

A Nimble Review of the Development Path of Sierra Leone Stock Market

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Abstract

Economies with more active stock markets develop faster over successive decades. Such development remains attainable even after adjusting for various other factors underlying economic growth. Sierra Leone is one country whose stock market is now more than a decade old but remains poorly active. The number of listings as well as participation in the stock market remains low and insignificant. The study made a light review of the development path of the stock market in an effort to identify the derailing issues and suggesting ways to resolve. Through the review, it was obtained that there exist combinations of factors hindering the growth of the stock market. Inadequate support from the government has been identified, the privatisation concept was never implemented to the expected level, nature of business in the economy being mainly family-oriented and single proprietors, low levels of awareness of the general populace to issues of stock exchanges, limited participation by foreign investors, and high levels of corruption all are impacting factors. Significant reforms have to be made in the regulatory environment. Privatisation journey should be pursued effectively to improve listing by large firms. Foreign participation in the stock market elevated to some significant levels. The economy should continue to address issues of corruption so as to minimise its impact to institutional development. Public awareness should be enhanced to improve stock market participation by natives. Policies that promote foreign direct investment should be implemented. Management of political climate remains crucial for investors to have confidence and trust in their investments thereby attracting more for further development. Policy makers should walk the talk and demonstrate highest levels of commitment.

Keywords: Development, Economic Growth, Sierra Leone, Stock Market.

JEL Codes: D02, E02, E22, E44, G18, G23, G28, N27, O16.

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I. INTRODUCTION

Sierra Leone is a low-income country. It is located on the west coast of Africa. The country endowments include minerals, fishery, and agricultural resources. The country has an estimated population of 8.2 million and a land area of 71,740 square kilometres. Sierra Leone is bordered by Guinea, Liberia and the Atlantic Ocean. The relations of Sierra Leone with its neighbours Guinea and Liberia are peaceful, with a little political violence claimed by Guinea over Yenga (border village), in Kailahun District of Sierra Leone (BEBA, 2022).

Every country, in an ideal world, need to have a stock exchange. There have been empirically proven benefits of having a stock exchange in an economy. A strong link between stock market development and economic development has been empirically confirmed. Development and growth of the financial sector

transforms to the nation's development status (Bonga and Mlambo, 2016). In support, Omotunde (2011) narrated that financial markets and financial firms together with financial instruments impact saving rates, investment decisions, technological innovations and also long-term economic growth rates. Magweva and Mashamba (2016) also indicated that the significance of stock market for economic development lies in the functions it is prophesied to play. Stock markets do perform various functions in the respective economies. Some functions include; allocation of capital, ensuring safe transactions, equity culture enhancement, promoting the habit of saving and investing, providing liquidity, acting as an economic barometer, determining prices of securities, promoting economic growth and providing the scope for speculation. Odhiambo (2012) narrated that very liquid stock markets promote effective capital allocation and heightens prospects for long-term growth. Lack of liquidity is a staid inhibition

to the efficient working of stock markets (Bokpin, 2013).

The Sierra Leone Stock Exchange (SLSE) was established on July 17, 2009. At its inception, SLSE listed only one stock, a state-controlled bank (Rokel Commercial Bank). The stock market was a result of privatisation program, which has for long slow to come about in the country (Sierra Leone Business Journal, 2020). By early 2017, SLSE had three listings expressing willingness to trade shares at the exchange. Generally, for African exchanges, the number of listings at stock exchanges on the African continent has been increasing and the importance of stock exchanges for equity issues growing (Schierreck *et al.*, 2018).

However, for Sierra Leone, conditions of change for the stock exchange is never changing with significance. As observed by Manson (2012), trading remains very illiquid and infrequent; few trading hours and single digit number of trades per trading session. Such conditions have never improved as expected. Zayid (2018) stated that the created stock exchange has yet to obtain a significant number of listings. The gospel of stock market investment seems poorly preached to the potential investors. The investor base is largely dominated by commercial banks. Despite the fact that the impact of stock markets on a country's economy is distinct (Rjumohan, 2019), there remains expected significant contribution to be noticed emanating from the existence of a viable stock market. In support Zonon (2021) indicated that stock market conditions are generally linked to a nation's political and economic conditions.

