

A Guide to the Sierra Leone Interim Stock Trading Facility

Post-conflict Sierra Leone is working towards the establishment of a formal Capital Market. This effort is being spearheaded by the [Stock Exchange Technical Committee](#) (SETC), formed under the auspices of the Bank of Sierra Leone and consisting of representatives of government and the private sector. In addition to other preparatory work, the immediate focus of the SETC is the institution of a stock trading facility as soon as possible. This stock trading facility is expected to develop into a full-fledged stock exchange by the end of 2007.

Capital markets provide both the government and the private sector with access to the types of long-term investment capital necessary to achieve accelerated economic growth. Sitting at the heart of the capital markets is the stock exchange, which provides the link between businesses, which need money, and investors, both individual and institutional, with money to invest. The government, and therefore the nation as a whole, benefit from the stock exchange through being able to raise money to invest in the country's infrastructure and public services, as well as private business ventures.

The establishment of a full-fledged formal stock exchange is a time consuming and technically demanding process. However, there are already in existence a few public companies in Sierra Leone, with shares being traded informally on an over-the-counter (OTC) basis at the discount houses. Recognising the situation, the SETC has decided to establish an interim stock trading facility. This facility will provide a regulatory framework for the existing share transactions consistent with international financial practice, and create a structure for more widespread trading of shares.

This structure, named the Sierra Leone Interim Stock Trading Facility, will be a stop-gap measure that will serve the needs of the market while work progresses towards the establishment of the wider capital market, including the full-fledged stock exchange.

The operations of the trading floor will be governed by the Sierra Leone Interim Stock Trading Rules and Regulations. The trading floor will be operated by the Development Coordination Department of the Bank of Sierra Leone on behalf of the SETC; while the Banking Supervision Department will perform the function of interim regulator. The overall operations will be supervised by a Managing Committee appointed by the Minister of Finance.

Successful Businesses mean a Successful Economy

Successful businesses generate more than profits for their owners. They also contribute to a successful economy. As a company grows it buys products and services from other companies helping them to grow too. It will also employ more people, providing regular incomes. The employees in turn buy goods and services from other companies and individuals, bringing benefits to their own community and beyond. The result is a virtuous circle of growth that contributes to increased prosperity both locally and nationally.

How does the Stock Exchange help Businesses grow?

Access to capital is essential for a business to grow. During the early stages of a business' development only small amounts of money may be needed, and this might be adequately covered by reinvesting profits, by borrowing money from friends and family, or through bank loans. But a successful business will eventually need to invest larger amounts of money to grow. Friends and family are unlikely to be of help with the amounts of money needed, and banks may be unwilling to lend enough for a long term, or may charge high levels of interest which reduces the benefit of the loan and leaves the company with a long-term debt. Banks will also ask for collateral which entrepreneurs may not be able to provide.

The Government faces similar problems, and on a much larger scale, when finding the money to invest in the country's social and economic infrastructure—roads, hospitals, power and water, for example. Borrowing abroad creates foreign debt, so it is preferable to find domestic sources of funding.

The Stock Market offers both businesses and government a very effective way of accessing these higher levels of investment by being able to raise cash from the public or from institutions such as insurance companies. They can do this through issuing two types of **securities**.

Bonds

A bond is effectively an **I O U** for a fixed term loan. The issuing company borrows money from its investors, makes regular interest payments on the loan and will repay the original amount borrowed (called the principal) when the loan matures. Governments can also borrow money by issuing bonds. Government bonds are generally considered to be the safest form of investment. Bonds can be bought and sold – they do not have to be held until maturity.

Shares

Instead of borrowing money, the company sells investors a share in the business. As this transaction is not a loan, the amount raised does not have to be repaid, and no interest is payable. Instead, in return for buying shares **shareholders** are entitled to receive a share in the company's profits (called a **dividend** payment) and may be able to sell their shares through the legitimate stock trading system at a profit in the future if the company performs well.

The Role of the Stock Exchange

Of course, it is possible for companies to sell shares in their business or to issue bonds without the existence of a stock exchange. Indeed, some companies in Sierra Leone have already done this. However, there can be disadvantages both for companies and investors in doing it this way. First, without a central focus, companies may be overlooked by investors or may find it difficult to put a value

on their shares. Second, investors may find it difficult to find information about these companies, or determine the current value of their shares. And when they later decide to sell the shares they may not be able to find a buyer.

One important way in which the stock exchange helps is through being a central point of contact for investors and companies. There are significant advantages for those trading in shares to do so in a central market, just as it is better and more efficient to buy or sell fruit and vegetables in a market rather than from individual farms.

In fact the stock exchange is literally a market place, bringing together, like any other market, those with something to buy and those with something to sell - in this case shares or bonds.

How are shares bought and sold?

All buying and selling (trading) in the shares of listed companies takes place on the stock exchange (in our case now, on the Interim Stock Trading Facility) through intermediaries known as **Stock Brokers**, who have been licensed by the Bank of Sierra Leone. Stock brokers can either take orders to buy and sell, or if required also give advice. More information on this topic is available in the [Guide to Buying and Selling Shares](#).

A Market for Everyone

Many people think that investing in securities is only for the very wealthy. In fact, although many people do invest millions of Leones, it is quite possible to invest relatively small amounts. As such, the market is open to a very wide range of people. Of course, no-one should invest money without being aware of the risks. The value of shares may not always increase.

Whilst investing in securities is a key element of creating a diversified investment portfolio, it is only one element of it. Most investors also keep

savings in interest-bearing bank accounts, thus spreading the risk across different types of investment. This means that they have a measure of protection when the economy falters.

The Stock Exchange – part of Sierra Leone’s Future

The stock exchange has an important role in Sierra Leone’s drive to become a modern, prosperous economy; helping businesses, individuals and the nation as a whole invest and share in its future growth. If you would like further information about the Exchange, please contact:

The Interim Stock Trading Facility, Development Coordination Department, Main Bank Building, Bank of Sierra Leone, Siaka Steven Street, Freetown, Tel: 290484 / 226501

For those individuals who are not familiar with capital markets, here are some of the key terms and expressions highlighted in the Guide

Capital Markets

Capital markets refer to the institutions for longer-term borrowing from individual or institutional investors. This kind of borrowing is normally to fund capital projects whereas shorter-term bank loans tend to be used to fund day-to-day operations.

Shares

A share gives the investor part ownership in a company and with that comes the right to vote on issues concerning management of that company, and to a share in that company’s profits.

Bonds

Bonds are fixed interest securities issued by companies or government. Investors lend money to the company or government, receive a regular interest payment and the debt is repaid after a specified period

Securities

Securities are financial instruments or legal documents signifying either an ownership position in a company (such as. Shares -also called stocks in the US) or a creditor relationship with a company or Government (such as bonds and what are called loan stock in the UK).

Shareholder

A person who buys a portion of a public or private company' s capital. By doing so that person becomes a shareholder in that company' s assets, has the right to vote in proportion to the number of shares held, and receives a share of the company' s profit in the form of dividends.

Stock Broker

A stockbroker is a professional intermediary (or middleman) who helps investors to either buy or sell securities. The stockbroker can also give advice to investors about which securities to buy and sell.

Listed company

A company which has been admitted to the stock exchange, and whose shares can be bought and sold on the exchange.

Dividends

Dividends are a share of the profits distributed by the company. In a bank account you receive income in the form of interest; with shares you receive income through dividends.