AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Country Focus Report 2025

Sierra Leone

Making Sierra Leone's Capital Work Better for its Development

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African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org

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The preparation of the report was led by Desire Vencatachellum (Senior Director, Country Economics Department – ECCE), with Marcellin Ndong Ntah(Lead Economist, ECCE) as Technical Coordinator of the process, Abir Bdioui (Consultant, ECCE) for IT support, Aminata Kouma Moulod(Product Management Specialist, ECCE) for the monitoring of copy editing and design and Eugenia Grant (Team Assistant, ECCE) for administrative support. The CFR 2025 for Sierra Leone was prepared by Prosper Charle (Country Economist) under the supervision of Jacob Oduor (Lead Economist).

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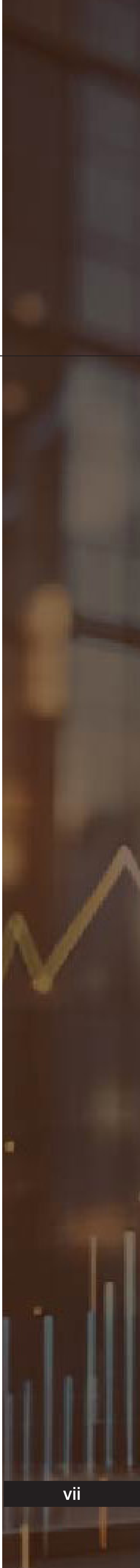
ACRONYMS AND ABBREVIATIONS

CBE	Census of Business Establishments
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
IFFs	Illicit Financial Flows
MDAs	Ministries, Departments and Agencies
MSME	Micro, Small, and Medium Enterprise
MTRS	Medium-Term Revenue Strategy
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development



EXECUTIVE SUMMARY

Inflationary pressures partly explain the slowing growth in Sierra Leone's real GDP to 3.9% in 2024 from 5.7% in 2023. The fiscal deficit narrowed, while tight monetary policy and exchange rate stability helped inflationary pressures ease. Public debt is sustainable, but the risk of debt distress is high. Outlook is positive with real GDP growth projected at 4.4% in 2025 and 4.8% in 2026, driven by services, mining, and agriculture.

Sierra Leone's financing needs are huge, while the country's fiscal space is squeezed, and structural bottlenecks constrain mobilization of capital by the private sector. To boost mobilization and utilization of capital Sierra Leone needs to enhance fiscal efficiency and improve the business environment for private sector growth. Also, targeted investments in health and education will lift the country's human capital.

Governance challenges, partly due to weak institutions and gaps in the legal and regulatory framework, restrict Sierra Leone's capacity to mobilize and utilize capital. The country should scale up governance reforms to curb corruption and reduce Illicit Financial Flows (IFFs) to increase revenue flows from natural resources.

GENERAL INTRODUCTION

Sierra Leone is a low-income country in West Africa with GDP per capita of USD 857 in 2024, and with more than half of the country's population living in poverty. Sierra Leone's economy is dominated by large informal services and agriculture sectors, and heavily reliant on natural resources. As a result, economic performance has been volatile. And, with trade to GDP ratio estimated at 43% in 2024, Sierra Leone's economy is considered open, and therefore, vulnerable to external shocks. Furthermore, the extreme dependence on agriculture and natural resources, coupled with high rates of poverty, unemployment, and environmental degradation, expose the country to climate change vulnerabilities. Sierra Leone is abundantly endowed with natural resources, including minerals, forests, fertile land for agriculture, and marine resources with blue economy potential. Sierra Leone's mineral resources include iron ore, rutile, diamonds, bauxite and gold., This natural resource wealth has not been optimally used for economic development. The country's natural capital remains underutilized, including about three quarters of the arable land that is not under cultivation, while the problem of food insecurity persists.

The Country Focus Report for Sierra Leone is aligned with the Bank's 2025 African Economic Outlook (AEO) report. The report is structured in three chapters. The first chapter presents the recent key macroeconomic trends and medium-term outlook and risks and outlines the policy options to accelerate economic development. Chapter 2 examines the effectiveness of domestic capital mobilization in Sierra Leone. It explores innovative strategies to harness Sierra Leone's key sources of capital, including the domestic capital market, natural capital, human capital, and business capital. Chapter 3 discusses how institutional quality, governance, and the rule of law influence Sierra Leone's ability to mobilize domestic capital and promote sustainable development.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK

Key Messages

- GDP growth slowed to 3.9% in 2024 from 5.7% in 2023 partly explained by inflationary pressures.
- Inflation declined to 30% in 2024 from 47.0% in 2023, due to stability in the exchange rate and tight monetary policy.
- Fiscal deficit narrowed to 3.2% of GDP in 2024 from 5.2% in 2023 helped by revenue performance and prudent expenditure management.
- Public debt at 46.5% of GDP is sustainable, but the risk of debt distress remains high.
- The current account deficit narrowed to 4.4% of GDP in 2024 from 5% of GDP in 2023 supported by higher mineral exports.
- Outlook is positive, with growth projected at 4.4% in 2025 and 4.8% in 2026 driven by services, agriculture and mining on the supply side and consumption and investment on the demand side.

1.1 Introduction

This chapter presents Sierra Leone's recent economic performance up to 2024 and provides updated growth projections over the period 2025-2026. It discusses the main downside risks and upside triggers to the outlook. The chapter assesses macroeconomic trends, fiscal policies, inflation, public debt, and financial flows. It offers policy options to foster high and resilient growth, macroeconomic stability, economic transformation and building resilience to shocks. It also presents an analysis of social development using the available measures of poverty, inequality, and employment.

