gold and Diamond Department. The licensee must pay the National Revenue Authority a duty of 0.5% of the difference between the certified value of the unpolished and polished diamonds. Small-scale mining lease holders pay a royalty fee of 5% of the export value, and a 1% valuation fee. Individuals exporting on an ad hoc basis, such as tourists or exporters interested in testing the market, may obtain a special dispensation from the licensing requirement (section 4.3). However, they are charged an extra 2% in addition to the 3% export tax. Any equipment used in the cutting and polishing of diamonds may be imported duty free.

2.33. Since 2011, the the export tax on diamonds has been reduced to 3% (from 6.5%). It is allocated, in terms of percentage points: 0.75 to the local community, 0.75 to the Directorate of Precious Minerals Trading, 0.70 to a special treasury account, 0.25 to a monitoring fund, 0.40 to the Independent Valuator, and 0.05 to a Rehabilitation Fund, a Public Information Unit, and the Precious Minerals Monitoring Team. The Government has also been negotiating an agreement with other Mano River Union member states, in order to harmonize diamond royalties and export taxes.[17] Gold exports are subject to an export duty of 3% of their f.o.b. value.

[17] The Alluvial Diamond Mining (Amendment) Rules, 2006. Viewed at: http://www.sierralii.org/sl/legislation/statutory-instrument/2006/15.

3 TRADE ENVIRONMENT

3.1. Since 2005, Sierra Leone's trade policy environment has been part of a broader policy framework geared towards poverty reduction generally. In particular, deliberate interventions have been made to improve the regulation and legal regime; remove trade distorting policies and practices; build capacity of institutions responsible for policy formulation, implementation and monitoring; ensure appropriate human capital and skills in the private and public sectors; and mobilize resources towards providing trade facilitating infrastructure.

3.2. In order to improve trade policy formulation and planning, Sierra Leone and her development partners supported the Statistics Sierra Leone – SSL to ensure effective data collection compilation and dissemination. It also encouraged the Bank of Sierra Leone to provide trade related data which support trade planning. This notwithstanding, trade statistics still remains a constraint as there is limited coordination in data collection compilation and dissemination.

3.3. In 2010, Sierra Leone replaced its manual customs clearance system with the Automated System for Customs Data (ASYCUDA). The ASYCUDA++ platform is currently installed at the main customs office in Freetown, the Queen Elizabeth Port, the Lungi International Airport and at Gbalamoya, a common border post with Guinea. The implementation of the ASYCUDA system helped Sierra Leone in its revenue collection drive and the provision of trade statistics. Sierra Leone is working on extending the system to other border crossing points in Baedu, and Jendema at the Sierra Leone – Liberia boarder in the coming years. There are challenges of connectivity and the reliability of electricity supply however. But by and large the ASYCUDA has contributed to increase the efficiency of the customs administration. The processing and clearance time has been reduced considerably, to as short as four hours for consignments that do not require a customs examination.

3.4. Sierra Leone also passed the Customs Act 2011 as the main law governing customs procedures in Sierra Leone. It is administered by the Customs and Excise Department (CED) of the National Revenue Authority (NRA).

3.1 Current Trade Position

3.5. The trade balance, which had been in persistent deficit, turned to a surplus in 2013 on account of the strong growth of mineral exports, especially iron ore, combined with the decline in imports. The external sector recorded a trade surplus of US$362.3 million in 2013 compared to a trade deficit of US$796.1 million recorded in 2012.

3.1.1 Exports

3.6. Domestic exports (f.o.b.) increased dramatically from US$1.16 billion in 2012 to US$1.92 billion in 2013. Mineral exports accounted for over 90% of total exports with iron ore being the most important contributor. The value of mineral exports as a whole doubled from US$839.7 million in 2012 to US$1.79 billion in 2013. Of these, iron ore exports increased from US$857 million in 2012 to US$1.06 billion in 2013, reflecting increased production volumes and favourable market conditions. Diamond exports increased from US$161.7 million to US$185.7 million. The combined exports of other mineral exports (rutile, ilmenite, bauxite, and gold) increased by 69%. Agricultural exports contracted, as cocoa production dropped during the review period. The export of rice, palm oil and garri to neighbouring countries through unofficial channels remained unrecorded. Prospects for growth in agricultural exports in the medium-term are favourable as coffee and cocoa plantations are being rehabilitated as well as new private investments in cash crop production including oil palm, rubber and sugar cane.[18] The composition of exports demonstrates huge dependency on mining activities, with mineral exports accounting for 93.4% of the total exports. The share of iron ore in total exports expanded from 31.8% to 55.5%, on account of the expansion of production by both African Minerals Limited and London Mining in 2013. Following the resumption of iron ore mining in 2016, output is projected to increase gradually from 6.0 million metric tons in 2016 to 9.0 million in 2017, 12.0 million in 2018 and 13.0 million in 2019. These projections are less optimistic than those provided by Shandong

[18] Ministry of Finance and Economic Development – Economic bulletin 2013.

