



Enabling Environment for Sustainable Enterprises in Sierra Leone:

Main Findings

MARCH 2019

Assessment findings

The assessment of the Enabling Environment for Sustainable Enterprises in Sierra Leone generated the following key findings:

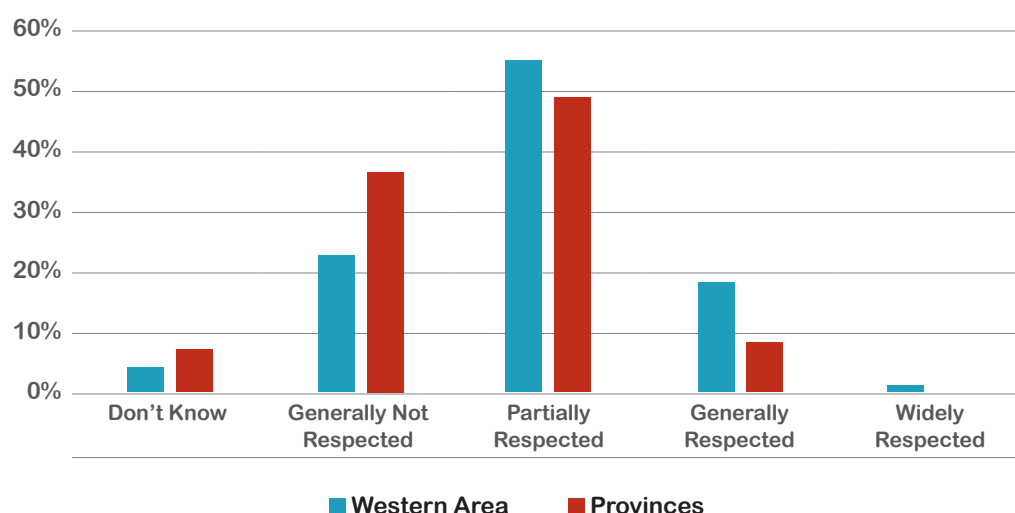
Political conditions

1. Respect for Universal Human Rights and International Labour Standards

- ▶ Sierra Leone has ratified all of the ILO's fundamental conventions, yet there is a deficit of labour-related legislation. A review of the labour law is on-going to address some of these issues.

A number of respondents employed in larger firms suggested that, while they are happy to be employed, they are dissatisfied with pay and conditions. Two out of three respondents state that international labour standards were either partially, or generally not respected.

Graph 1: Thinking about the situation in Sierra Leone, from the perspective of the business community, are labour laws generally respected?



Economic conditions

2. Sound and stable macroeconomic policy

- ▶ GDP growth has recovered at 6.1% in 2016 after the two-digit negative growth in 2015 resulting from a drop in iron ore prices. This is below Ivory Coast (8.7%), above Ghana and slightly above Rwanda;
- ▶ Non-mining activities have to be further developed, as a way to reduce dependency on mineral revenues as well as the impact of fluctuating mineral export revenues;
- ▶ Conditions for the development of the agricultural sector are favourable. Three quarters of arable land is suitable for the cultivation of crops whereas the land is largely uncultivated.

3. Trade and sustainable economic integration

- ▶ Sierra Leone's imports usually outweigh exports. Imports typically consist of fuel, food items, second-hand vehicles and clothing;
- ▶ Sierra Leone tends to trade more outside the continent than with regional neighbours.

Most respondents expressed the view that the efficiency of the customs authorities in terms of processing imports and exports are either poor or very poor. However, a clear divergence emerged between small firms and larger firms. Small firms expressed more negative views compared to medium and large firms.



4. Enabling legal and regulatory environment

- ▶ Specific measures have been adopted in support of SMEs. These include, among others:

- Creation of an SME Development Agency\
- Online platform to streamline cross-border trade procedures (being updated)
- One-stop shops and reforms to streamline enterprise registration procedures

- ▶ Work remains to be done to simplify taxes for SMEs and in the area of trade;
- ▶ Significant progress has been made recently in the area of starting a business;

- The World Bank deemed Sierra Leone among the top ten upgraders in Africa.