1.2 Growth performance

Sierra Leone's economy has recovered from COVID-19 induced recession, but growth is not sufficiently inclusive. Sierra Leone's economy grew at an average annual rate of 3.9% over the past five years 2020-2024), weighed down by the COVID-19 pandemic which caused disruptions in key sectors of the economy. Growth of per capita GDP averaged only 1.6% during 2020-24 period, less than half of GDP growth – a clear sign that Sierra Leone's economic growth has not been sufficiently inclusive. This is due partly to structural weaknesses – particularly an infrastructure deficit – that curb private sector growth, especially agro-industry. The economy contracted by 1.3% in 2020 but recovered to 5.9% in 2021, driven by services and the mining sector. Growth remained resilient at 5.3% in 2022 and 5.7% in 2023 despite external shocks which triggered rapid increases in commodity prices. Lingering inflationary pressures dampened GDP growth at 3.9% in 2024 (see Table 1), prompted by mining, agriculture and services on the supply side and investment and private consumption on the demand side.

1.3 Other recent macroeconomic and social developments

1.3.1 Monetary Policy, Inflation, Exchange Rate

Monetary policy has been kept tight since 2022 to combat inflation. The Bank of Sierra Leone increased the policy interest rate from 14.25% in March 2022 to 24.25% in September 2024 to bring down the inflation rate. This had surged to 47.0% in 2023 from 27.0% in 2022, impelled by higher food and fuel prices, removal of the fuel subsidy, depreciation of the currency and supply-side constraints. The policy action helped to reduce the rate of inflation to 30% in 2024, but the resultant higher market interest rates slowed credit growth to the private sector from 25% year-on-year in 2023 to 21% in 2024. Both the policy rates and market rates are expected to fall in the near term following the decline in inflation. Exchange rates stabilized around SLL 22.6 per USD in 2024 following moderate depreciation of 5% in 2024 compared to 50.4% in 2023.

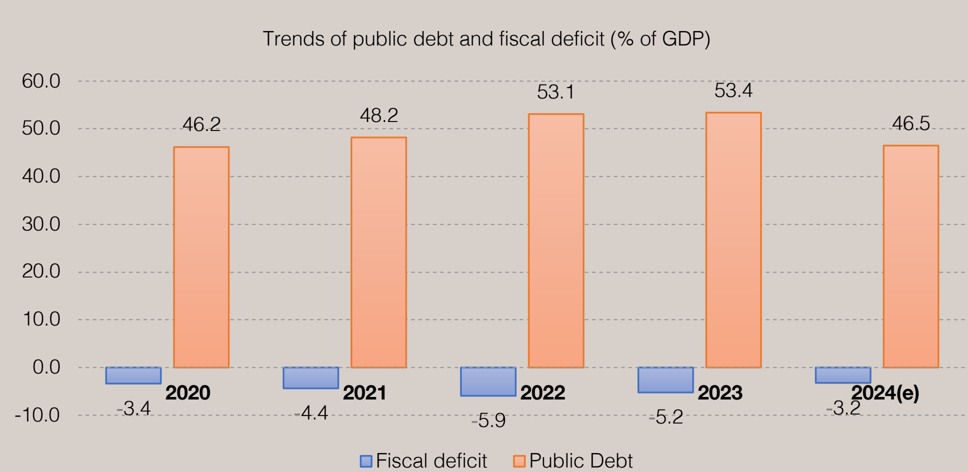
1.3.2 Financial sector

Sierra Leone's financial sector is underdeveloped and dominated by commercial banks, which account for more than two thirds of financial assets. The banking sector is, however, adequately capitalized, sufficiently liquid, and profitable. The country's financial sector consists of 14 commercial banks, 17 community banks, 50 microfinance institutions, of which five are deposit-taking institutions, three Mobile Money Operators, and 59 Financial Services Associations. Banking sector profitability relies mostly on domestic banks' investment in government securities. The banking sector's Capital Adequacy Ratio was 42% in 2024, well above the regulatory minimum of 15%. The Non-Performing Loans (NPL) ratio declined from 8.8% in December 2023 to 7.5% in June 2024, below the prudential threshold of 10%.

1.3.3 Fiscal Policy and Public Debt

Fiscal consolidation measures have contained deficits, and public debt has remained sustainable, but the risk of debt distress remains high. Fiscal policy in Sierra Leone aims to pursue sustainable fiscal consolidation through higher

Figure 1: Trends in fiscal balance and public debt in Sierra Leone



domestic revenue collection and prudent expenditure management. Public expenditures are estimated at 16.1% of GDP in 2024 while domestic revenues have remained low at around 8% of GDP. The fiscal deficit narrowed to 3.2% of GDP in 2024 from 5.2% in 2023 due to improved revenue performance and careful expenditure management, involving reduction of extrabudgetary spending, and was financed by external and domestic borrowing. Public debt declined from 53.4% of GDP in 2023 to 46.5% of GDP in 2024 largely due to lower borrowing as well as prioritization of concessional loans to finance the fiscal deficit. Public debt is sustainable, but the risk of debt distress remains high because of the unfavorable ratio of public debt service to revenues. Scaling up domestic revenue mobilization is therefore key to addressing the country's debt vulnerabilities.

