THIS AGREEMENT is made on the .... day of ...., in the Year of Our Lord Two Thousand and Seventeen (2017)

Between

1. The Government of the Republic of Sierra Leone (GoSL) represented by each of the Ministries of Finance and Economic Development, Trade and Industry, and Agriculture, Forestry and Food Security (hereafter called "GOSL").

Kissy Industry and Trading Company (KITC) Sierra Leone (SL) Limited established under the Companies Act of 2009, and registered under the laws of Sierra Leone with company Certificate of Incorporation Number **SL090616KISSY003372**, and with its registered office at Kissy Industry and Trading Company Limited, Old Oil Refinery, Queen Elizabeth Road, Kissy Dockyard, Freetown, Sierra Leone (hereafter called "the Company").

Recitals

2. The Company proposes to:

(i) set up and establish a factory in Sierra Leone with the capacity to produce up to 120 Metric Tons of vegetable oil per day from local Crude Palm Oil;

(ii) establish Palm Kernel Nut Cracking and Pressing lines which are capable of producing 65 Metric Tons of kernel oil per day and produce a wide range of products that include but not limited to Refined Palm Oil (Palm Olein), Margarine and Confectionary Spreads, Refined Palm Kernel Oil, Soaps and Detergents; and Animal Feedstocks.

(iii) make a total investment of up to 20 million United States Dollars within a period of 12 months from the effective date towards setting up the Factory.

3. As GOSL seeks to promote private sector investment into the country, especially in the manufacturing sector, it is envisaged that this investment will bring addition to the country's manufacturing sector in industrial value chain.

4. **The GOSL** also seeks to promote the establishment of sustainable economic centers in the Kissy Community Area.

5. **The GOSL** seeks to promote the expansion of local manufacturing production from local agricultural products and therefore prominently encourages the Company to purchase raw materials from local farmers to improve the livelihood of the rural population for local and export markets.

6. **The GOSL** welcomes labor-intensive industries that provide employment and stable income to the youths and thus encourages the Company to support the training and development of small farmers, employed youths both in manufacturing and agricultural sectors.

Considering:

7. **The GOSL** recognizes that **the Company** meets its investment and private sector development policy objectives;

8. **The GOSL** recognizes the expected benefits the **Company** will bring in terms of investment, job creation, training, employment income, Corporate Social Responsibility, among others;

9. **The GOSL** recognizes the contribution the **Company** will make to create value addition from the country's local agricultural products and possibly other economic sectors in Sierra Leone;

10. **The GOSL** recognizes the timeliness to grant investment incentives and protection from unfair competition to **Kissy Industry Trading Company**.

11. The GOSL shall cause to take all reasonable measures to increase import duty rates on all liquid olien and associated products imported and dumped in Sierra Leone. Such measures shall be applied in accordance with the ECOWAS Common External Tariff (CET) Protocol.

12. The Government and the Company agree that the undertaking made by the company in exchange for tariff protection, tax, fiscal and other terms of this Agreement represent a fair and balances allocation of risks and benefits between Government and the Company over the agreed period.

Now, therefore, Government and the Company hereby agree as follows:

ARTICLE 1
INTERPRETATION

The following capitalized terms wherever used in this Agreement shall have the respective meanings set forth below:

"Agreement"– This Investment Concession Agreement and any further amendments made pursuant to its terms as well as all of its appendices;

"Agricultural Products"– Oil Palm Products and agricultural crops and their derivatives produced as a result of the Company's operations and processing activities;

"Authorisations" – Each, any or all licenses, permits, visas, consents, approvals, waivers, notifications, applications, orders, grants, confirmations, clearances and all extensions required to permit the transactions contemplated by this Agreement, including the instructions required by Law from Government, any relevant third parties and officials of Government;

"Business Day" – Any day other than a Saturday, Sunday or a holiday declared by the Government as an official public holiday;