- One-stop shops for enterprise registration were implemented by the Office of the Administrator and Registrar General and bills were passed to simplify registration, bankruptcy and payment procedures.

- In 2017 it took approx. 11 days to start a business in Sierra Leone, compared to 7 in Ivory Coast, 14 days in Ghana and 4 days in Rwanda.

- ▶ Nonetheless, in the World Bank Ease of Doing Business ranking, Sierra Leone's position was 160 out of 190 countries in the World Bank's 2018 Doing Business Report;
- ▶ Survey respondents think that the regulatory environment is less favourable to SMEs than to large companies;

In the Ease of Doing Business ranking, Sierra Leone has slipped from 140 in 2012 to 160 in 2018, and the country under-performs vis-à-vis Ghana, Cote d'Ivoire and Rwanda.

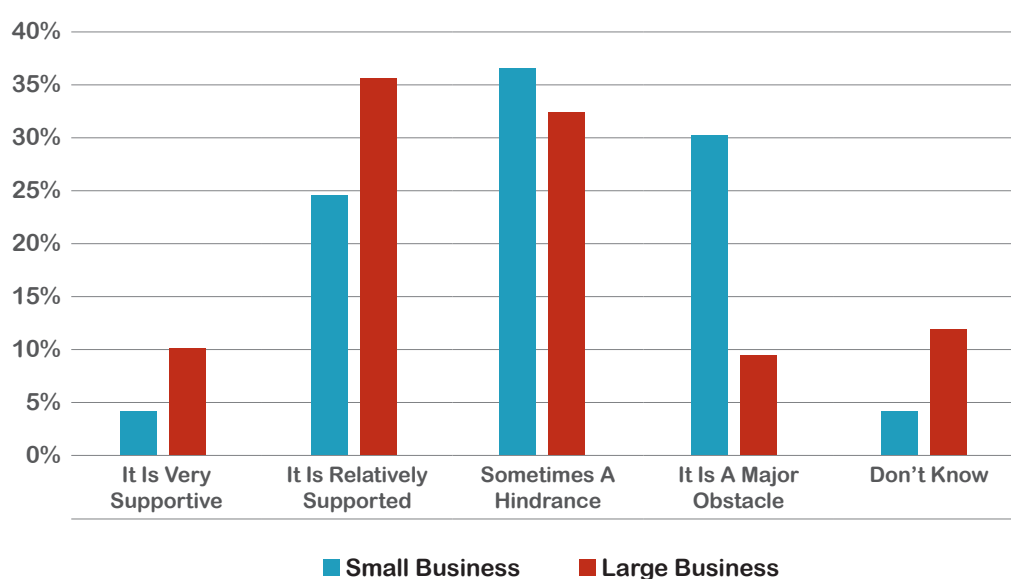
- ▶ Reforms are undermined by weak implementation capacities, most notably caused by a lack of institutional coordination, overlaps of government agencies' goals, delayed disbursement of government resources and unpredictable donor support;

- Small enterprises identify low market demand as the most important issue affecting small businesses, followed by taxation and cost of inputs/services (Graph 3).

- The majority of interviewees also indicate that the government does not (or insufficiently) provide the services or incentives for businesses, such as access to tenders; social security benefits; tax benefits; worker/ staff training programme; small enterprise/ business development support, and access to SME finance (Graph 4). In terms of labour laws, survey respondents tend to agree that labour laws are either partially or generally not respected (Graph 5).