1.3.4 External Position – External Financial Flows

Sierra Leone's external trade and capital flows have been volatile. The current account deficit narrowed to 3.8% of GDP in 2024 from 5% of GDP in 2023, supported by higher mineral exports and an increase in grants. Most of the country's exports are unprocessed commodities such as iron ore, diamonds, rutile, and bauxite. Minerals account for two thirds of Sierra Leone's exports. The bulk of imports include food items such as rice, as well as petroleum, and machinery. The current account deficit is financed by the financial account, particularly through net current transfers (remittances, foreign aid, and grants). Foreign Direct Investment (FDI) inflows to Sierra Leone increased from USD 186 million in 2022 to 263 million in 2023, to the extractive sectors. Gross foreign reserves declined from 2.6 months of imports in 2023 to 2.4 months of imports in 2024.

1.3.5 Social developments

Sierra Leone is characterized by high levels of poverty, and income inequality. Based on the available estimates from the government's household budget surveys, the poverty rate declined from 62.4% in 2011 to 56.8% in 2018. However, poverty has been exacerbated by the rising cost of living and food insecurity which has intensified in recent years due to the increase in food prices. Inequality increased as indicated by a rise in the Gini coefficient from 0.33 to 0.36 between 2011 and 2018. Poverty is higher in rural areas (73.9%) compared to urban areas (34.8%). Youth unemployment is high at 10%, and an estimated 60% of the 15-35 aged population are unemployed or underemployed, while 50% are illiterate or unskilled.

1.4 Macroeconomic Outlook and Risks

1.4.1 Outlook (Economic growth – Inflation - Fiscal and External position)

GDP growth is projected to increase to 4.4% in 2025 and 4.8% in 2026 driven by services, and expansion in mining and agriculture on the supply side, and consumption and investments on the

Box 1: Domestic resource mobilization efforts and development finance gap

Domestic revenue performance improved from 7.2% of GDP in 2022 to 7.9% of GDP in 2023, and further to a likely outturn of 8.9% of GDP in 2024. This is attributed to dividend payments, and revenue administration measures, including strengthening compliance. Sierra Leone's domestic revenue effort averaged around 8% of GDP over the past five years – significantly lower than Sub-Saharan Africa average of about 15%, and even lower than the estimated average of 10% of GDP for low-income countries. Low revenue effort is partly explained by high level of informality and gaps in tax administration. The authorities are implementing a Medium-Term Revenue Strategy (MTRS 2023-27) focusing on tax policy and revenue administration measures.

Table 1: Key Macroeconomic and Social Indicators

	2020	2021	2022	2023	2024(e)	2025(p)	2026(p)
Real GDP Growth	-1.3	5.9	5.3	5.7	3.9	4.4	4.8
Real GDP Growth per Capita	-3.6	3.6	3.0	3.4	1.7	2.2	2.8
Inflation	13.5	11.9	27.0	46.6	30.0	18.8	16.1
Overall Fiscal Balance, Including Grants (% GDP)	-3.4	-4.4	-5.9	-5.2	-3.2	-4.6	-2.3
Current Account (% GDP)	-4.3	-5.8	-6.0	-5.0	-4.4	-5.1	-4.3

Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2025

demand side. The fiscal deficit is projected to widen to 4.6% of GDP in the 2025 due to high financing needs, low domestic revenue and elevated debt service obligations, and will be financed by domestic and external borrowing. The current account deficit is projected to widen to 4.7% of GDP in the medium term, partly explained by slowdown in export performance because of an uncertain global economic environment caused by the recent US aid cuts and imposition of tariffs.

1.4.2 Risks

The key downside risks to growth include inflationary pressures, uncertain global economic environment, high levels of food insecurity, an infrastructure deficit – especially in energy and transport – a narrow tax base, and climate-related risks. Mitigation measures include fast-tracking the agriculture transformation program for food security, targeted investments for infrastructure development, strengthening institutional capacity for climate action, and scaling up measures for domestic resource mobilization, including actions to increase revenues from mining sector.

1.5 Policy Options to accelerate Sierra Leone's economic development

Key policy options for Sierra Leone to accelerate growth, support its economic transformation, and build resilience to shocks include:

- Measures to expand the tax base, including innovative ways to bring the informal sector into the tax net, such as digital solutions, and to increase revenues from the mining sector.
- Strengthening coordination in implementing fiscal and monetary policies to curb inflationary pressures.
- Fiscal adjustment measures to reduce short-term domestic financing, which is costly and could increase the country's debt vulnerabilities as well as crowd out credit to the private sector.
- Structural reforms to accel¬erate economic diversification, value addition and competitiveness for inclusive growth, and strengthening human and institutional capacity for climate action,
- Targeted public investments to reduce infrastructure deficits, especially in energy and transport, to lower the cost of doing business and unlock the country's private sector potential.
- Targeted investments to boost the country's human capital, including in education and skills development, health, and nutrition.

2

BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION

Key Messages

- Sierra Leone's annual financing needs to fast track economic transformation by 2030 are estimated at USD 2.1 billion, most of which is for infrastructure.

- The country's fiscal space is tight, with domestic revenues averaging 8% of GDP over the past three years. The tax-revenue-to-GDP ratio is estimated at 6.8% in 2024, less than half of the Sub-Saharan Africa average of about 15%.

- Sierra Leone's natural capital wealth increased from USD 9.8 billion in 1996 to USD 40.8 in 2020, driven by increases in the values of agricultural land, fisheries, and mineral resources.

- About 90% of the private sector enterprises in Sierra Leone are MSMEs, accounting for approximately 70% of employment and about 60% of GDP, while 71% of businesses are informal.

