Support to Investment Climate Reforms

The World Bank Group’s (WBG) engagement in investment climate (IC) reform in Sierra Leone began shortly after the end of the civil war, with initial diagnostic work being undertaken as early as 2004. The WBG program involved a combination of regulatory simplification, legal reform and institution building activities. This was complemented by the provision of transaction advisory services, aimed at facilitating selected investments.

The WBG undertook a series of successive projects, subsumed under the common label of the Removing Administrative Barriers to Investment (RABI) program. Under RABI I (2004-2005), activities were mainly aimed at building the analytical foundations for operational reform work. During the successive RABI II (2005-2007), reform efforts focused on business registration, investment promotion and support to private-public dialogue (PPD). The scope of activities was broadened under the subsequent RABI III (2008-2011), with the addition of two sizeable components focusing on business taxation reform and industry specific reform, with focus on tourism. The scale of WBG activities in Sierra Leone was quite substantial, with a total budget of some US$ 8.9 million. More than two thirds of total resources were allocated to work in three areas: business taxation reform, industry specific reform (with focus on tourism), and investment promotion.

The WBG closely cooperated with other donor initiatives. Reform work was often undertaken in parallel with the United Kingdom’s Department for International Development (DFID) (which also provided substantial funding to RABI), while reforms in business taxation were designed and implemented in close cooperation with the International Monetary Fund (IMF). The WBG program was also actively supported by the Investment Climate Facility for Africa (ICF), which provided some US$ 3 million for technical assistance in various areas (e.g. setting up of the commercial court, strengthening of business registration).

The WBG program enjoyed full backing from key decision makers, but nonetheless in some areas implementation was less than smooth. Especially in the early stages, WBG had to deal with weak government institutions, and problems were exacerbated by numerous changes in key counterparts. WBG support to IC reform in Sierra Leone ceased at end 2011. Since then, a new operation has been envisaged, but approval is still pending.

Sierra Leone is a small country, with a population of 6.1 million (2013). The country was devastated by a 10-year long civil war that ended in 2002. The post war period witnessed a remarkable recovery, with real GDP growing at an average 8.6% per year over the 2006–2013 period and nominal GDP reaching US$ 4.9 billion in 2013. The recovery was largely driven by foreign investments in natural resources, and accelerated in recent years with the coming on stream of some large scale iron-ore mining projects. This dramatically improved the country’s external position, with iron-ore overtaking diamonds as the main export. However, the benefits of this export-led growth have only marginally ‘trickled down’ and Sierra Leone is still posting a modest per capita GNI (Atlas method) of US$ 680 (2013). Lately, social and economic conditions were aggravated by the Ebola epidemics, which by end 2014 had claimed some 3,000 lives.

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The WBG program achieved positive results, contributing to the implementation of 16 IC reforms. These include some reforms implemented after the end of WBG activities, but that can be traced to early WBG recommendations (e.g. the introduction of a small taxpayers regime). The vast majority of reforms refer to themes covered by Doing Business (DB) reports, with business taxation reforms and legal reforms cumulatively accounting for two thirds of the total. Non-DB related reforms include the setting up of a new investment promotion agency, the privatization of a leading hotel, and the establishment of a platform for PPD. WBG-supported reforms contributed to improve Sierra Leone’s position in DB rankings, with the country moving from the 168th position in 2006 to the 142nd place in 2013. A similar improvement was also shown by other indicators used to measure the quality of the business environment, such as the World Bank’s Regulatory Quality Indicator and the Heritage Foundation’s Economic Freedom Index.

**ACHIEVEMENTS IN SELECTED REFORM AREAS**

**Business Taxation.** The WBG program adopted a comprehensive approach to business taxation reform, leading to a number of improvements. In 2009-2010, together with the IMF and DFID, the WBG actively supported the introduction of the Goods and Services Tax (GST), a VAT scheme that replaced seven pre-existing taxes. This was followed by: (i) improvements in tax administration procedures, especially regarding tax payments; and (ii) the rationalization of tax incentives, which were better coordinated with other tax law provisions. The program also formulated recommendations for a comprehensive reform of the tax regime for small and medium enterprises, which were eventually endorsed by the government.

**Investment Policy and Promotion.** The WBG played a crucial role in the setting up of the Sierra Leone Investment and Export Promotion Agency (SLIEPA), with the provision of capacity building and the development of promotional tools. The WBG also contributed, along with DFID and the EU, to the organization of the Trade and Investment Forum held in London at the end of 2009, Sierra Leone’s first major promotional event after the end of the civil war. This was followed by operational assistance to SLIEPA, in order to strengthen its ability to effectively serve prospective investors, with special emphasis on investment projects in agri-business (sugar and palm oil).