Iron and Steel Group (SISG). Prices of the mineral are not projected to improve significantly over the medium term.

3.7. Rutile production is projected to increase from 144 thousand metric tons in 2016 to average 175 thousand metric tons during 2017-2019 with prices projected to improve over the medium term based on the assessment by Sierra Rutile Limited.

3.8. Diamond output by Octea is projected to decline to 387 thousand carats in 2017 from 513 thousand carats in 2016 as the company transition from surface to underground mining. However, diamond output is project to recover to an annual average of 500 thousand carats in 2018 and 2019. Alluvial diamond output on the hand is projected to gradually decline over the medium-term in line with historical trends. The price of diamond is projected to improve over the medium-term.

3.9. The production of bauxite is expected to increase gradually from 1.2 million metric tons in 2016 to 1.5 million metric tons in 2019 with the price projected to remain largely stable over the same period.

3.1.2 Imports

3.10. The value of total imports (f.o.b.) dropped from US$1.96 billion in 2012 to US$1.57 billion in 2013. The 19.9% decrease was largely due to the decline in the import of mining related machinery and transport equipment. The import of machinery and transport equipment decreased by 17.6% to US$352.5 million in 2013 from US$427.6 million in 2012, which more than offset the increase in petroleum and food import bills. The drop in the importation of machinery and transport equipment reflects the shift to the production phase by the iron ore mining companies after completing the investment phase of their business plans.

3.11. The value of petroleum imports increased by 29.8% to US$330.9 million, reflecting the increase in volumes of the various products as mining and construction activities continues to expand. Food imports increased to US$314.8 million in 2013 from US$269.3 million in 2012. The unofficial export of locally produced rice to neighbouring countries partly contributed to the inadequate supply in the domestic market and hence the need to fill the demand gap through imports. The value of manufactured goods decreased to US$153.3 million in 2013 from US$175.9 million in 2012.[19] Imports are projected to grow in the medium term, in line with increase economic activities. Import growth will moderate to 0.6% in 2016, increase by 13% in 2017 and average 7.5% during 2018-2019.

3.2 Trade Policy

3.12. Sierra Leone's trade policy is guided by a number of trade related policies and strategies, most of which have been developed since the 2006 Diagnostic Trade Integration Study (DTIS). These include the National Export Strategy (2010), the Industrial policy and Action Plan, a Special Economic Zone / Export processing Zone – (SEZ/EPZ) Policy, Consumer Protection Policy and Bill, Competition Policy, and Small and Medium Enterprise (SMEs) Policy.

3.13. The Sierra Leone Trade Policy was developed in 2010, setting out to provide a harmonized and coherent reference for trade development in Sierra Leone. The implementation of the Trade Policy is guided by a Trade Support Program, a complementary document based largely on the 2006 (DTIS) Action Matrix, which helped operationalize the key recommendations and actions in the policy. Sierra Leone updated the DTIS and action matrix in 2013. The DTIS also provided input to the PRSP-III and created synergies with the new PRSP, so as to guide the Sierra Leone Trade Policy in enhancing implementation.

3.14. As the DTIS Action Matrix covers a wide range of issues, the Ministry of Trade and Industry in collaboration with the World Bank has deduced a Medium-Term Programme (MTP) from the updated DTIS, which prioritized the action for implementation complementing existing strategic development initiatives of the Government. To enhance coordination and effective dialogue on trade issues Sierra Leone is reviving the National Coordinating Committee on Trade (NCCT)

[19] Ministry of Finance and Economic Development – Economic bulletin 2013, p. 23.

(defunct since 2009) drawing from various stakeholders. ECOWAS supported a capacity building training for NCCT members in May 2014.

