

Facilitating a favourable investment climate: Lessons from Sierra Leone

This presentation will share some of the lessons that Invest Salone – a UK government-funded, private sector development initiative – has learned about working in economies like Sierra Leone, which are emerging from fragility.

The Sierra Leone economy: A snapshot

Sierra Leone has an estimated population of 7.5 million with a gross national income per capita of US\$510 and is the world's 159th largest economy in terms of gross domestic product.

The country has overcome significant challenges in the past 30 years. It has been at peace for over 20 years and has recovered from two epidemics.

Investment potential exists across several sectors. The country has vast mineral deposits (especially iron ore, diamonds, gold, rutile, ilmenite and bauxite) and natural resources with fertile soil. An extensive continental shelf supports an abundance of sea life and the port of Freetown, with its sheltered natural harbour, has long played an important economic role in the region.

Sierra Leone also has the advantage of a fast-growing and young population. In 2020, more than 40% of Sierra Leoneans were younger than 15, and more than half were younger than 20. The working age population is projected to increase from 4.5 million in 2020 to 8.5 million by 2050.

However, limited infrastructure, a shortage of skilled labour, a slow legal process and corruption, as well as a series of recent global and domestic shocks, pose significant challenges.

How Invest Salone works

Private sector development needs to be central to Sierra Leone's continued development. As an engine for growth and stability, it will catalyse investment to reverse the economic effects of conflict and counteract dissatisfaction and mistrust through job creation and skills development.

Invest Salone, a UK government-funded, private sector development initiative, works with the public and private sectors in Sierra Leone to generate better jobs and higher incomes for Sierra Leoneans through business environment reform, as well as increased investment and exports.

We have been working in Sierra Leone since 2019 and our work focusses on both reducing the cost and risk of doing business in Sierra Leone and on supporting firms to grow.

Lesson one: Be flexible and adaptable

In environments with underdeveloped private sectors like Sierra Leone, firms face a broad spectrum of challenges and constraints including inadequate electricity, corruption and lack of access to finance, land and the rule of law. Our experience has shown that overcoming these requires adaptable and flexible private sector development strategies, close engagement with all stakeholders and a range of tools including public–private dialogue, research and analysis, grants, technical assistance and other practical resources.

Often one intervention will draw upon a range of tools from across the programme to form an effective strategy.

Lesson Two: Innovate access to finance

Access to finance remains a critical constraint to private sector growth in Sierra Leone, with most enterprises relying on bank loans, overdrafts or friends and family to fund business expansion. Changing this requires financial innovation.

Investment and financial instruments that facilitate collaboration across the ecosystem, de-risk investment in the Sierra Leone market and provide new ways for businesses to access finance, tackle growth constraints and improve their performance play a key role.

Invest Salone offers two competitive grant schemes – COMPETE Salone and PROSPER Salone.

- COMPETE Salone is a grant-sharing scheme which funds innovative business ideas that boost revenue, job creation, exports and new investment in Sierra Leone's private sector. It works by providing a matching grant and guidance to private companies and has achieved positive results. The initial round of COMPETE Salone was intended to respond to the COVID crisis by strengthening domestic supply chains and safeguarding jobs and income opportunities for Sierra Leone producers reliant on these chains. Between them, the two grantees – Capitol Foods and Leecon Poultry – have been responsible for 530 direct jobs and developed local smallholder supply chains which have further contributed to job creation. Furthermore, they increased their own revenue both through exports and by diversifying their domestic product ranges.
- PROSPER Salone helps international investors with innovative ideas and business models who are committed to investing in Sierra Leone. High levels of risk and lack of data are both endemic to fragile countries and a deterrent to investment. The PROSPER Salone grant funds activities aimed at reducing the risks of market entry, such as scoping trips, feasibility

studies, pipeline development, due diligence and business viability. Three of our first PROSPER Salone grantees – Cordaid, Acumen and Truestone – used their grants to mobilise investments worth £13 million into seven Sierra Leonean companies in the space of 18 months and support six firms to become more productive and investment ready through technical assistance and investment readiness bootcamps. Absolute Barrkee, one of our most recent COMPETE grantees, went through the bootcamp process and is an example of PROSPER Salone’s success at creating a pipeline of investible businesses.