The study seeks to present a glimpse of the Sierra Leone stock market and some of the factors surrounding its development path in an effort to determine the impacting factors to its insignificant growth. The stock exchange is now more than a decade old, but it is still to register a significant contribution to its economy.

The research paper is organised into six sections; (1) introduction, (2) overview of the stock market, (3) economic indicators, (4) stock market participation, (5) prospects and (6) conclusion and policy recommendations.

II. OVERVIEW OF THE STOCK MARKET

SLS is a member of the African Securities Exchange Association (ASEA). In its development path, from year 2009, one company got listed; by year 2012 there was still one company (Rokel Commercial Bank) listed on the stock exchange, and by March 2017, three companies (Rokel Commercial Bank, First Discount House, and HFC Mortgage) were listed. Investor base is a challenge in the stock exchange. Apart from commercial banks, retail investors have been able to participate in the debt market, however through commercial banks. Foreign investors have not been allowed to participate (Zayid, 2018). According to Bureau of Economic and Business Affairs (BEBA) (2022), Sierra Leone has legislative, institutional, and regulatory challenges to investment. The challenges extend to governance, the rule of law, business and human rights, dispute resolution, finance, and banking. It is by these challenges that the economy strives to develop a vibrant stock market to assist the growth of the economy.

Critically explained by Massa (2009) is that stock markets on Africa are only able to play a vital role in promoting economic growth when they are supported by adequate policies and reforms. Further explained by Soumaré *et al.*, (2021) is that continuous upgrading of the business environment, financial literacy, creation of sound and dependable regulatory frameworks and management structures do not fully exist in several African economies. In support Bonga and Sithole (2019) indicated that development of stock markets is largely impacted by; demand factors, supply factors, institutional factors, and economic policies. Trading in secondary market in the country is only limited to over-the-counter (OTC) transactions enabled using primary dealers and the Repo/Reverse Repo operations done by the Central Bank.

III. ECONOMIC INDICATORS

Common to analyse the economic environment of one nation in relation to other nations are Doing Business Indicators (DBI). DBI are published to track developments of nations in key indicators. The DBI compares business regulation in 190 countries, both developed and developing. Investors prefers where favourable rankings are obtained to minimise risk on their investments. Sierra Leone's performance in relation to others is presented in Figure 1 below.

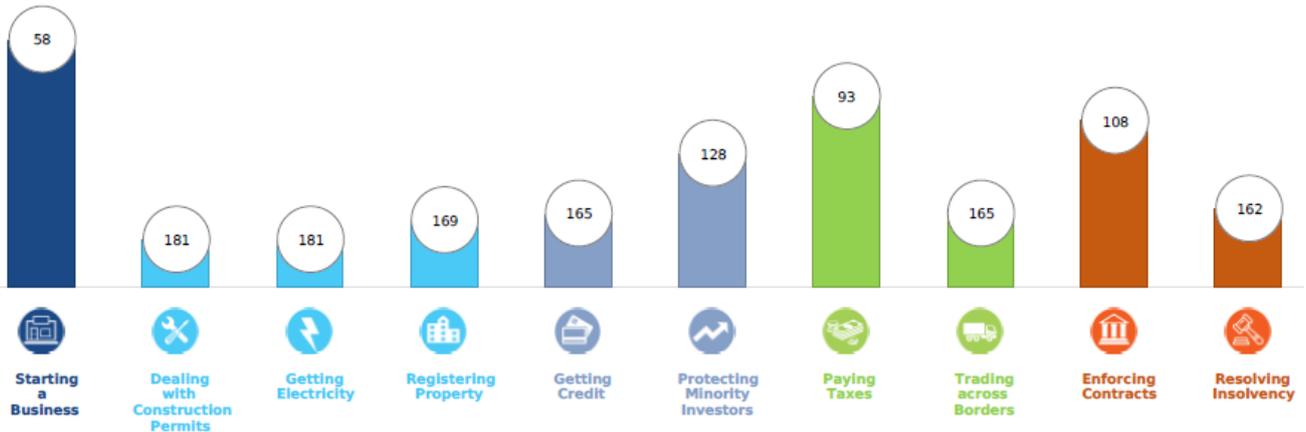


Figure 1: Doing Business Indicators: Sierra Leone 2020
 Source: Doing Business Indicators: Sierra Leone

From the above illustration, the economy has poor performance ranks in many aspects of doing business rendering the economy a weak choice for serious investments. For a better stock market development agenda, the economy has to work to improve its world competitiveness in business support.