"Commercial Production" – In any period, following the Effective Date, where the production of processed and finished products as envisaged in the Business Plan, reaches 40% or more of the installed production capacity of the factory;

"Commercial Production Date" – The date upon which the company reaches a target of 40% of the installed factory production capacity;

"Contractors – Any person or organization that contracts directly or indirectly with the company for the supply of goods or services directly related to the company's operations;

"Crude Palm Oil" – Oil produced from crushing and pressing the mesocarp of the Oil Palm fruit;

"Crude Palm Kernel Oil – Oil expelled from the crushed kernels of the oil palm fruit;

"Effective Date" – The date on which this Agreement ratified by the Sierra Leone House of Parliament;

"Employee" – An employee, whether long-term or short-term of the company in Sierra Leone;

"Business Case" – the Business case and Fiscal Concessionary Proposal, herein included as Appendix A to this Agreement, which provides details of the business plan, factory construction, machinery installation, production targets and fiscal concessionary proposals of the company;

"Force Majeure"- are unforeseeable events, circumstances or causes beyond the reasonable control of either party to this Agreement with sustained disruption of the operations and performance of the Company;

"Oil Palm Products and Derivatives" – products manufactured from Crude Palm Oil or Crude Palm Kernel Oil, including refined bleached and deodorized oils, palm olein, palm stearin, processed food products, animal feed, cosmetics, toiletries and biodiesel;

"Production" – any or all of the following, when carried out by or on behalf of the Company: the purchase, transport, storage, processing, distributing, marketing and selling of oil palm products and derivatives; and all other operations of the Company incidental to, arising from or directly related to the design, installation, operation and maintenance of factory infrastructure;

"Stabilisation Period" – the period granted under this Agreement, granted to the Company for the exemption of or reduction in Duties and Taxes to enable it stabilize and speed up its operations;

"Subcontractor" - any person or organization contracted directly or indirectly by a contractor of the Company to cause to provide some portion of the supply of goods or services directly related to the company's operations;

"Taxes and Duties" – Any and all direct and indirect taxes, duties, levies, rates, charges and other Government-imposed payments of whatever nature and however called and levied, whether similar or dissimilar to the above-mentioned;

"Term" – has it meaning as in Article 3.1.

ARTICLE 2
PARTIES

2.1 Parties

The parties to this Agreement are the Government of Sierra Leone (GOSL) and Kissy Industry Trading Company (KITC) Sierra Leone (SL) Limited.

ARTICLE 3
TERM OF AGREEMENT

3.1 Term

The term of this Agreement shall be 10 (ten) years from the Effective Date, unless otherwise extended pursuant to Section 3.2, or terminated sooner in accordance with other provisions of this Agreement.

3.2 Extension of Term

(a) The Company may at least six (6) months prior to the expiration of this Agreement apply to the Minister responsible for Finance of the Government of Sierra Leone, for a renewal of this agreement for a further

period of five (5) years effective from the date of the expiration of this Agreement. Upon such application, provided that the Company has met all its obligations under this Agreement and is in compliance with the laws of Sierra Leone, the Company shall be entitled to such renewal upon such fair and equitable terms and conditions as may be agreed upon between the Parties to this Agreement.

(b) Upon the receipt of such notice to renew this agreement as mentioned in Article 3.1, the Parties undertake and agree to promptly and expeditiously (in any event not later than twenty-one calendar days from the receipt of the notice of renewal by the Minister responsible for Finance) to engage in negotiations in good faith within the objective of agreeing on the terms and conditions upon which this Agreement will be renewed.

(c) In the event the Term is not extended pursuant to the provisions herein, the Company shall be entitled to continue its lawful activities pursuant to the laws of Sierra Leone.

ARTICLE 4
GRANTING OF CONCESSIONS AND RIGHTS

4.1 Production Rights

The Government hereby grants the Company the right, in accordance with all applicable Laws of Sierra Leone, but subject to the provisions of this Agreement, to engage in:

(i) the purchase and processing of Crude Palm Oil and Palm Kernels;
(ii) the production of a wide range of Oil Palm Products and Derivatives;
(iii) the development of agent networks for the purchase of oil palm produce from farmers; and
(iv) the marketing, distribution and sale of oil palm products and derivatives in the domestic economy and, where necessary, to export to other countries.