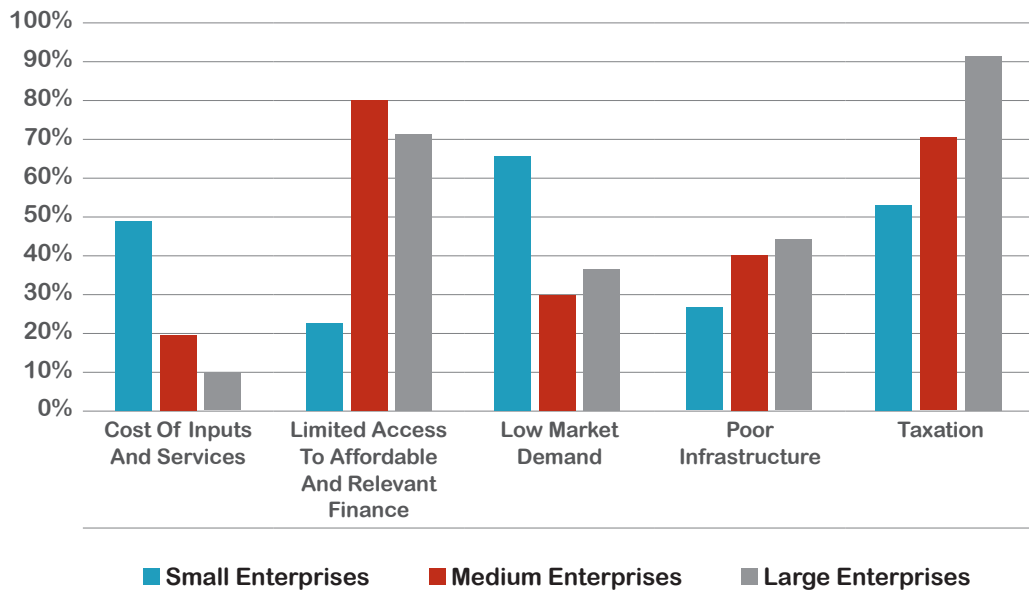
- Paying taxes and social contributions was mentioned by all medium enterprise respondents and most large enterprise respondents as the main barrier to formalize. Other barriers relate to registration costs and red tape.

Graph 2: Regulatory environment as it affects small and large businesses (all respondents)