- Another of our PROSPER grant partnerships has resulted in the recent issuance of a first-of-its-kind local currency corporate bond approved by the Bank of Sierra Leone. The issuance of a local currency corporate bond could prove to be a groundbreaking step towards a more diversified domestic capital market and will potentially pool in resources from both local as well as international investors. A successful bond issuance would also significantly increase investor confidence in Sierra Leone as an investment (and foreign direct investment) destination.
- As part of our work to improve access to finance for the private sector, we are also working with the financial sector to develop a sustainable finance roadmap under the leadership of the Ministry of Finance and the Bank of Sierra Leone. This will help prioritise actions, facilitate stakeholder mapping and engagement and identify how sustainable finance can support financial inclusion in Sierra Leone.

Lesson three: Contribute to green growth

Sierra Leone is vulnerable to the adverse impacts of climate change and environmental degradation. The private sector’s role in developing the climate-smart adaptations necessary to maintain and accelerate a more inclusive pattern of economic growth as well as mitigate the impact of Sierra Leone’s vulnerability to climate change and environmental degradation is critical. In conjunction with other strategies to encourage private sector focus on green growth, Invest Salone has used its most recent COMPETE and PROSPER grant windows to support the private sector’s use of environmentally sustainable innovations.

- Our three new COMPETE grantees include Jolaks, a palm oil processing company which will support farmers, increase the productivity of crude palm oil and introduce solar energy in its operations. Absolute Barrkee, a manufacturer of wastepaper products, is establishing a wastepaper recycling plant to reduce the company’s reliance on imported products. Finally, Wangu – a fruit grower and processor – will support smallholder cocoa farmers in the Gola Rainforest to grow passionfruit as an alternative steady source of income during the ‘hungry season’.
- Our new PROSPER Salone window focusses on encouraging innovative investment which boosts green growth. Three investors have been awarded funding for projects which aim to mitigate the adverse impacts of environmental degradation and climate change in Sierra Leone through blue carbon credits, encouraging climate-smart agriculture and targeting climate-focussed funding.

- We have also done work to promote nature-based livelihoods by facilitating public–private dialogue on bankable nature-based opportunities to logging, sandmining, charcoal production and other environmentally unsustainable activities, which could then be showcased to investors.

Lesson four: Create opportunities to extend learning and develop networks

Developing the necessary networks for collaboration, shared learning and future investment opportunities by pulling together our networks is key to our private sector development approach.

Activities funded through the PROSPER grant, such as investor roundtables and a recently published investment readiness toolkit, extend the learning and experience of our PROSPER grantees to a greater number of businesses in Sierra Leone.

We have established a database of sustainable investors with a mandate to invest in West Africa (including impact investors, development finance institutions, family offices and foreign direct investment targets) which we continue to expand. We reach out regularly to share investment targets and create links with firms. We have developed a partnership with the Africa Resilience Investment Accelerator (ARIA) programme, an initiative bringing together 17 development finance institutions to unlock investments in frontier markets in Africa. The primary goal of ARIA is to increase these institutions' investment in these countries by uncovering investment opportunities and tackling barriers to investment. This entails, amongst others, sharing and presenting a pipeline of investible businesses.

A lack of market information can also deter deal making in economies like Sierra Leone's. That is why we produce a series of investment insights which capture the opportunities and challenges of investing in sectors such as palm oil, cashew, aquaculture, coffee, tourism, textiles and cocoa.

Conclusion

As we have all gathered here today as investors, ecosystem enablers or entrepreneurs, reach out to us if you are interested or want to explore the Sierra Leone market. We would be happy to share our market understanding, facilitate linkages and explore working under our various programmatic tools.

We look forward to collaborating with you.

Thank you

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