4.2 Protection from Foreign Competition

To support the 'Made in Sierra Leone' Government shall provide the conducive environment necessary to protect the Company from unfair competition through some measures that include the following:

4.3. Tariff Protection

The Government undertakes to and agrees with the Company that it shall:

(i) implement a tariff regime conducive to provide a comparative advantage and protection to the Company from foreign products dumped locally, and all other items included in Appendix B of this Agreement, which lists the full range of oil palm products and derivatives manufactured by the Company;

(ii) include in the Finance Act 2018 or any Finance Act preceding the effective date of this Agreement, the applicable tariff regime that shall be applied to the importation of products already produced locally in order to protect the Company from unfair competition with foreign dumped products.

4.4 Taxation, Goods and Services Tax, Import Duties, and Withholding Taxes on Payments

Income Taxes

From the Effective Date, the income of the Company shall by taxed pursuant to and in accordance with the provisions of the Income Tax Act 2000 as amended, and all Finance Acts, the Investment Promotion Act 2014 and any other relevant legislation applicable to the income of private investments in the manufacturing sector. The Company shall be entitled to claim deduction against chargeable income in an amount equivalent to 100% (one hundred percent) of the following expenditure:

(a) actual expenses incurred in respect of environmental and social impact mitigation and/or environmental protection and restoration;

(b) costs of educating and/or training citizens of Sierra Leone and who are:

(i) full time employees of the Company; and
(ii) not full-time employees of the Company but bonded to the Company on completion of such training and/or education.

Provided that such education and/or training shall:

(i) not include primary or secondary school education and shall be relevant to employment of the trainee concerned; and
(ii) include on the job training and shall include 100% (one hundred percent) of the wages of an employee serving an apprenticeship course approved by the Government.

(c) The cost of any scholarships provided by the Company to citizens of Sierra Leone;

Import Duties

During the Stabilization Period, the Company shall be exempt from Import Taxes and Duties of all kinds and types (excluding ECOWAS Trade levies), in respect of all machinery to be used by the Company in in its factory and on anything whatsoever to the extent that such that such import taxes and duties constitute taxes and duties on materials used for the production activities of the Company. The Company shall pay import duties prescribed by law on fuels including diesel.

Goods and Services Tax

The Company shall be relieved from Goods and Services in accordance with Section 12 and the Third Schedule of the GST Act 2009 as amended for a period of five (5) years.

Withholding Taxes on Payments

During the Term (including the Stabilization Period), the Company shall withhold taxes on all payments to its suppliers and other contractors in accordance with the provisions of the existing Laws of Sierra Leone.

4.5 **Benefit of Financial Provisions**

Save as is herein provided, the financial provisions contained in this Agreement shall be to the direct benefit of the Company. The contractors and sub-contractors which shall only benefit from these provisions if the goods are consigned in the name of the Company and be used its operations only.

4.6. **Limitation on Import Duty Waiver**

The Company shall import only items used for the project including but not limited to plants machinery and equipment and items listed in Appendix C which shall be exempt from all import duties and taxes in accordance with the provisions of this Agreement for a period of five (3) years.

4.7. **Stabilisation Period**

The Government shall, for the term of this Agreement and any renewals thereto (herein referred to as the "Stabilization Period"), grant the Company the exemptions from duties and taxes under the terms of this Agreement to enable it stabilize and speed up its operations.

ARTICLE 5
CONDUCT OF OPERATIONS

5.1 **Production Activities**

Subject to the terms of this Agreement and the applicable Laws of Sierra Leone, the Company shall purchase the primary products necessary for its activities, such as Crude Palm Oil and Crude Palm Kernel Oil, Palm Nuts and operate its business in accordance with established Oil Palm Industry standards and consistent with prudent business practices. The Company shall engage in the refinery, fractionation, packaging, marketing, distribution and sale of various

types of oil palm products and their derivatives for sale in the domestic market and, where domestic use needs have been met, for exports to other countries.