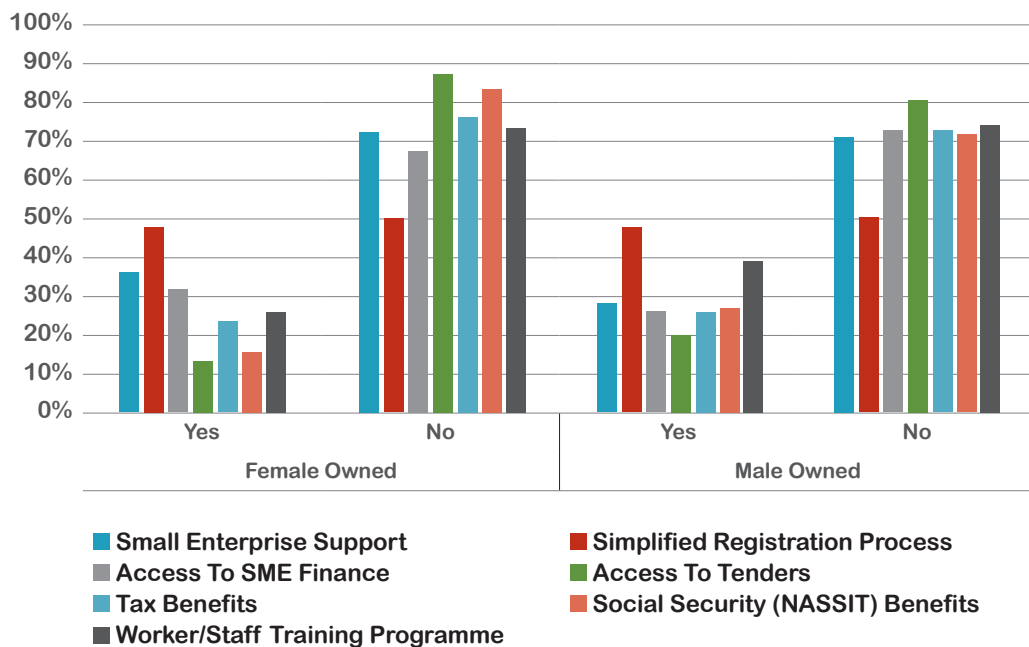
Source: ESEE survey

Graph 3: Most important things affecting businesses



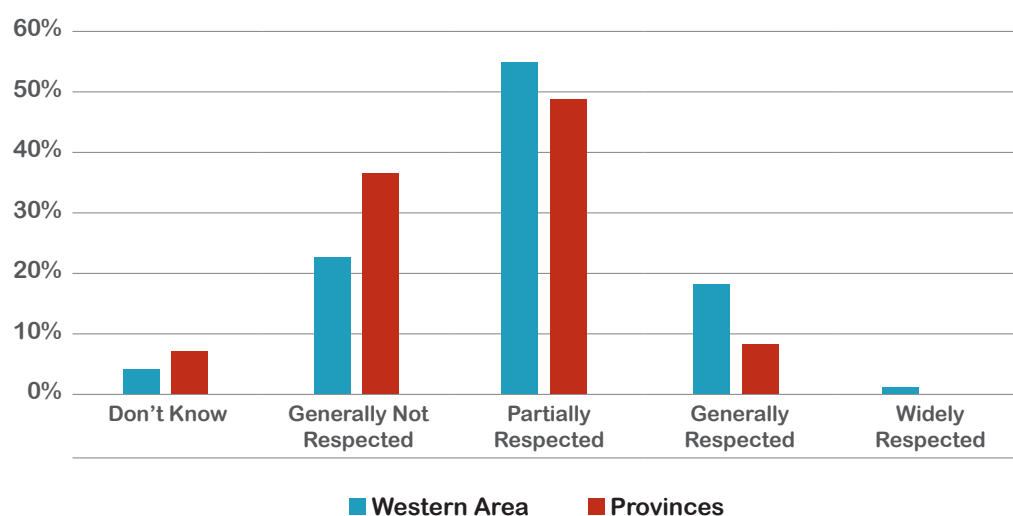
Source: EESE survey

Graph 4: Does government provide any of the following services/incentives for SMEs?



Source: EESE survey

Graph 5: From the perspective of the business community, are labour laws generally respected in Sierra Leone?



Source: EESE survey

5. Rule of law and secure property rights

- ▶ Despite several government initiatives to improve the justice system, it is problematic, with very costly and complex procedures.
- ▶ Physical property rights are poorly protected, and the population perceives the justice system as being corrupt.
- ▶ Sierra Leone's performance in the *Rule of Law Index*, which measures the confidence in rules in society as well as compliance with these rules, lags behind compared to Rwanda, Ghana and Ivory Coast.

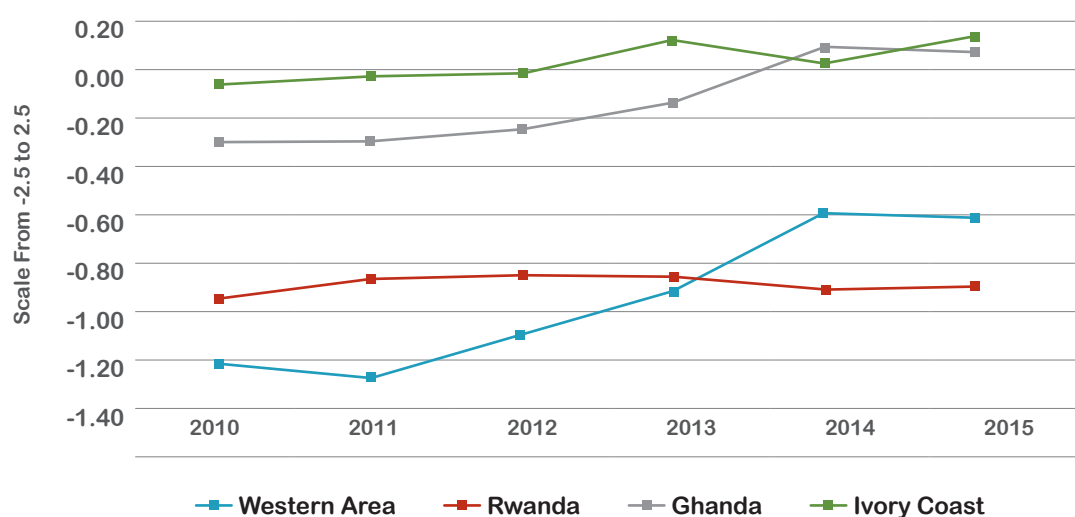
6. Information communication technologies

- ▶ Mobile network connectivity has expanded greatly in recent years, yet internet usage remains much less developed.
- ▶ ICTs remain extremely costly, most particularly broadband connections.