- Sierra Leone's human capital index remains low at 0.36, partly a result of indicators of weak early childhood development, a difficult learning environment and inadequate health and nutrition.

- Sierra Leone's financial sector is shallow, with domestic credit to the private sector by the banks estimated at 3.2% of GDP compared to the Sub-Saharan African average of 27.7% of GDP in 2023.

2.1 Introduction

This section highlights the financing constraint of the republic of Sierra Leone in domestic resource mobilization, expenditure efficiency and debt sustainability. The section assesses fiscal resources and identifies key forms of capital, including natural capital, human capital, domestic capital market, and business capital available to the country, to trace their usage, efficiencies and gaps. The section aims to determine how effective mobilization and utilization of these resources in Sierra Leone could facilitate future growth, structural transformation, and sustainable development.

2.2 Fiscal resource mobilization

2.2.1 Sierra Leone's financing needs

According to the 2024 Country Focus Report for Sierra Leone, annual financing needs to fast track economic transformation by 2030 are estimated at USD 2.1 billion. Infrastructure accounts for the bulk of this amount. The resources needed to implement the government's medium-term development plan are estimated at USD 12.05 billion for seven years (2024-2030), which translates to USD 1.7 billion annually. The country's fiscal space is squeezed, as demonstrated by low domestic revenues – averaging 8% of GDP over the past three years, while public expenditures averaged 16% of GDP.

2.2.2 Tax revenue

At 6.8% Sierra Leone's tax-revenue-to-GDP ratio is lower than Sub-Saharan Africa's average of about 15%. The low tax revenue effort is partly explained by informality and gaps in tax administration – including tax exemptions, non-registration of eligible businesses, and weak compliance due to low filing rates, and inaccurate reporting and undercharging by registered business. Personal income tax accounts for the largest share of tax revenue (29%) followed by goods and services tax (22%), corporate income tax (17%), import duties (13%) and other taxes (19%).

2.2.3 Non-tax revenues

Sierra Leone's non-tax revenues account for about 15% of the country's domestic revenues and have averaged 1.2% of GDP over the past three years. The country's non-tax revenue performance is lower than regional peers like the Gambia which collected an average of 2.9% of GDP in non-tax revenue over the past three years, and Liberia which collected an average of more than 2% of GDP over the same period. The main sources of non-tax revenue in Sierra Leone include service fees, payments for licenses, fines, and royalties. With low levels of domestic revenues, Sierra Leone depends on grants – estimated at about 4% of GDP – to finance the fiscal deficit. Official Development Assistance (ODA), which averaged about 5-6% of GDP over the past five years, plays an important role in financing Sierra Leone's development programs. According to OECD data, annual ODA inflows to Sierra Leone during the 2019-2023 period averaged USD 685.8 million, with multilateral organizations (mostly the World Bank and the AfDB) accounting for the largest share (73%), while G7 countries (USA, UK, Canada, Germany, France, Italy and Japan) accounted for 21% of the flows.

2.2.4 Mobilizing domestic fiscal resources and expenditure efficiency

Expanding the tax base is urgent. The country's key fiscal management risk is related to debt vulnerability, particularly with the ratio of total debt service to revenues exceeding 100%. Heavy debt service obligations are crowding out critical spending in agriculture, education, health, infrastructure and other programs that should have directly benefited the poor and vulnerable population. The authorities are currently implementing a Medium-Term Revenue Strategy (MTRS 2023-27), which aims to expand the tax base through tax policy and revenue administration measures. The MTRS prioritizes enhancing implementation, compliance, tax administration and better mining revenues. Key public expenditure management measures include reducing energy subsidies, improving cash management of public procurement, and strengthening government wage bill management.

2.3. Sierra Leone's Natural Capital

2.3.1 Overview of Sierra Leone's natural capital

Sierra Leone is rich in both renewable and non-renewable natural capital, with an estimated value of USD 40.8 billion in 2020. The country's renewable natural capital includes fisheries, forestry, agricultural and pasture lands, mangroves and pro¬tected areas. The non-renewable capital comprises a vast array of minerals including dia¬monds, rutile, bauxite, gold, iron ore, limonite, platinum, chromite, coltan, tantalite, columbite and zircon. Renewable natural capita accounts for 82% of Sierra Leone's natural capital, with

Table 2: Decomposition of natural capital (in Current USD Million)

	1996	2005	2010	2015	2020
Total Natural Capital	**9,775**	**16,890**	**35,909**	**61,512**	**40,808**
Renewable Natural Capital	**9,768**	**16,889**	**35,660**	**60,938**	**33,438**
Agricultural land	5,496	11,496	28,328	49,826	22,227
Fisheries	122	350	223	265	443
Forest recreation, hunting and fishing services	21	47	19	27	2,583
Forest water ecosystem services	231	399	632	1,042	996
Hydropower energy			-	16	210
Mangroves	26	27	29	54	89
Non-wood forest protection ecosystem services	511	659	623	629	654
Timber	3,362	3,911	5,806	9,078	6,237
Nonrenewable Natural Capital	**7**	**2**	**249**	**574**	**7,369**
Iron ore				486	7,129
Other minerals	7	2	249	89	240

agricultural land alone accounting for more than half (54%). Iron ore accounts for 97% of the country's nonrenewable capital.