Investment in the stock market is often related to the level of national income of the economy. Many studies have found a mutual relationship between stock market development and the economy. The level of national income for Sierra Leone is presented in Figure 2 below.

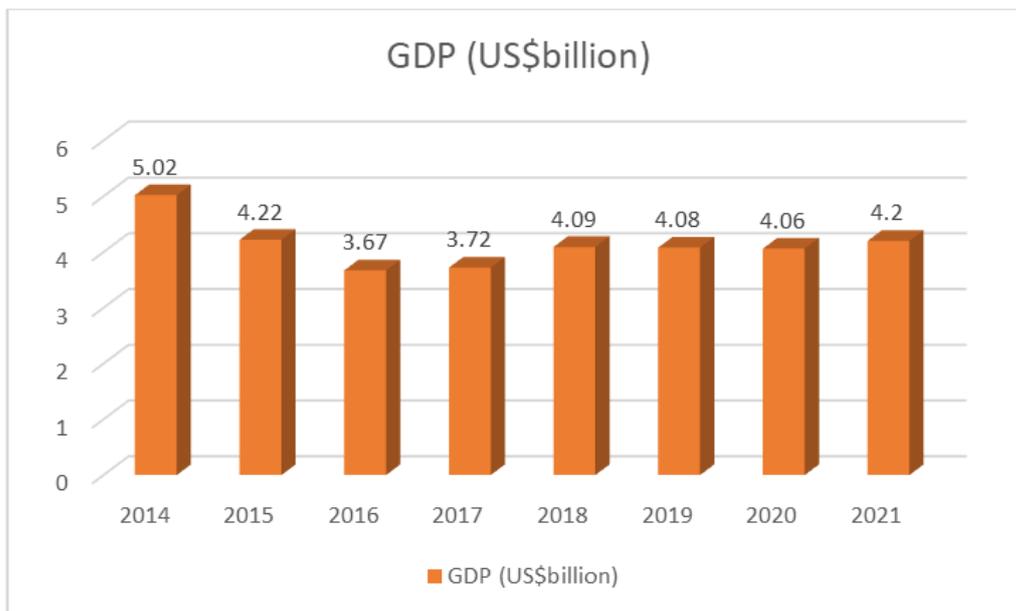


Figure 2: Gross Domestic Product - Sierra Leone (2014-2021)
 Source: www.theglobaleconomy.com

From Figure above, the economy registered highest level of income in 2014, thereafter level dropped to a minimum of US\$3.67 billion in 2016 and slowly rise through years until it reached US\$4.2 billion in 2021. The growth path of the economy shows some challenges hindering growth prospects. The economy is lacking a viable financial sector to support economic

growth among other factors. Investors have limited choice for partaking investments in the country.

Capital investment in the economy also help to show the aggressiveness of the investors in the economy. The level of capital investment in Sierra Leone is presented in Figure 3 below.

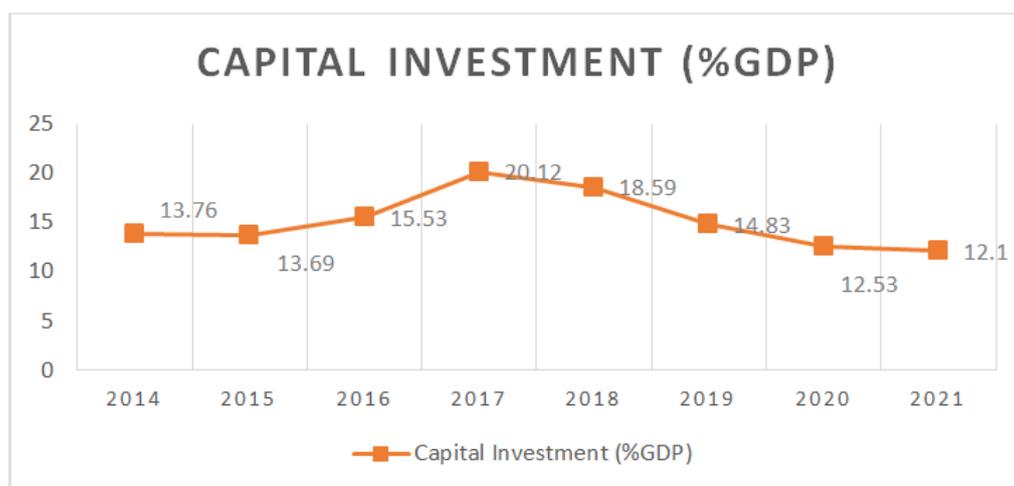


Figure 3: Capital Investment – Sierra Leone (2014 – 2021)