3.15. The Sierra Leone Produce Monitoring Board is to promote the production, processing and marketing of high quality produce within established national and international standards ensuring the provision of well-regulated markets to enhance import and export earnings for all stakeholders along the value chain.

3.16. Sierra Leone Investment and Export Promotion Agency is to provide personalized and high value-added services and information to the investors and experts aimed at diversifying and increasing export and value addition as well as to further develop proven investment opportunities while maximizing their impact in the local economy.

3.3 Legislative Reforms

3.17. Sierra Leone has carried out a series of legislative reforms since the 1st Trade Policy Review to enhance a conducive business environment that will attract Foreign Direct Investment. These include: the Business Registration Act, 2007, the Investment and Export Promotion Agency Act 2007, which established the Sierra Leone Investment and Export Promotion Agency (SLIEPA), and the Anti-Corruption Act, 2008 to fight graft. The Bankruptcy Act, 2009, was also passed. The Companies Act, 2009 and the companies (Amendment) 2014 Law provides, for the registration of companies. The Goods and Services Tax Act, 2009, also provides for the imposition of a broad-based tax on the consumption of goods and services in Sierra Leone and to provide for other related matters. Parliament also passed the Payment Systems Act, 2009. The Finance Act, 2010, that provides for the imposition and alteration of taxation for the year 2010 and the Debt Management Act, 2011 which provides for the management of the public debt of Sierra Leone and the Finance Act, 2013, to provide the imposition and alteration of taxes in Sierra Leone was passed.

3.18. Sierra Leone also strengthened the legal, regulatory and institutional frameworks that underpin private-sector-led growth with the establishment of the fast-track commercial court, the Credit Reference Bureau, the Corporate Affairs Commission and the revised legislation of company activities. In addition, the financial sector was diversified and grown, bringing access to finance. Sierra Leone also developed the Local Content Policy which has become Local Content Agency under an Act of Parliament 2016. Thus Sierra Leone increased its "Doing Business" score markedly from 2005-10.

3.19. Produce Monitoring Board Sierra Leone is a regulatory institution whose main focus and consideration is the quality control function involving assurance of produce standardization, export of high-quality produce and enforcement of regulations in the produce sector under the enabling Parliamentary Act, 2013.

3.20. The Petroleum Regulatory Agency was formed by an act of Parliament in 2014 to regulate, monitor and oversee Petroleum and Petroleum Products in the downstream industry in Sierra Leone, for growth, efficiency and stake holder satisfaction.

4 PRIVATE SECTOR DEVELOPMENT

4.1. Sierra Leone considers the private sector as the engine for economic growth, employment and poverty reduction. In this regard therefore, it has set out clearly its vision for the promotion of private sector development in subsequent PRSP's and other longer term policy frameworks including the Vision 2025 and the Sierra Leone Development and Transformation report.

4.2. In 2009, Sierra Leone with the support of DFID developed the Private Sector Development Strategy (PSDS) as a means to Sustaining Rapid, Broad Based Growth and Providing Productive, Well Paid Jobs and Increasing Incomes for the Self-Employed. In a bid to implement the PSDS, the Sierra Leone Government through the Ministry of Trade and Industry with support from the Soros Economic Development Fund and the UK Department for International Development (DFID) established the Business Bomba National Business Plan Competition (BBC). The initiative aims to identify talented entrepreneurs with innovative business ideas and encouraging them to expand or establish new businesses designed to create employment and alleviate poverty.

4.3. The Government of Sierra Leone established the Sierra Leone Investment and Export Promotion Agency (SLIEPA) in 2008. SLIEPA, since then has been engaged in targeted capacity building programmes including training programmes for SMEs in Export value chains, export procedures and documentation, market needs assessment, packaging and labelling and Trade Fair participation across the country and the sub region.

4.4. Sierra Leone continues to support the Sierra Leone Standards Bureau to be able to carry out its role based on international standards. Services offered by the Bureau presently include: - Metrology (calibration and verification of weighing instruments), - Standards Development and Implementation of Standards in Commerce, Trade and Industry, - Testing, and Conformity Assessments. The Enhanced Integrated Framework is assisting the SLSB in designing a National Quality Infrastructure project, for funding under the EIF TEIR window. The project aims to strengthen Sierra Leone's Quality Infrastructure not only to produce relevant National Standards based on International Standards, but to assist industry and commerce in the implementation of these Standards so that national products can obtain greater acceptability on regional and international markets. In so doing Sierra Leone's compliance with multi-lateral trade agreements such as the WTO-SPS and -TBT Agreements will be assured.