5.2 **Performance of Initial Investment Obligations**

(i) Within 6 months of the Effective Date, the Company will invest in a full industrial manufacturing plant or plants that have the capacity to produce the range of products listed in Appendix D to this Agreement, and in the respective targeted volumes. For the purpose of clarity, the factory is expected to process up to 100 Metric Tons of Crude Palm Oil per Business Day.

(ii) If, within twelve (12) calendar months from the Effective Date, the Company fails to use all reasonable efforts to have a full functional manufacturing plant operating in the country, the Company shall notify the Government the reasons why it failed to meet such performance obligations. If within eighteen (18) months from the Effective Date, the Company fails to achieve Commercial Production levels of output, the Government may, by notice in writing to the Company, inform the Company of its intention to terminate this Agreement if the Company fails to achieve Commercial Production within three (3) calendar months from the date of such notice.

(iii) If the Company fails to achieve Commercial Production on the expiration of the notice given by the Government as provided in the last preceding clause, the Government shall be entitled to terminate this Agreement by notice in writing to the Company.

5.3 **Domestic Use of Products**

To the extent that there is sufficient and effective demand for the oil palm products and derivatives manufactured and produced by the Company in Sierra Leone, the Company agrees to sell all of what is required from its production activities to the domestic market. Where it is determined that the production capacity of the factory exceeds volumes required by the

domestic market, the Company shall be entitled to and may export some of its output to other countries.

5.4 **Purchase of Oil Palm Raw Materials**

The Company may establish and come in an Agreement to have the right to at all times purchase, without limitation, unprocessed oil palm products and other raw materials from Sierra Leonean oil palm farmers and other persons in Sierra Leone, to process and use as raw materials in its manufacturing operations.

ARTICLE 6
EMPLOYMENT AND TRAINING

6.1 Employment

6.1.1 The Company's employment practices shall conform to the existing Laws of Sierra Leone. In no case shall the Company knowingly, after reasonable enquiry, hire non-Sierra Leoneans for unskilled positions.

6.1.2 Save for the provisions of the Management Contract granted to the manufacturers and suppliers of the factory machinery and plant equipment, which permits them to bring in certain categories of highly skilled expatriates for a maximum period of five years, the Company shall give preference to the employment at all levels of financial, accounting, technical, administrative, supervisory and senior management positions and other skilled positions to qualified Sierra Leoneans who meet the minimum requirements and expectations of the Company.

6.1.3 Where the Company is unable to hire a Sierra Leonean to fill any position at the level of financial, accounting, technical, administrative, supervisory and senior management and other skilled position within a reasonable time, the Company shall provide to the Government proof that it exhausted all possible options and was unable to attract qualified Sierra

Leoneans who meet the minimum requirements and expectations of the Company.

6.2 Training

For the purpose of 6.1 above, in addition to providing on-the-job training, vocational training and other measures necessary and reasonable to achieve its employment objectives, the Company shall use reasonable efforts and resources to provide training for it Sierra Leonean employees with a view to qualifying them for the positions described in 6.1.3 above and as required by the Company's operations under this Agreement.

ARFTICLE 7
OBLIGATIONS

7.1 **GOSL Obligations**

No Unhealthy Competition

The GOSL shall apply all reasonable measures to ensure that the Company is protected from unhealthy competition with foreign dumped products and to ensure that the Company has an advantage over importers of products which are manufactured for sale by the Company in Sierra Leone under the provisions of this Agreement.

7.2 **Investor's Obligations**

The Company shall develop and implement a Corporate Social Responsibility (CSR) plan based on a collaborative community needs assessment with the relevant MDAs, local government officials and the communities themselves;

(i) The agreed CSR plan shall contain feasible timeframe for implementing the agreed CSR initiatives as the case may require.