Source: www.theglobaleconomy.com

From Figure 3 above, there was a significant increase from 2014 till peak 2017, thereafter there has been a decline in the ratio of capital investment to GDP reaching 12.1% for year 2021. This shows a decline in investment. This may be caused by limited investment opportunities in the economy.

One common derailing factor in economic development is government corruption. As indicated by Chiwunze (2014) corruption undermines and distorts public policy, causing misallocation of resources, and as such market efficiency get distorted impacting private sector development. Corruption increases the cost of goods and services. The Transparency International Corruptions Perception Index (CPI) is commonly used as a proxy for assessing the level of government corruption for countries. The CPI uses a scale from 0 (very corrupt) - 100 (clean). Sierra Leone's CPI for 2021 was 34 against a global average of 44.5. The statistic implies that corruption levels in the country are very high. Using rankings, Sierra Leone is the 115 least corrupt nation out of 180 countries, using the CPI for 2021.

IV. STOCK MARKET PARTICIPATION

The fact that the financial sector is dominated by commercial banks is worth an analysis. There is limited participation from the other potential players including the public in the financial market. Financial markets to grow requires increased participation. The large number of participants provides the much needed liquidity. Also the market size bar any single entity from exercising too much control. Despite the existence of the stock market in Sierra Leone, a lot of its population remains unaware of the exchange. Just like in many other African countries, there is absence of education and public awareness about the operations of the exchange. Majority of Sierra Leoneans are believed to be less informed on corporate business and/or what a stock exchange require. As indicated by Sanderson

(2015), financially educated persons are more likely to save and have the ability to challenge financial service providers to come up with better products that truly respond to their needs. Such environment have positive impact on both investment levels and economic growth.

A closer look on businesses in Sierra Leone are family-oriented and single proprietors. Generally, there is no trust and confidence in the market to help it function more smoothly. Poverty levels are also high in the country. According to IMF (2020), 56.7 % of people live below the national poverty line. This implies that there is hardly savings left for investments as people struggle for basics. However, despite poverty levels, a well-developed stock market may still allow investment to take place. Bonga and Mlambo (2016) indicated that no funds are too small for investment in a well-developed financial sector, hence assuring returns to smaller investors. On a positive note, Africa has embraced tremendous growth in mobile phone usage and this has spurred improvement of financial inclusion of once marginalized populations in the continent (Mahuni, Taru and Bonga; 2020), of which Sierra Leone is not excluded.

V. PROSPECTS

In current times, the Government of Sierra Leone (GoSL), through its policies indicate a strong and positive attitude towards FDI vital to rejuvenate economic growth and development (BEBA, 2022). The 2019-2023 Medium-Term National Development Plan developed by GoSL has a growth agenda for the support of economic diversification and competitiveness aimed towards the promotion and development of a viable private sector in order to raise global trade participation.

Derailing progress is poor quality and limited infrastructure in the country, and this hammers investment and practical commercial activity.

Underdeveloped financial systems results in credit restraints for households and firms, particularly small and medium-sized enterprises, as well as low investment rates (Soumaré *et al.*, 2021). As not enough, the Sierra Leone economy has skilled labor shortage, slow legal system, high corruption levels, and political violence that remains heavy obstacles to FDI. Progress has been observed in some facet of the economy. Ziyad

(2018) indicated that judiciary has constantly improved, although from a low institutional base, and this enabled enhancement of new laws enforcement. IMF (2020) narrated that in order to unleash growth potential of Sierra Leone, there is greater need to work on longstanding governance and corruption issues. The country has scored better than most economies in Africa on the ease of starting a business.