4.5. Sierra Leone developed a Special Economic Zone (SEZ) policy in 2013 and also established an Export Processing Zone (EPZ). Sierra Leone views the development of Special Economic Zones (SEZs) as a critical element of a program to facilitate private sector investment and transform the manufacturing sector to enhance competitiveness and industrialization for job creation. Sierra Leone also established the Sierra Leone Business Forum to enhance public private dialogue.

4.6. Considering the imperatives of globalization and the crucial intermediation role which industry plays in the development process, Sierra Leone developed an Industrial Policy that is aligned with the West African Common Industrial Policy (WACIP) which was adopted by ECOWAS in July 2010. The general objective of this Policy is to accelerate industrialization through the promotion of endogenous industrial transformation of local raw materials, the development and diversification of industrial productive capacity, strengthening of regional cooperation and the export of manufactured goods.

4.7. Sierra Leone with support from the African Development Bank also developed an SME Policy and Action plan to support the establishment of a positive business environment where all businesses, particularly small ones, can grow and prosper.

4.8. In 2016, the authorities established the Small and Medium Enterprises Development Agency, with a view to promoting a conducive business environment for small and medium enterprises (SMEs).[20] The activities of the agency include: designing and implementing development support programmes for SMEs; facilitating market access and business linkages; facilitating access to industrial space, finance and other productive resources; and implementing a registration scheme for SMEs. Sierra Leone introduced a local-content policy in 2012 (Table 4.1). The stated goal of the policy was "to promote growth and development of the domestic private sector by creating

[20] Small and Medium Enterprises Development Agency Act, 2016.

linkages with the large domestic and foreign firms through the utilization of local resources and products, and to promote the integration of the Sierra Leoneans in all economic activities".

4.9. In 2016, the authorities established a Local Content Agency with the task of enforcing the local content policy.[21] Companies are required to submit local content plans to demonstrate compliance with the policy. Violations are subject to fines and the loss of investment incentives.

Table 4.1 Key policy prescriptions in the Local Content Policy

Objectives and prescriptions
Use of locally available goods and services
Investment incentives: the granting and/or continued use of incentives is conditional on compliance with the LCP. In particular, a local-content plan will be required upon application for government incentives; **Materials, products and goods:** Manufacturing industry: at least 10% of domestically produced input; Beer industry: up to 20% of locally produced sorghum; Bakery and confectionery: up to 10% of cassava flour produced locally from locally grown cassava; Sugar industry: for any product requiring sugar as an additive, up to 15% of locally produced sugar in the first five years, and up to 30% in the succeeding five years Soap making industry: up to 50% of locally produced palm oil in the first five years, and up to 70% in the succeeding five years; Flour industry: up to 10% of wheat flour produced locally in the first five years, and up to 30% in the succeeding five years; Locally produced fabric, wood carvings and painting: 25%. **Services sector:** requirement to use services providers registered and located in Sierra Leone. Where there is no local entity, the foreign entity shall operate in partnership with a nationally owned and registered company. Hotel, hospitality and tourist industry:
National preference in contracts and procurements
Contracts and concessions: first consideration should be given to Sierra Leonean firms in sectors such as mining and the petroleum industry; **Procurements:** a preferential margin of 10% for domestic firms; **Bid evaluation:** a 5% price preference is granted, provided that the local content of the selected bid is at least 5% higher than that of its closest competitor.
Employment of nationals
Employment targets: at least 50% of nationals at the managerial level and 40% at the intermediate level. If the required skills are not available locally, the company must demonstrate a capacity-building plan to comply with the requirement within 5 years; **Use of foreign skills:** all junior-level positions shall be held by nationals. The employment of expatriates is subject to quotas.
Local ownership
Local-foreign partnerships: first consideration to be given to companies with significant equity ownership by nationals, when assigning rights such as mineral concessions; **Promote access to finance by nationals.**

Source: Sierra Leone Local Content Policy.

4.1 Investments

4.10. Despite the enormous potentials for investment in Sierra Leone, Sierra Leone has prioritized the following sectors for investment promotion: agribusiness, energy, tourism, fisheries, manufacturing, infrastructure and the extractive sector, which covers mineral resources and the oil and gas sub-sectors. There have been significant gains made in opening up these sectors to investment and making them more convenient for long-term, sustainable growth.