**Industry Specific Reforms.** Industry specific reform work focused on the tourism sector, with the primary objective of facilitating investments in accommodation in the Freetown area. Efforts to develop a new regulatory framework for tourism land management were not successful. Instead, the program managed to attract a group of investors interested in the rehabilitation of a historical landmark, the Cape Sierra Hotel. The project encountered significant problems, which considerably delayed its implementation (see box), but a satisfactory solution was eventually found.

**THE CAPE SIERRA HOTEL CONCESSION**

The Cape Sierra Hotel concession was a laborious affair. After a first unsuccessful tender, in mid-2010 the concession was awarded to a group of UK-based diaspora investors who had reached an agreement with a major hotel chain. Construction works were to start shortly after the award, but the hotel chain introduced more stringent requirements, which increased investment costs by some 50%. The mobilization of additional funding required considerable time and in the meantime problems emerged regarding the underlying land lease agreement. Problems were eventually settled in early 2014.

**Business Registration.** Early reform efforts led to the simplification of some registration procedures (e.g. the elimination of the obligation that the Memorandum and Articles of Association be prepared and signed by a solicitor) and to the abolishment of mandatory annual renewals (with the elimination of the corresponding registration fee). This was followed by the consolidation of registration procedures within the Office of the Administrator and Registrar General (OARG), which contributed to further reduce the time required to complete business registration.

**Public Private Dialogue.** The WBG program sought to encourage the reform process through the creation of a dedicated PPD platform, the Sierra Leone Business Forum (SLBF). For sometime the SLBF was an active player in the IC reform process, lobbying for the simplification of procedures for construction permits and import-export transactions and contributing to the adoption of new legislation on credit bureau. However, SLBF’s influence declined overtime and the organization is currently facing serious financial conditions.

**PRIVATE SECTOR’S VIEWS ON IC REFORMS**

Attitudes towards IC reforms were assessed through interviews with local small and medium enterprises (SME) and selected foreign investors. IC reforms are appreciated by the business community, but with a prevalence of moderately positive views. In fact, while more...
than 90% of the firms did notice an improvement in the ‘overall IC’, less than 10% reported the situation to have ‘significantly improved’, with the rest considering conditions to have ‘somewhat improved’. Regarding specific IC themes, a solid majority of interviewees reported a significant or some improvement in tax administration, where innovations in tax payment modalities (i.e. the possibility of making payments via banks instead of having to go to the tax office) were particularly appreciated by the business community. Positive views were also expressed regarding developments in business licensing and business inspections, which however are areas where WBG was not involved. The majority of interviewees were unable to articulate an opinion regarding reforms in the general legal framework, as improvements refer to ‘unusual’ situations (bankruptcy procedures, settlement of commercial disputes). However, among those familiar with the matter, positive views were largely prevalent.

The majority of cost savings are linked to reforms in business registration (US$ 1.9 million), with one single reform, the elimination of annual renewals, generating cost savings of about US$ 1.6 million. Positive results were also achieved by reforms in business taxation, generating savings of about US$ 1.3 million, whereas cost savings in other areas were quite modest.

Cost savings increased rapidly in the initial stages of the reform process, but stabilized following the discontinuation of WBG activities. In relative terms, over the 2008–2012 period cost savings accounted on average for about 0.15% of private investment, with their importance declining from a peak of 0.18% in 2009 to 0.07% in 2012–2013.

**IMPACT OF IC REFORMS – ENTERPRISE FORMATION**

Data on business registration are less than ideal, as there are no consolidated statistics and the raw listings obtained from OARG seem to include duplications. Subject to this major caveat, business registrations show a generally positive trend, but with significant ups and downs. A major increase was recorded in the immediate aftermath of the civil war, when the number of newly registered businesses jumped from little more than 300 in 2004 to around 1,500 per annum in 2005–2007. The trend was again positive, although not uniform, in the 2008–2011 period, with a peak of 3,400 registrations in 2011. However, this was followed by an abrupt decline in 2012, only partially compensated in subsequent years.

Such a pattern appears to be influenced by various factors, sometimes acting in opposite directions, with IC reforms seemingly playing only a modest role. In fact, the initial strong growth is largely attributable to the post civil war recovery, and precedes IC reforms, which started in 2008. The reform process seems to have played a role in sustaining the growth recorded in the 2008–2011 period, but this is at odds with the decline in subsequent years, when IC reforms continued to be implemented despite the discontinuation of the WBG program. Extrapolating the trend prevailing in the 2004–2007 ‘pre reform period’ to the subsequent years, the total number of ‘actual’ registrations is only marginally higher than the number.