2.3.2 Economic contribution of Sierra Leone's Natural capital

Sierra Leone's economy is heavily dependent on natural capital. Agriculture accounts for 35% of GDP and employs more than half the labor force. Although the share of mining in GDP is only 6% of GDP, it accounts for more than half of exports. As the economy recovered from Covid-19-induced recession, recording average annual growth of 5.6% during the 2021-23 period, the mining sector accounted for 30% of GDP growth, while agriculture sector accounted for 16%. And in 2023 when the economy recorded a surprise 5.7% growth, 2.4 percentage points (46.3%) of this growth was from the mining sector. However, the country gets less than 1% of GDP in revenues from the mining sector. The country's energy transition and green growth envisages significant expansion in hydropower generation through 2040 in boosting electrification. The country aims to leverage its natural capital for future green growth, including through sustainable agriculture and sustainable extractive industries – with particular focus on responsible mining to reduce the environmental impacts of mining operations.

2.3.3 Estimates and Dynamics of natural capital

Sierra Leone's natural capital increased four-fold, from $9.8 billion in 1996 to $40.8 billion in 2020. Renewable natural capital increased by 243%, while nonrenewable natural capital surged to $7.4 billion in 2020 from $7 million in 1996. The rise in renewable natural capital was driven by increases in the values of agricultural land, fisheries, forest recreation, hunting, and fishing services. The increase in nonrenewable natural capital was driven by the discovery of commercially viable iron ore deposits in the late 2000s. Renewable natural capital per capita increased from $2,247 in 1996 to $4,061 in 2020, while nonrenewable natural capital per capita increased from $1.6 in 1996 to $895 in 2020.

2.3.4 Challenges of leveraging Sierra Leone's Natural Capital

Sierra Leone's natural capital is not sufficiently reflected in the national accounts data. GDP was rebased (to 2018 constant prices) in 2024, including updating to the 2008 System of National Accounts. Apart from the improved coverage of the mining sector, the new national accounts methodology still does not sufficiently account for natural capital. Sierra Leone is estimated to have lost $15.2 billion through IFFs between 1980 and 2018 – equivalent to about 54% of the value of the country's total trade.

2.4 Business capital

2.4.1 Setting the stage

Business capital refers to the financial, physical, and intellectual assets that enterprises leverage to drive economic activity, investment, and production. This includes micro, small, and medium enterprises (MSMEs), large corporations, start-ups, industrial capital, and financial capital sources supporting businesses. About 90% of the private sector enterprises in Sierra Leone are MSMEs, accounting for approximately 70% of employment and about 60% of GDP. However, most of the MSMEs in Sierra Leone operate in the informal sector and face barriers to their growth potential.

2.4.2 Indicators of business capital

According to the findings of the government's Census of Business Establishments (CBE 2022), Sierra Leone had 165,514 establishments, 71% of them informal. However, Sierra Leone's new business density – (defined as the number of newly registered establishments per 1,000 working-age adults per calendar year) is only estimated at 0.44, much lower than the Sub-Saharan African density of 1.8 per 1,000 adults, although slightly higher than the estimated density of 0.2 per 1,000 for low-income countries. According to CBE 2022, a total of 7,048 new businesses were established in 2022, and 15,973 had been established during the 2019-2022 period. Most businesses in Sierra Leone have less than five workers, and only 3% of the establishments have 5-9 workers, while only 1.4% of the businesses have at least 10 workers.

2.4. 3 Challenges and opportunities for enhancing business capital in Sierra Leone

Businesses in Sierra Leone faces high operational costs and a difficult operating environment, including persistent corruption, which stifles competitiveness and discourages investment, as well as an infrastructure deficit. Inadequate access to finance holds back the growth of businesses, especially small and medium-scale enterprises, and limited business support services makes this worse. Furthermore, the business environment is stifled by the underdeveloped infrastructure, especially in transport and energy. The macroeconomic environment also weighs on private sector growth, particularly high inflation affecting private consumption, and high interest rates affecting private sector credit. Domestic borrowing by the government to finance fiscal deficits leads to crowding out of credit to the private sector. The absence of transparent and strong legal systems – partly demonstrated by the absence of competition law – restricts mobilization of business capital. Furthermore, a lack of a predictable regulatory environment discourages long-term investment and stifles entrepreneurial activity. Enhancing business capital mobilization requires better governance, including bolstering the legal and regulatory framework, improving infrastructure and strengthening the macroeconomic environment.

2.5 Sierra Leone's human capital

2.5.1 Current State of Human Capital in Sierra Leone

Sierra Leone's human capital index remains low at 0.36, held back by poor indicators of early childhood development. The country has prioritized human capital development by introducing innovative programs, including the free quality primary and senior secondary education program, and technical and vocational education, and training (TVET) to improve skills development and reduce youth unemployment. Despite these efforts, the adult literacy rate remains low at 49% compared to the Sub-Saharan African regional average of 68%, and learning outcomes are poor, especially at the end of secondary schooling. A plus is that gender parity has been achieved in primary and junior secondary school enrolment. The primary completion rate is 68%, while transition to junior secondary school is 88%. Despite recent progress in enrolments, infrastructure for science, technology, engineering, and mathematics (STEM) education remains weak. Health indicators have improved recently, with life expectancy increasing from 39 years in 2000 to 62 years in 2024; under five-mortality declining from 267 (out of 100,000) in 2000 to 100 in 2022, and infant mortality declining from 142 in 2000 to 76 in 2022. Although maternal mortality declined from 717/100,000 in 2019 to 443 in 2020, it is still one of the highest in the world.