4.11. To support investment and investment protection, Sierra Leone has taken the following measures: Open access to all sectors of the economy to foreign investment, rights to 100% foreign ownership of companies, freedom to use foreign managerial, technical and unskilled workers, no exchange restrictions, guarantees on capital repatriation and loan remittance, guarantees against expropriation, jurisdiction of the United Nations Commission on International Trade Laws or any other internationally recognized arbitration body over investment disputes.

4.12. Sierra Leone has also provided the following incentives to investors generally: Three year exemption on import duty for plant, machinery and equipment, reduced duty rate of 3% on the import of raw materials, 100% tax loss carry forward can be utilized in any year, 125% tax

[21] The Sierra Leone Local Content Agency Act 2016.

deduction on R&D and training spend, 125% tax deduction on expenses for export promotion activities and three year income tax exemption for skilled expatriate staff, where bilateral treaties permit. SLIEPA has developed an investment guide giving more details on investment in Sierra Leone.

4.13. Since 2009, Sierra Leone has ensured simpler start-up procedures with the establishment of a one-stop shop for business registration, better banking payment system that ensures all payments are performed electronically and in line with ECOWAS monetary policies, a Stock Exchange – ushering in the first official stock exchange in the country and the Mano river Union as a whole; clearer tax system with better training and equipment making it easier to pay taxes, along with a consolidated income tax act, and a new Goods and Services Tax (GST) that replaces other taxes, better access to credit by allowing the use of fixed and floating charges over company assets, smoother insolvency process including provisions to encourage and assist ailing businesses to reorganize instead of going straight to liquidation, less restrictions on closing a business by making it easier to declare bankruptcy.

4.14. All investors may open and maintain bank accounts in foreign currency. They may, in principle, withdraw and remit any amount from a commercial bank, have it transferred into any freely convertible currency at any legal market clearing rate. Investors may also acquire foreign currencies through foreign exchange auctions conducted regularly by the Bank of Sierra Leone. There is no minimum capital requirement except for investments in banking and telecommunications.

4.15. Sierra Leone's incentives programmes remained largely unchanged during the review period (Table 4.2). They are provided under the Income Tax Act, the Goods and Services Tax Act, various Finance Acts, the Business Start-up Act, the Bankruptcy Act of 2009, and various sector-specific laws. According to the authorities, there is no discrimination against foreign investors with respect to the granting of investment incentives. Agreements containing incentives have to be approved by the Ministry of Finances, and ratified by Parliament (Finance Act 2013).

Table 4.2 Main investment incentives

Measure/Coverage	Incentive
Corporate tax (standard rate: Zone A: 30%; Zone B: 25%)[a]:	
Agriculture	Exemption during the first 10 years: tree and food crops: full exemption agri-processing: full exemption if 60% of input is sourced locally; otherwise, 20% of exemption for Zone A and 10% for Zone B
Forestry	Exemption during the first 10 years: full exemption for cultivation processing: 30% of exemption for Zone A, 20% for Zone B
Mining	15% for the first 5 years; afterwards 25% for Zone A, 20% for Zone B deductions: full deduction for prospection and exploration, 40% for the first year of production 10% depreciation for R&D and training spending, 10% amortization for start-up cost; deduction of 50% of qualifying investment from personal income taxes
Tourism	Reduced rate of 15% for the first 5 years
Depreciation	
Standard capital allowance	40% for plants, machinery and equipment the first year 5-15% for most of other items (buildings, intangibles assets …)
Losses carry-forward	Indefinitely (provided that it does not reduce taxable income by more than 50%)
Import duty	
Agriculture	Full exemption for agricultural inputs (machinery, equipment, agri-chemicals, planting materials)
Malaria and HIV drugs	Full exemption
Raw materials, plant and machinery	Reduced rate of 3%
Intermediate products	Reduced rate of 10%
Tourism	Full exemption for new constructions, extension or renovation; Reduction of duty rates by 50% for upgrading during first 12 months of work
Operational vehicles	Reduced rates of 5%, 20%, or 30% depending on the age