(ii) Upon commencement of the implementation of the CSR plan, "The Company" shall submit regular and periodic progress reports of its CSR commitments and delivery in accordance with a pre-determined monitoring plan. The Government representatives (including but not limited to the Ministry of Trade and Industry and Ministry of Finance and Economic Development) shall also conduct periodic monitoring visits to ascertain and report to the effect.

(iii) Consistent with the policy objectives and strategic framework of the Local Content Policy, the Company shall be obliged to among others:

a. Evidently promote the utilization of locally available Sierra Leonean goods in the Industrial and manufacturing sectors.

b. Facilitate the development of indigenous service providers by promoting linkages with more advanced and experienced domestic and foreign firms.

c. Facilitate the development of indigenous service providers by promoting linkages with more advanced and experienced domestic and foreign firms.

d. Promote employment of Sierra Leoneans.

e. Develop the human and institutional capacity of Sierra Leoneans through training and transfer of knowledge and technology.

ARTICLE 8
FORCE MAJEURE

8.1 FORCE MAJEURE

8.1.1 Subject to Clause 9.2, parties to this Agreement shall not be in breach of the Agreement, nor liable for delay in performing or failure to perform any of their respective obligations under this Agreement, if such delay or failure is the result of a Force Majeure.

8.1.2 Force Majeure are unforeseeable events, circumstances or causes beyond the reasonable control of either party to this Agreement with sustained disruption of the operations and performance of the Company.

8.1.3 A force majeure event shall include but not be limited to any of the events listed below:

Natural Force Majeure event

(i) Fire, explosion, lightning, earthquake, landslide, storms, severe weather conditions, volcanic eruption, meteorites or other natural disasters or acts of god;

(ii) Epidemic plague or quarantine;

(iii) Serious accident, breakage of facilities, plant or equipment, structural collapse or chemical contamination;

Political Force Majeure event

(iv) war initiated by GOSL or otherwise affecting Sierra Leone,

(v) politically motivated violence, sabotage, terrorism, strikes and industrial relations issues (other than those restricted to employees of the Company),

8.1.4 If an event is declared a Force Majeure event, the term of the Agreement shall be extended by a period equivalent to the period during the Force Majeure, provided that if such period continues for four (4) consecutive months, the Company may terminate this Agreement by giving ninety (90) days written notice to the Government.

8.2 The Company shall not be entitled to rely on Clause 9.1.1 unless it:

(i) Promptly notifies the GOSL in writing of the nature and extent of the Force Majeure event;

(ii) Could not have avoided the effect of the relevant event by taking precautions which, having regard to all the matters known to it before the event, it ought reasonably to have taken, but did not take; and

(iii) Has used its best efforts to mitigate the effect of the event, to carry out its obligations under this agreement in any way that is reasonably practicable and to resume the performance of its obligations as soon as reasonably possible.

ARTICLE 9

APPROVAL OF CONCESSION AGREEMENT

9.0 Approval of Concession Agreement

9.1 The Government shall cause this Concession Agreement to be laid before and approved by the Parliament of the Republic of Sierra Leone for its ratification into law.

9.2 To the extent possible all proposed Concession are consistent with existing tax law, GOSL however, confirms to provide the fiscal exemptions to the Company notwithstanding the existing tax laws.

ARTICLE 10

ARBITRATION

The Government and the Company shall in good faith endeavor to reach an amicable settlement of any dispute which may arise between the parties in respect of the performance, enforcement, execution and interpretation of the terms of this Agreement. In the event that the parties are unable to reach an

amicable settlement, such dispute shall be settled in accordance with procedures available in Sierra Leone for the settlement of such disputes provided that at the instance of either party, any such dispute may be submitted to arbitration for settlement in accordance with the rules of procedure for arbitration of applicable and inforce in Sierra Leone at the time of such dispute.

ARTICLE 11

GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the Laws of Sierra Leone.