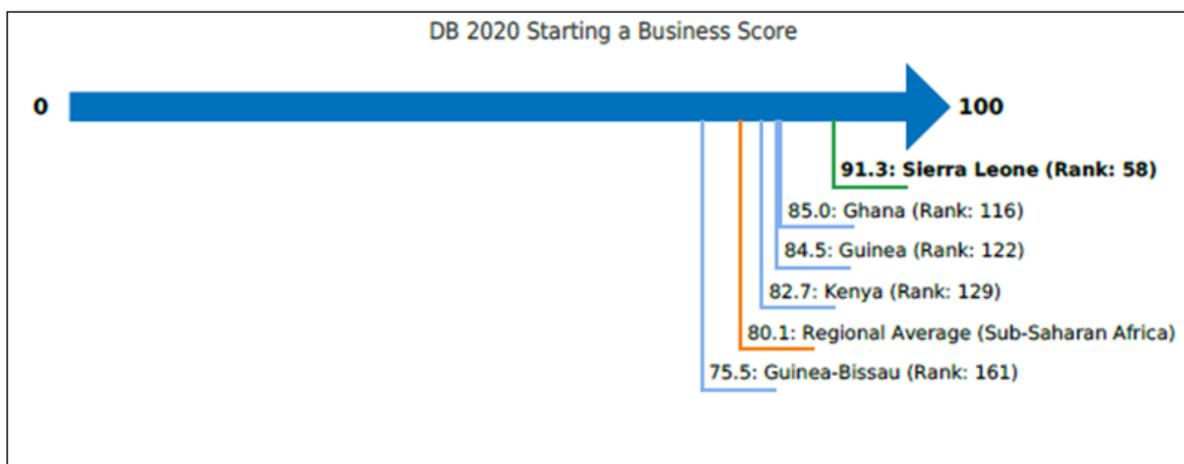


Figure 4: Starting a Business Indicator – Sierra Leone 2020

Source: Doing Business 2020: Sierra Leone

As observed from Figure 4 above, the economy has a better score than most African nations. Making it a better destination for investors who wish to start their businesses. A conducive environment for stock market growth exist which should be utilised for its advancement.

VI. CONCLUSION AND POLICY RECOMMENDATIONS

Sierra Leone, just like many other developing nations around the world, having understood the benefits of developing a stock exchange, launched the SLSE in 2009. The launch of the stock exchange was simply the outcome of planning and deliberations from Stock Exchange Technical Committee, the hefty works by the Capital Market Unit of the Bank, as well as joint contributions by local and foreign consultants. The SLSE started with one listing in 2009, three listings by 2017 and to date the figures remains stuck. There is no significant growth in the stock market registered. This triggered worrying given the vital role stock markets have in many other developing and developed nations.

The study obtained that there exist a combination of factors hindering the growth of the stock market. There has been inadequate support from the government to boost its growth and development. The privatisation concept in the country was never implemented to the expected level, thereby having few companies turning public. The nature of business in the economy is also a contributing factor. Many business in Sierra Leone are family oriented and single proprietors.

Furthermore, the level of awareness of the general populace to issues of stock exchanges is very limited thereby making stock market participation very low. Investment in the stock exchange by foreigners has been limited. Corruption and doing business indicators for the country has not been favourable, thereby being ingredients for poor stock market development.

The study recommends that significant reforms be made in the regulatory environment. Privatisation journey be pursued effectively to improve listing by large firms. Foreign participation in the stock market elevated to some significant levels. The country should continue to address issues of corruption so as to minimise its impact to institutional development. Furthermore, public awareness should be enhanced to improve stock market participation by natives. Worth noting is that raising financial literacy among the people is a long-term behavioural change initiative. Accordingly it calls for a multi-faceted approach and sustained action over long periods to bring about steady improvement. Policies that embrace FDI should be implemented. Managing political climate enables investors to have confidence and trust in their investments hence attracting more for further development. Policy makers should walk the talk and demonstrate highest levels of commitment.

In conclusion, the years that the SLSE has been in existence, does not tally with its contribution to the economy. The relevant authorities, should learn from other developed exchanges so as to further

develop the exchange. Once the exchange becomes viable, its contribution will start to be noticed. The potential is there, it should be supported by the political willingness together with private sector participation. Fostering inclusive growth is very necessary for social and economic progress. Further development of the stock exchange will boost financial activities in the economy such as rating agencies, investment advisers, registrars and brokers, henceforth generating new opportunities for employment as well as professional development.

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