Measure/Coverage	Incentive
Withholding tax	
General	Imports: 3% Contracts and supplies: 10% on foreign and 5% on local contracts and supplies Rental income, prize winning: 10%
Agriculture	Exemption for 50% of dividends
Other	15%
Payroll tax	
General	ECOWAS citizens: Le 1,000,000 (US$370) per year Non-ECOWAS citizens: Le 3,000,000 (US$1,110) per year Exemption if enterprise exports US$1 million or more during the year
Tourism	Exemption for locally non-available skills for first two years for up to three employees
Incentives for exports	
Export/excise tax	Exempt for 75% exported output
Duty drawback	Allowed on raw materials for goods exported
R&D and training expenses	An initial allowance of 40%, and then 20% annually (for capital investment only)
Local employment allowance	2.5% of business income exempted from corporate tax for less than 51 local employees, 5% for 51 to 100 employees, and 7.5% if over 100 employees
Other incentives	
Investment allowance	7.5% in first year of new purchases
Sales tax	Full exemption for the importation of plant, machinery and spares

a Western Sierra Leone; and Zone B: all other regions in Sierra Leone.

Source: Investment Code, 2005 and various sector-specific laws.

4.16. In 2011, First Step, a subsidiary of a US-based non-profit agency, established a Special Economic Zone (SEZ) with the goal of providing potential investors with facilities with guaranteed access to the logistic support and the utilities necessary to operate their business. Enterprises that locate in the SEZ are granted various incentives, including duty exemption on imports and exports, a three-year corporate tax holiday, and on-site government services in areas such as customs inspections, immigration, and business registration. The Government has also committed to allow investors in the SEZ to use international arbitration forums to resolve disputes that may occur between them and the Government.

4.17. Sierra Leone has ratified six multilateral investment agreements, including the ICSID Convention[22] and the Convention establishing the Multilateral Investment Guarantee Agency (MIGA).[23] Under MIGA's programme, foreign investments in Sierra Leone are covered against non-commercial risks such as currency transfer risks, expropriation risks, risks of war and civil disturbance, and repudiation risk.

4.18. Sierra Leone has signed bilateral investment agreements with Germany (1965), the United Kingdom (1981, revised in 2000), and China (2001).[24] Agreements on double taxation avoidance are in force with the United Kingdom, Denmark, Norway, and India.

4.2 Information Communication Technology Policy of Sierra Leone

4.19. Information and Communication Technologies (ICTs) play a vital role today in facilitating the attainment of development goals of any nation. Over the last few years, many African countries have taken advantage of the opportunities provided by ICTs and have put in place ICT-enabled implementation plans to support their socio-economic development efforts. These country-successes have been made possible due to the combined efforts of all stakeholders and

[22] The International Convention on the Settlement of Investment Disputes (ICSID) between States and Nationals of other States.

[23] The other investment agreements are: the Convention setting up the Inter-Arab Investment Guarantee Corporation of May 1971 (since April 1974); the Agreement for the Promotion, Protection and Guarantee of Investment among Member States of the Organization of Islamic Conference of 1 June 1981 (since 23 September 1986); the Unified Agreement for the Investment of Arab Capital in the Arab States of 1982; and the Agreement of the Islamic Corporation for the Insurance of Investment and Export Credit of 19 February 1992 (since 1 August 1994).

[24] UNCTAD online information. Viewed at: http://investmentpolicyhub.unctad.org/IIA/CountryBits/189.

with support from regional and international organizations as well as bilateral partners and the private sector.

4.20. The Government considers broadband access a basic necessity for Sierra Leoneans and ensures broadband Internet access at reduced and affordable cost for the end users by: enabling the landing of submarine fibre optic cable and emerging technologies linking Sierra Leone to the rest of the world.

4.21. One of the biggest constraints to the expansion of the telecommunications infrastructure in Sierra Leone (outside of the capital and a few main cities), is the limited extent of the electricity grid, which has yet to reach many of the provincial areas.

5 SIERRA LEONE INTERNATIONAL TRADE RELATIONS

5.1. Sierra Leone recognizes the opportunities abound globally to enhance its trading position. Therefore it has cooperated with such initiatives including the regional programmes such as the New Partnership for Africa's Development; ECOWAS and the Mano River Union-MRU; and the increasingly expanding non-reciprocal preferential trade arrangements that are made available by, or negotiated with, our developed trading partners.

5.1 Relations with the WTO

5.2. Sierra Leone remains a UN-designated least developed country (LDC), since joining the WTO on 23 July 1995. It had been a GATT contracting party since 19 May 1961. Sierra Leone is committed to the multilateral trading system, based on clear and firm rules able to guarantee market access and to promote growth, development, and job creation at the global level; it is also committed to its obligations within the WTO. It extends at least MFN treatment to all its trading partners. Sierra Leone is neither a signatory nor an observer to any of the plurilateral agreements concluded under the WTO.