2.5.2 Major Barriers to Human Capital Development in Sierra Leone

Among barriers to human capital development in Sierra Leone are a difficult learning environment, and problems of health and nutrition. The country's average pupil-to-qualified teacher ratio at 58:1 highlights the need for more qualified teachers in basic and senior secondary schools. The ratio of medical doctors per 100,000 people is 13.4, far lower than West Africa's average of 27.7 and the Sub-Saharan African average of 35.7. Furthermore, prevalence of undernutrition – estimated at 28% of the population – is higher than the 15% prevalence for West Africa.

2.5.3 Investing in Education and Skills Development

Education outcomes in Sierra Leone remain below the level required to effectively support the country's transformation. Gross enrollment increased from 73% in 2001 to 157% in 2023 for primary schools and from 25% in 2001 to 70% in 2021 for secondary schools, demonstrating

Table 3: Key indicators of Education, Health, and Workforce in Sierra Leone

	Year	Sierra Leone	West Africa	Africa
Labor Force Participation (%)	**2024**	**53.5**	**72.7**	**65.4**
Life Expectancy at Birth (years)	**2024**	**62.0**	**58.6**	**64.4**
Infant Mortality Rate (per 1,000)	2022	76.0	59.9	44.8
Child Mortality Rate (per 1,000)	2022	100.8	92.8	64.1
Total Fertility Rate (per woman)	2024	3.7	4.3	4.0
Maternal Mortality Rate (per 100,000)	2020	443.0	743.3	459.4
Adult literacy Rate – Total (%)	2012-22	48.6	57.7	68.8
Adult literacy Rate – Male (%)	2012-22	56.0	67.4	75.5
Adult literacy Rate – Female (%)	2012-22	41.3	48.4	61.9

Source: AfDB Statistics Department, February 2025

Box 2: Reforms and investments in education that have worked well

The case of Seychelles

The Republic of Seychelles has the highest HDI in Africa, at 0.8 in 2022 and it has performed consistently above the world average since 2000. The country's life expectancy at birth increased from 69 years in 1990 to 71.7 years in 2022 while the expected years of schooling increased by 0.9 years between 2000 and 2022. To boost its human capital, the Government of Seychelles introduced policy initiatives and reforms in the higher education and human resource development sectors. These include establishing the University of Seychelles in 2009 and revising the Government Scholarship Scheme in 2012. The government also created the Agency for National Human Resource Development to oversee human resource initiatives. In response to the changing landscape for technological innovation, the government introduced the National Human Resource Development Policy and Strategy in 2018, aimed at harmonizing and strengthening efforts to develop the national workforce to meet the changing national and global demand for skills in the 21st century. These actions contributed meaningfully to increased quality of human capital in Seychelles over the past decade. Seychelles has a literacy rate of 96.9% as of 2021, underpinned by universal free primary and secondary education.

policy focus for expansion of access to basic education. However, transitions to higher levels remain poor, with only 32.2% of pupils in primary schools attaining junior secondary, while only 21.8% reach senior secondary level due to high dropout rates. To improve its human capital, the country needs to improve its education and training systems, to ensure inclusive access and quality from early learning, basic education, vocational and technical, to tertiary and high education.

2.5.4 Health as a Pillar of Human Capital Development

Sierra Leone recorded some improvements in health indicators over the past two decades, including increasing life expectancy, and reducing infant and child deaths. However, a shortage of qualified personnel hampers the health system, as highlighted by the low number of physicians per 100,000 people – estimated at 2.2 compared to 47.9 for Africa and 123.8 for developing countries on average. Also, the country has 16.6 nurses and midwives per 100,000, compared to 135.4 for Africa and 220 for developing countries. The country needs to substantially invest in human resources for health.

2.6 Financial Capital

2.6.1 Domestic capital and /financial markets

Sierra Leone's financial sector remains shallow, lacking depth and breadth for effective resource mobilization. The sector is dominated by commercial banks, with two state-owned banks accounting for about 30% of total banking sector assets. The total assets of the financial sector are estimated at 43% of GDP.

2.6.2 The State of Financial Development in Sierra Leone

Sierra Leone's financial sector has cumulative assets representing more than 70% of total domestic financial sector assets. The sector is small and underdeveloped. Sierra Leone's financial sector is shallow, as demonstrated by domestic credit to private sector by the banks which is 3.2% of GDP compared to the Sub-

Saharan African average of 27.7% of GDP in 2023.

2.6.3 Mobilizing Financial Resources for Sierra Leone's Development

Sierra Leone's financial markets, and specifically, the contribution of capital to the real economy market, are inefficient. The domestic financial market is particularly shallow and is mainly driven by investments by commercial banks in government securities (Treasury bills and bonds). The domestic stock exchange, Sierra Leone Stock Exchange, created in 2009 is largely inactive with only one firm listed – Rokel Commercial Bank, which is a public-owned bank. Furthermore, the pool of investors within the domestic capital market is small and insufficiently diversified. At the macroeconomic level, this situation continues to weigh on the effectiveness of monetary policy and mobilization of longer-term securities which are critical to funding infrastructure projects and attract foreign investment.

2.6.4 Off-shore-linked financial resources for Sierra Leone's development

Sierra Leone has an extensive diaspora, enabling the country to attract personal remittances to the tune of about 4% of GDP annually. The country also received inflows of foreign direct investment (FDI) of 3% of GDP in 2023. While FDI inflows have propelled the growth of the country's mining sector, making it the largest foreign exchange earner, Sierra Leone has not managed to make best use of the inflow of personal remittances for transformative investments.