7. Access to finance

- ▶ The Central Bank of Sierra Leone has made several strides to increase access to finance, in terms of financial inclusion, digital finance, establishment of a credit reference bureau, introduction of a risk-based model and the establishment of the collateral register.

Graph 6: Rule of Law Index



Source: World Bank



- ▶ Despite these measures, access to credit is still a major challenge for businesses, particularly in Western Province. Barriers to finance include insufficient collateral, high loan costs, and a lack of guarantors.
- ▶ Agricultural MSMEs are most excluded by banks.
- ▶ The main sources of funding are own savings; family and friends, commercial banks, informal savings and money lenders followed by micro-lenders.

More than half of the respondents (56%) state that policies were either not or hardly conducive to small business growth. Interviewees perceive that access to finance is more difficult for formal businesses, compared to informal ones. Female-owned entrepreneurs face more challenges to access formal finance than their male counterparts.

8. Physical infrastructure

- ▶ Most businesses consider physical infrastructure to be a challenge.
- ▶ Despite of numerous investments in the transport and communication sectors, public services in Sierra Leone are costly and their penetration rates are low.

A survey conducted in 2017 showed that lack of access to electricity was the second-largest impediment to growth of local enterprises, although it had increased over time. 43% of respondents in the provinces say that the quality of electricity supply was either poor or very poor. 26% of respondents in the western area shared this view. Some respondents commented that roads in Freetown have significantly improved. Yet road quality in the provinces was viewed as problematic.

Social conditions

9. Entrepreneurial culture

- ▶ High rates of youth under- or unemployment call for the development of an entrepreneurial culture. Yet young people prefer a wage job.
- ▶ The main reasons preventing young people from starting a business are:
 - Lack of access to appropriate funding;
 - Lack of information on how to start a business;
 - Lack of skills and training;
 - Preference for wage jobs; and
 - Unsuitable education system.

- Some respondents from large enterprises mentioned that skills deficits hamper entrepreneurial aspirations (particularly in the provinces) and that this affects the success rate among businesses. This may be due to the fact that in the provinces, fewer universities and technical and vocation training centres are located.
- Key informant interview respondents from the tourism sector commented that many businesses die within two or three months due to lack of 'technical know-how' to run a business.

10. Education, training and lifelong learning

- ▶ Technical Vocational Education and Training (TVET) centres are unable to adapt to the needs of the private sector.

Most employers mention that overall, Sierra Leone's work force does not have the necessary skills. Part of this problem can be attributed to the quality of Sierra Leone's education system. Yet enterprises (of all sizes) also offer few training opportunities to their employees.

Methodology

Between 2017 and 2018, the ILO supported its constituents to conduct an assessment of the Enabling Environment for Sustainable Enterprises (EESE) in Sierra Leone, based on the ILO methodology. The EESE methodology includes 17 conditions which constitute an enabling environment for sustainable enterprises, clustered in political, economic, social and environmental elements.

The EESE assessment report is based on:

- » A perception survey among 497 micro, small, medium and large enterprises (formal and informal) in the Western Area, Bo, Bombali, Kenema and Kono Districts;
- » A survey among 100 workers of these enterprises;
- » 30 key informant interviews;
- » Secondary data from internationally recognised institutions (e.g. World Bank, UNDP, WEF) on Sierra Leone and Ghana, Cote d'Ivoire and Rwanda, which were selected as comparison countries.

The assessment report includes secondary data on all 17 conditions, whereas the enterprise survey zooms in on 10 of the 17 conditions. Prioritisation of these conditions was done by a National EESE Task Team, which consists of representatives from government, employers' and workers' organisations, and which oversaw the entire assessment process.

The full report is available under <http://www.ilo.org/eeese>

For further information, please contact the ILO EESE Team: eeese@ilo.org