5.3. Sierra Leone established a Mission to the WTO in 2011. Though Sierra Leone is currently designated as an "Inactive Member" due to arrears of contribution and as a consequence, Sierra Leone is, in principle, denied trainings and technical assistance other than those necessary to meet its GATT Article XIV-2 obligations, it is making a frantic effort to address this issue.

5.4. Sierra Leone affirms its support to the implementation of the agreement made in the 9th Ministerial Conference in Bali in December 2013. In its statement to the 9th Ministerial Conference in Bali 2013, Sierra Leone emphasized that the Doha Development Agenda (DDA) negotiations should take into account the special situation of LDCs; and that progress was important in market access for agricultural products, through the removal of export and domestic subsidies by the developed countries, and the enhancement of supply capacity in the agricultural and industrial sectors. In this regard Sierra Leone is ready to work with the WTO to implement the agreement. To address the issue of Trade Facilitation, ECOWAS, ITC, UNCTAD and WB supported Sierra Leone to carry out a Trade facilitation needs assessment. In September 2016, cabinet approved the ratification of the WTO Trade Facilitation Agreement.

5.2 Relations with the African Union

5.5. Sierra Leone is a founding member of the African Union (AU) and the president chairs the AU Committee of 10 Heads of State on UN Security Council Reform.

5.6. Sierra Leone signed the African Charter on Democracy, Elections and Governance (ACDEG) on 17 June 2008 and ratified it on 17th February 2009 and deposited it to the AUC on 8 December 2009. Sierra Leone also acceded to the African Peer Review Mechanism, allowing the AU to review, the country's policies and practices in the areas of democracy and political governance, economic governance and management. Sierra Leone is participating in the on-going CFTA negotiations taking place at the African union headquarters in Addis Ababa, Ethiopia.

5.3 Relation with ECOWAS

5.7. Sierra Leone has been an active member and represented in the various organs in ECOWAS including the ECOWAS Parliament. Sierra Leone has ratified ECOWAS's Trade Liberalization Scheme (ETLS), providing for products deemed of Community origin to be traded across borders duty-free and without any quantitative restriction. Sierra Leone has also implemented the ECOWAS protocols on the free movement of persons: Sierra Leone is represented in the Economic Partnership Agreement (EPA) negotiations by ECOWAS and there are indications that ECOWAS will sign the EPA which make Sierra Leone a party to the agreement. Sierra Leone is implementing the ECOWAS Common External Tariff (CET) 2017. Sierra Leone is party to the on-going Trade and Investment Framework Agreement (TIFA) negotiation with the US.

5.4 Mano River Union

5.8. Sierra Leone has been a member of the Mano River Union to work to eliminate barriers to bilateral trade, and to promote cooperation in the expansion of international trade among others things. The MRU resumed its activities in 2008, with its secretariat in Freetown.

5.9. Presently, the African Development Bank, in close collaboration with the Mano River Union Secretariat, is pursuing major initiative to address the region's infrastructure gap, in transportation and energy in particular.

5.10. Sierra Leone, Guinea and Liberia have been working on the realization of a sub-regional development project, with respect to forming an economic free zone, known as the Makona River Free Zone Development Project. This is in line with the thriving historical cross-border transnational market trading between the communities of Guekedou in Guinea, Koindu in Sierra Leone and Foya in Liberia.

5.5 Preferential Trade Arrangements

5.11. As an LDC, Sierra Leone is eligible for non-reciprocal preferential treatment from the following GSP donor countries: Australia, Belarus, Canada, EU, Japan, New Zealand, Russian Federation, Switzerland, Turkey, and the United States.

5.6 Bilateral Agreements

5.12. Sierra Leone benefits from a number of Bilateral Agreements including with: Morocco, Guinea, Côte d'Ivoire, Nigeria, Ghana, Liberia, China, South Africa, and Angola. These agreements are mainly cooperation agreements and cannot be legally enforced.

5.7 Relations with the European Union

5.13. The EU is Sierra Leone's largest single trading partner, buying an average of 80% of Sierra Leone's exports and providing 30% of its merchandise imports. Sierra Leone benefits from the "Everything But Arms Initiative of 2001" (EBA) arrangement with the EU which provides the country with favourable access to the EU market and does not require Sierra Leone to offer preferential market access to the EU. Sierra Leone is participating in the negotiations for an Economic Partnership Agreement (EPA) with the EU, through the ECOWAS group.