ARTICLE 12

GOVERNMENT PROTECTION AND ASSISTANCE

Government and her agencies shall support the Agreement and shall not take any action which prevents or impedes the due exercise performance and enjoyment by the Company of its rights and obligations and will also render all reasonable assistance to enable the Company accomplish its objectives in the best and most efficient manner and enjoy its rights and privileges under this Agreement. The Government shall procure all relevant public to make such lawful orders and administrative acts as may be desirable from time to time for this purpose.

ARTICLE 13

NOTICES

(a) All orders, approvals, notices, and communications of any kind between the Government or any other representative of the Government and the Company shall be in writing and the Parties hereto shall not under any circumstances be permitted to allege or rely upon any oral order, approval, declaration, notice or communication from the Government to the Companies or vice-versa. Any such written notice etc. from the Government to the Company shall be delivered to the Company addressed to:

Kissy Industry and Trading Company Limited
Old Oil Refinery
Queen Elizabeth Road
Kissy Dockyard
Freetown
Sierra Leone

(b) All communications from the Company to the Government shall, unless otherwise required by law or the terms of this Agreement or unless the Government shall direct by written instructions to the company be sent to Minister of Finance and Economic Development.

Signed....27th November 2017, ... at Freetown, Sierra Leone

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Minister of Finance & Economic Development

CEO, Kissy Industry & Trading Co.