2.6.5 Innovative finance

Innovative sources of financing to help Sierra Leone mobilize capital include:

- Leveraging the fintech ecosystem for more efficient savings mobilization. In Sierra Leone, as in many other African countries, mobile/digital money has become an affordable and convenient mechanism for delivering financial services to financially excluded populations. Mobile money can foster mobilization of domestic savings, which is important for financial inclusion and sustainable economic growth.
- Climate financing: Sierra Leone can tap into the available climate financing opportunities to boost mobilization of capital. According to the AfDB's 2023 country focus report for Sierra Leone, the country received $235 million for climate finance, out of which $26 million was from the private sector.
- Blended finance: Because of its ability to derisk private sector capital, blended finance is a powerful tool for mobilizing financial resources, especially when high-risk, high-reward projects are just below the threshold for commercial viability.
- Securitization of remittances and diaspora bonds: Sierra Leone can tap its large diaspora for securitization of remittances and diaspora bonds, another potential avenue to mobilize financing for development.
- Curbing Illicit Financial Flows: Studies (for instance Hunter and Smith, 2017) have shown that because of governance gaps, small-scale mining projects contribute to money laundering and IFFs with little taxation revenue for the government. Eliminating IFFs will unlock additional financing.

2.7 Policy Recommendations

Sierra Leone's financing needs are huge, while the country's fiscal space is squeezed, and mobilization of capital by the private sector is also constrained by structural bottlenecks. Key recommendations to the government include

(i) Improve expenditure efficiency, by reducing non-priority spending.

(ii) Expand the tax base, including using digital solutions to increase tax revenue from the informal sector and reducing inefficiencies in tax exemptions.

(iii) Scale up reforms to improve the business environment for private sector growth to boost the country's revenue potential. This should be combined with public investments to cut the infrastructure deficit to reduce the cost of doing business.

(iv) Improve the business climate by lowering entry barriers and scale up SME financing through microcredit, mobile platforms, and guarantee schemes.

(v) Implement governance reforms to curb corruption and reduce IFFs to increase tax revenues from the country's natural resources.

(vi) Institutionalize environmental-economic accounting, improving transparency in mining and agriculture, and channel resource revenues into infrastructure and resilience-building.

(vii) Restore public trust and attract investment by strengthening public sector accountability, streamlining regulations, and empowering oversight institutions.

(viii) Expand access to quality education and health services, including investing in vocational training, and addressing gender disparities in economic participation.

3

HARNESSING SIERRA LEONE'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT

Key Messages

- The Sierra Leone state's capacity to mobilize and utilize capital efficiently is constrained by deficiencies in governance, including weak institutions, and gaps in legal and regulatory frameworks.
- The country has made notable improvements in some of the governance indicators over the past decade, including improvements in security and public safety.
- Absence of competition law in Sierra Leone limits the state's capacity as impartial regulator in creating a level-playing field for the private sector in the country.

3.1 Introduction

This chapter explores how institutional quality, governance, and the rule of law influence Sierra Leone's ability to mobilize domestic capital and promote sustainable development. The chapter highlights the role of government in achieving prosperity for citizens and examines the potential of the country's natural resources endowment to drive sustainable economic growth and foster structural transformation. The chapter examines the state of institutional capacity, and outlines governance reforms needed to curb any financial leakages and inefficiencies and facilitate mobilization of capital for development.

3.2 Institutional arrangement for the management and utilization of the various forms of capital

Sierra Leone is a country in transition facing fragility challenges, having emerged from civil war a little over two decades ago – in 2002. As a result, state and non-state institutions are weak in personnel technical capacity, staffing, financing, coordination and policy coherence, despite the clear demarcation of roles among the three branches of government, i.e., the executive, legislative and judiciary. The country has made progress in preserving peace and stability through peaceful elections since the cessation of hostilities. However, the rising cost of living impacted by food insecurity and poor living conditions in a politically polarized environment has heightened fragility. The elected president and Parliament generally determine government policy, but most power lies within the executive. Nevertheless, popular participation is increasing in the development process through active political competition and peaceful transfer of power through democratic elections, functioning media and thriving civil society organizations. These complement improvements in local governments and accountability institutions such as the Auditor General's Office, the Anti-Corruption Commission, the Ombudsman's Office, and the Human Rights Commission. If the independence of these institutions, as well as separation of power between the three branches of government, are strengthened, efficiency in public service delivery and poverty reduction can be enhanced. The stronger domestic coordination of elections and the culture of peaceful transfer of power despite fragility constraints is an opportunity for sustainable development.

3.3 Governance challenges in the management and utilization of the various forms of capital for resource mobilization

Sierra Leone has made progress in strengthening governance systems over the past decade, but challenges remain. Sierra Leone is among the 10 most improved countries in the Mo Ibrahim Index for African Governance over the past decade after moving up from 32nd position with a score of 46.6 in 2014 to 23rd position in 2023 with a score of 53, which is higher than 49.3 average score for Africa. Sierra Leone showed improvements in the Security and Rule of law category in the Mo Ibrahim Index from a score of 49.4 in 2014, when it ranked 29th, to a score of 56.1, up to 17th position out of 54 countries in 2023. On Transparency International's Corruption Perception Index, Sierra Leone's score increased from 33 out of 100 (ranking 117th) in 2020 to 35 in 2023 (ranking 108th out of 180) explained by the government's efforts in fighting corruption supported by legal and institutional reforms. However, the score shows that corruption is still a key challenge. The AfDB's Country Policy and Institutional Assessment governance score for Sierra Leone has hovered around 3.4 since 2020, with minimal improvement in transparency, accountability and corruption in the public sector.