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**IMPAICNT OF IC REFORMS – REDUCTION OF COMPLIANCE COSTS**

In a few cases, WBG–supported reforms contributed to reduce the administrative burden faced by private businesses, generating some cost savings. Over the 2008-2013 period, five reforms generated cost savings worth some US$ 3.2 million. About two thirds of total savings consist of ‘time savings’, resulting from the reduction in the time required to handle administrative procedures (e.g. the combination of various taxes into the new GST alone determined a savings in staff time of 42 hours per firm/year). The remainder are ‘monetary savings’, associated with the elimination of out-of-pocket expenses (e.g. lawyer fees).
of ‘expected’ registrations had the trend remained stable (about 900 incremental firms). Overall, this suggests that IC reforms had only a marginal influence on the enterprise formation process and, considering the weaknesses in underlying data, such an influence cannot be meaningfully quantified.

**IMPACT OF IC REFORMS – INVESTMENT AND EMPLOYMENT GENERATION**

**Impact of Investment Promotion.** Over the last few years, Sierra Leone benefitted from a significant inflow of foreign direct investments (FDI), which grew from US$ 50 – 100 million/year in 2006-2009 to about US$ 550 million/year in 2012-2013, after peaking at US$ 950 million in 2011. WBG’s investment promotion activities appear to have meaningfully contributed to this positive trend. In particular, the Trade and Investment Forum held in London at the end of 2009 with support from WBG (as well as from DFID and the EU) resulted in a significant increase in investor interest, with about 130 active leads recorded, of which half resulted in field visits. The lack of detailed information on the eventual fate of the various leads does not allow for a precise assessment of the extent to which the initial expressions of interest translated into concrete investments. However, there is evidence that at least some projects motivated by WBG promotional work and/or assisted by the WBG-supported SLIEPA did indeed materialize. In particular, based on information collected from foreign investors interviewed during fieldwork, WBG can be credited to have facilitated half a dozen investment projects, worth US$ 150 to 200 million and expected to create over 5,000 jobs. Of these values, possibly one third had materialized by end 2013 (i.e. US$ 50 – 70 million and 1,500 jobs).

**Impact of Industry Specific Reforms.** Additional investment and employment is expected to result from WBG work in the tourism sector. While the Cape Sierra Hotel rehabilitation had a long and turbulent gestation, the project is nonetheless expected to generate a significant impact, with a total investment in the order of US$ 63 million and the creation of 300 to 500 jobs.

**SUSTAINABILITY OF IC REFORMS**

The majority of IC reforms are sustainable, although there are some unresolved challenges. Four of the five reforms analyzed in detail can be currently regarded as mostly sustainable, while one is facing serious problems. The situation is expected to remain largely unchanged in the future.

The policy and regulatory reforms introduced with WBG support are still in place, and despite some problems there are no situations of policy reversal. As in other countries were VAT-like taxes have been introduced, the GST initially met with some opposition from the business community and experienced some teething troubles. This required some adjustments (such as the increase of the threshold for mandatory registration, so as to exclude a number of small firms), but the spirit of the reform was not affected. Business taxation also provides an example of a reform, namely the introduction of a new SME taxation regime, that was largely inspired by the WBG, but was enacted well after the end of the program, a clear indication of the long lasting effects of IC reform work in this area.

Institutional reforms are also mostly in place, but there are operational problems. The business registry has expanded its functions, but faces practical challenges nearly on a daily basis (e.g. a rundown power generator). Operational difficulties are also experienced by SLIEPA, as an increase in requests from investors necessitates more staff and resources for training and capacity building. The situation is quite problematic for the SLBF. Although still formally in existence, the forum has barely been operational since 2011. The government never budgeted its expected contribution and the SLBF was able to obtain some funding only in June 2014 through direct negotiations. Funding from other sources has been limited and only targeted at specific initiatives. As a result, the SLBF is facing a difficult financial situation, with substantial debts for overdue salaries and rent. Financial difficulties have had implications for operational work and the various thematic PPD working groups established by the SLBF have been de facto taken over by line ministries. Overall, the SLBF can hardly be regarded as a sustainable entity. The discontinuation of WBG support in 2011 certainly affected SLBF’s operations, but since difficulties are also experienced by PPD mechanisms in other countries, the overall viability of this type of interventions appears doubtful.