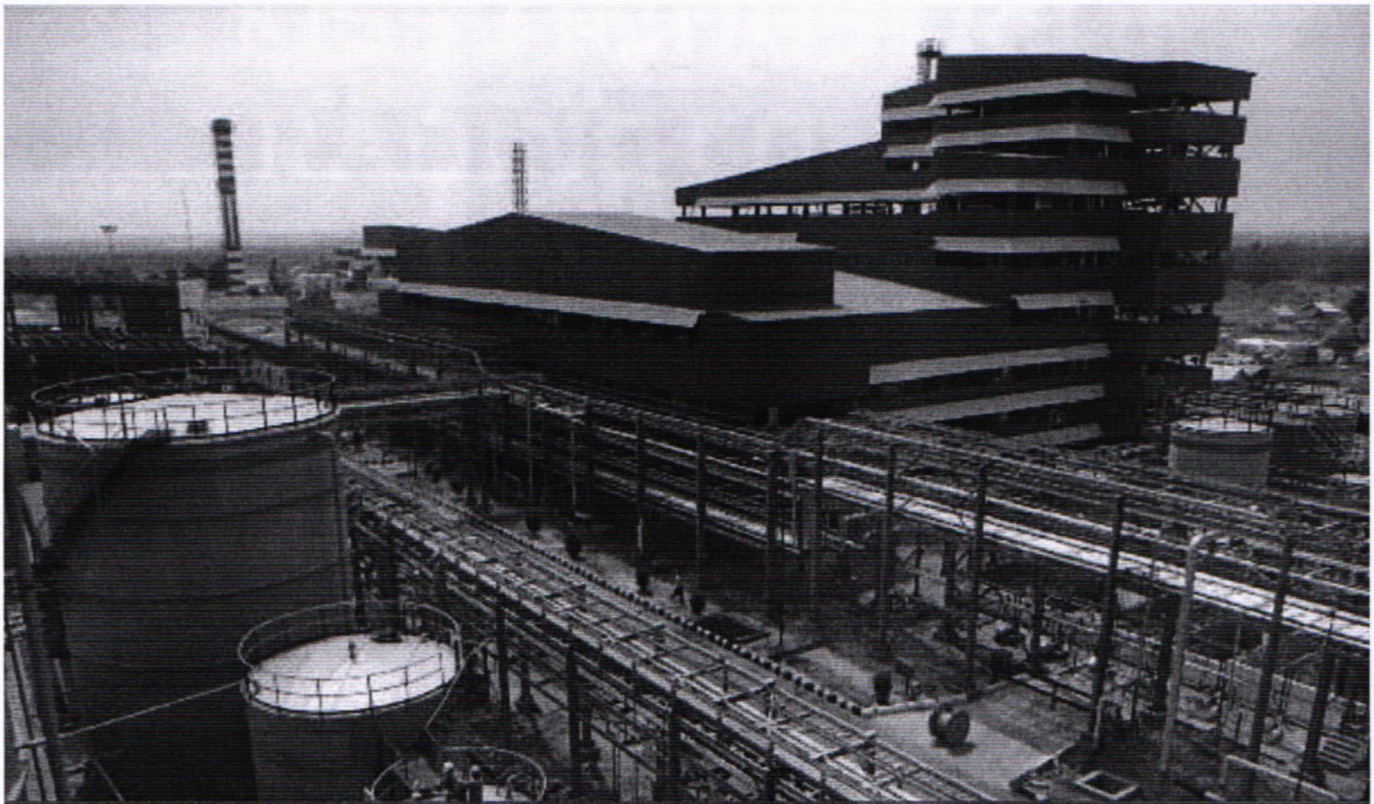
Minister of Trade and Industry

Director, Kissy Industry & Trading Co.

Minister of Agriculture, Forestry and Food Security

APPENDIX A
BUSINESS CASE AND FISCAL CONCESSIONARY PROPOSAL OF THE COMPANY

KISSY INDUSTRY & TRADING COMPANY



BUSINESS CASE AND FISCAL CONCESSIONARY PROPOSAL

July 2017

Prepared by:
Kissy Industry and Trading Company

Date issued:
27 July 2017

FIRSTLY

THANK YOU

On behalf of the Board of Directors and Management of Kissy Industry and Trading Company, we want to thank you for giving us this opportunity to present this proposal and more importantly creating a condusive business environment to invest.

This our Palm Oil Refinery project which will produce various products such as vegetable oil, medicated soaps, margarine and related products is estimated to cost up to USD 20 Million dollars and will be the first of its kind in the manufacturing industry in Sierra Leone.

With its overarching benefits of creating thousands of direct and indirect jobs, improving supply chains, tax revenue for government, provision of sustanined income for small palm kernel farmers, to name a few benefits; we believe that the factory will directly have a huge impact on the Sierra Leone economy as a whole.

The Board of Directors

CONTENT

OUR FACTORY

WILL BUILD SALONE

With a total annual output of approximately 30,000 tons of vegetable oil; our factory will cater for at least 70% of consumption of vegetable oil in Sierra Leone. This will drastically reduce the level of imports of the product, reducing the pressure on foreign exchange and improving Sierra Leone's Balance of Payments.

EXECUTIVE SUMMARY

Kissy Industry and Trading Company (KITC) is developing a factory that will manufacture vegetable oil, medicated soaps & detergents, margarine, butter and related products. It is expected that the total investment for the factory will be approximately **USD20 Million** (see Appendix 1) consisting of Capital Expenditure, working capital and related expenses for the first few months of operation.

This Business Case and Fiscal Concessionary Proposal to the Government of Sierra Leone (GoSL) sets out the basis for this investment and its tremendous positive effect on the Sierra Leone economy. It aims to provide background information and evidence to support the request for trade and fiscal concessions.

Investments

KITC has committed resources to develop and operate a vertically integrated industrial operation, which will utilise all types of Crude Palm Oil (CPO) – red palm oil and yellow masanki palm oil. A total of USD 20 Million will be invested over a 12-month period. The factory can handle crude palm oil inputs of up to 120 Metric Tons per day [120 Mt/d]. It is also establishing a palm kernel nut-cracking line and pressing line that can handle up to 65 Metric Tons milling of nuts per day and 25 Metric Tons of Crude Palm Kernel Oil per day.