Distortive regulatory measures hamper mobilization of business capital and exacerbate informality. The World Economic Forum's Global Competitiveness Report of 2018 ranked Sierra Leone 133rd out of 140 countries in competition in services and 134th in efficiency of clearance process. The country also ranks poorly at 131st out of 140 countries both in trade tariff as a percentage of duty and prevalence of non-tariff barriers. The distortive effects of taxes and subsidies on competition is also high. The country ranked 87th out of 140 countries on this sub-index in 2018. The country also ranked 118th out of 140 countries in the extent of market dominance. The high degree of market dominance implies a high degree of entry barriers in the formal sector. This could partly explain the prevalence of the informal sector in Sierra Leone.

Sierra Leone has neither a competition/anti-trust agency nor competition law. Mergers are governed by the Companies Regulations 2015 and the Corporate Affairs Commission exercises supervisory authority. Anti-trust issues such as abuse of dominant/monopoly position, cartel behavior, and exclusivity arrangements are regulated by the Ministry of Trade, but capacity gaps are associated with their exercise of this role as an ancillary duty as opposed to a principal responsibility. Although the country has a competition and consumer policy together with consumer protection law, it does not have a competition law, thus limiting the state capacity to regulate anti-competitive conduct.

3.4. The rule of law, the management and utilization of the various forms of capital

In Sierra Leone, the parliament is the main body that provides oversight of the executive. Sierra Leone has 31 departmental oversight select committee covering virtually all Ministries, Departments and Agencies (MDAs). The main function of these committees is to review/ and or scrutinize the laws governing the administration and general operations of the MDAs assigned to them. They also review/scrutinize programs, plans, policy objectives and operations of the MDAs and the effectiveness of their implementation. Other institutions that provide oversight of the executive include the Press, Civil Society Organizations, Community Based Organizations, and some advocacy groups such as Institute for Governance Reforms; many professional associations such as the National Association of Procurement Professionals. Unlike parliamentary oversight committees, these institutions conduct oversight through dialogue or the press by making available information to the public on issues of public interest.

Reforms for business environment: Sierra Leone continues to update its policies and regulations to improve business environment, attract foreign capital and boost private sector investment. Some investment incentives include tax relief on plant, machinery, equipment, research and development, training, and social services, as well as corporate tax holidays and expedited government services for Special Economic Zones. The country's Companies Act governs company incorporation, operations, and compliance. Recent amendments have streamlined processes and promoted transparency, including the creation of a Corporate Governance Code in 2019.

Labor market reforms: The country recently updated the legal framework for employment, enacting three labor acts in 2023 – (i) the Employment Act 2023, (ii) the Work Permit Act 2023, and (iii) the Overseas Employment and Migrant Workers' Act 2023. The Employment Act 2023 aims to consolidate and improve labor and employment law, to promote equal opportunity and eliminate discrimination in employment. The Work Permit Act 2023 regulates employment of non-citizens in Sierra Leone; while the Overseas Employment and Migrant Workers' Act 2023 regulates overseas employment, protects the rights and welfare of migrant workers and members of their family.

Land reforms: Sierra Leone's economy is heavily reliant on land, with agriculture and mining the key drivers of economic growth. In 2015, the country developed a National Land Policy to address land tenure challenges, and for the first time in 60 years, in August 2022, Sierra Leone passed into law The Customary Land Rights Act 2022. The enactment of the legislation is a major achievement in tackling the deep inequalities and discrimination in ownership and control of land in Sierra Leone, particularly in the provinces. The new law gives rights to all Sierra Leoneans to own land anywhere, irrespective of their tribe or gender – a significant milestone on the path towards gender equality and women's right to own land in Sierra Leone. In addition to the Customary Land Rights Act, Sierra Leone also enacted the Land Commission Act 2022, to empower local landowners to negotiate the value of their land with investors and prevent it from being leased out without their prior informed consent. These laws will empower women, local communities, and Sierra Leonian business owners as well.

3.5 A Pan-African Approach to Strengthening the Rule of Law, Institutions and Governance for Harnessing Sierra Leone's Capital

Sierra Leone is an active member of the Economic Community of West African States (ECOWAS) and the Mano River Union. As a member of ECOWAS, Sierra Leone, is committed to the single currency project, and implementation of the ECOWAS

Trade Liberalization Scheme and the Common External Tariff. Sierra Leone has ratified the African Continental Free Trade Agreement (AfCFTA), which will benefit the country in access to the free movement of persons, goods and capital across the entire continental market. Sierra Leone is also active in regional initiatives, coordinated by the Economic Commission for Africa, to tackle IFFs.

3.6 Conclusion and policy recommendations

Although the country has made progress in governance reforms, leading to improvements in governance indicators over the past decade, challenges remain – including corruption in both public and private sector. To ensure sustainability of governance reforms, stagnation, unemployment, and low productivity urgently need to be dealt with, as do social challenges such as poverty and inequality, that have aggravated the sense of frustration among the population, further exacerbating fragility. The country's capacity to build resilience will be helped by prudent policies to deal with rapid rural-urban migration by the youth, and environmental damage and climate change. Sierra Leone needs to strengthen the capacity of state to mobilize and utilize capital efficiently by addressing the institutional weaknesses and gaps in legislations and regulations to improve the business environment and investment climate. The country also needs to strengthen the systems and institutions governing natural resources to reduce IFFs, and increase government revenues, especially from the mining sector.

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