5.14. As an LDC, Sierra Leone has been eligible for a transitional price arrangement that guarantees a minimum price of €300 per ton of sugar exported to the EU. The price guarantee mechanism expired in 2012.

5.8 Relations with the United States

5.15. Sierra Leone became eligible for the African Growth and Opportunity Act (AGOA) of the US in 2002 and for its apparel provisions in 2004. In 2005, Sierra Leone was grated the opportunity under the scheme to export to the US as it met the requirements for exports under the scheme. Consequently, handicrafts to the US Cane products (sugar, molasses, ethanol, etc.) and oil-palm products (palm oil, palm kernel oil, oilcake from palm, palmitic acid, etc.) are eligible for duty-free exports to the US. In 2013, four additional products (lemon grass, ginger, tobacco and bitter root) were added to the list of eligible products. However, exports under the AGOA have generally remained weak as minerals and metals constitute the bulk of Sierra Leone's exports to the US.

5.16. In 2015, the US Government re-authorized AGOA for an additional ten (10) years till 2025.Sierra Leone is preparing a national response strategy for AGOA.

5.9 South – South Cooperation

Sierra Leone now enjoys strengthened trade and economic ties with China, India, Brazil and other developing countries. Recently, a trade deal was concluded with India for the supply of tractors and other agricultural equipment under concessionary terms. China and Nigeria both provide agricultural experts through MAFFS and Njala University respectively.

6 TRADE-RELATED TECHNICAL ASSISTANCE

6.1. Sierra Leone has been receiving technical assistance from various institutions to build its trade capacity over the years. Key amongst these is DFID and WTO support to improve customs and building the capacity of Sierra Leone to have a deeper understanding of trade issues and to effectively negotiate trade agreement. The significance of this technical assistance especially from WTO cannot be over emphasized.

6.2. As an LDC, Sierra Leone is benefitting from the Enhanced Integrated Framework (EIF) initiative which is playing a crucial role in capacity building to formulate trade policies and strategies, trade Mainstreaming and project development. Sierra Leone also benefits from various trade related training and other capacity building programmes in Geneva and other places. These have improved the capacity of Sierra Leoneans to contribute to promoting trade and development. This trainings and capacity building initiatives have tremendously increased Sierra Leoneans awareness and understanding of the WTO Agreements and procedures.

6.3. However, Sierra Leone's institutional capacity to implement trade policies and negotiate effectively trade agreements still remains challenged. Furthermore Sierra Leone need to continue reforming trade related legislations and regulations. There are challenges that are found across all productive economic sectors which include human, financial, manufacturing, technological and infrastructural capacities. During and after the civil war, the country's human resource base dwindled as a result of the migration of highly trained professionals and skilled workers to more lucrative markets, a situation quite glaring in the public sector. The country's infrastructure was badly damaged and is now being gradually rebuilt amidst serious budgetary constraints.

6.4. While WTO's effort is appreciated in this direction, it is evident that that the knowledge and understanding of the WTO Agreements and the acquisition of negotiating skills should be backed up by other support measures if Sierra Leone should overcome the supply-side constraints inhibiting its ability to take full advantage of the opportunities abound in the multilateral trading system.

6.5. It is against this backdrop, that the need to support Sierra Leone to become more competitive cannot be over emphasized. It is thus imperative that supply side constraints should be tackled through various support measures including in particular, the Aid-for-Trade Initiative. Sierra Leone is therefore appealing to its development partners, as well as investors to support the implementation of its trade policies and strategies especially its Medium Term Program for trade-related activities.

7 CONCLUSIONS

7.1. Sierra Leone continues to embark on reforms to support free trade and economic development. Its huge endowment of natural resources including its mineral wealth is beginning to provide support to its infrastructural development. Its quest to develop its private sector especially small and medium enterprises (SME's), its improvement in the doing business regime and environment and its political stability show clearly that Sierra Leone is now ready and open to the world in terms of business.

7.2. Sierra Leone has offered various incentives to investors. It is therefore encouraging foreign as well as local investors to explore and invest in Sierra Leone especially in the areas of agriculture, tourism, fisheries, oil and gas, energy infrastructure, communications and transport.

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