Production and Output

The KITC factory operations shall produce a wide range of products from the key inputs of Crude Palm Oil and Palm Kernels purchased from farmers and large plantation estates. These are briefly described as follows:

- Refined Palm Oil (Palm Olien)
- Margarine and Confectionary Spreads
- Refined Palm Kernel Oil
- Soaps and Detergents
- Animal Feedstocks

Employment

The business operation is expected to establish an input supply chain that will create palm oil purchase networks that include up to 15,000 smallholder farmers and medium sized oil palm farm estates. The business is also expected to generate up to 165 new skilled industrial jobs and more than 500 indirect jobs through purchasing, distribution and contracting. The distribution network for the finished products is projected to include over 1,000 small to medium sized businesses and create new business for domestic transport, logistics, wholesale and retail enterprises.

Balance of Payments
The project is expected to save up to US$ 50 Million of foreign exchange that is currently being used to import goods that will be produced by the factory, as the use increases in the domestic market. Exports of some of its excess finished products are expected to generate foreign exchange for the economy. As a Sierra Leonean owned company, the benefits of the investments are expected to be ploughed back into growth and expansion as well as new industrial operations in the country

Medium to Long-Term Fiscal Impact
The KITC industries project is expected to generate new tax revenues for the Government in the form of income taxes from enterprises doing business with the company (i.e. small farmers, transporters etc.) which are not captured at the moment; from PAYE Taxes of its staff; and after a period of time, from Goods and Services Tax and Corporation Taxes. The amount of total taxes to be generated from or because of the KITC business operations around year-5 of operations is estimated to exceed **US$ 6 Million** annually. This exceeds the total import taxes from these products, estimated at around US$ 3.7 Million in 2016.

Although the Board of Directors of KITC have decided to sanction this proposal for the attention of GoSL, KITC has already made a commitment to this investment by acquiring all plant and machinery for the various factories, acquired land and made arrangements for the procurement of Crude Palm Oil from local producers; proving that they are serious about this investment and the growth of the Sierra Leone economy.

All the machinery that will be acquired to run the factory will be brand new and meets first class international standards for manuafcturing these products. The main manufacturing plant which will be used to refine the vegetable oil is Swiss manufactured by Alfa Laval (the best grade in the market). The potential for the factory is enormous and it is expected that the outputs of each manufacturing plant i.e. for vegetable oil, soaps and margarine will be capable to meet national demands and potential for exports to the sub-region.

The factory will be the first of its kind in Sierra Leone with the level of investment and the variety of products it will produce; and is in line with Government's National Industrial Policy; and six (6) Pillars of Agenda 4 Prosperity:

i. *Pillar 1: Diversified Economic Growth* – investment in the manufacturing sector is very rare in Sierra Leone. As potentially the biggest manufacturing business in the country, the dependence on the mineral sector will reduce.

ii. *Pillar 2: Managing Natural Resources* – since the factory will be sourcing all of its raw materials (mainly crude palm oil) from small farmers, the improvement of methods used to grow palm will be key to the factory.

iii. *Pillar 3: Accelarating Human Development* – the factory is expected to create 165 direct skilled jobs and 500 indirect jobs through its distribution networks. Therefore, citizens, especially young Sierra Leoneans, will have the opportunity to learn new skills in manufacturing, supply chain management, distribution and marketing.

iv. *Pillar 4: International Competitiveness* – with the potential to export its products, Sierra Leone's competiveness in the world market will improve.

v. *Pillar 5: Labour and Employment* – with the jobs it will create as mentioned in Pillar 3 above, employment for Sierra Leoneans will improve.

vi. *Pillar 6: Social Protection* – through employment, it will create direct and indirect jobs; and the fact that a portion of raw materials for the factory will be sourced locally from small farmers; the factory will guaranty income for many Sierra Leoneans.

Since KITC will acquire CPO from big mills and small farmers, this will have a positive effect on the Sierra Leone economy as it will create jobs, increase internal trade and meet the government's local content initiative among other things.

Additionally, the effect on the agricultural industry will be enormous as these producers of CPO will have a ready off taker of their produce; and they will not have to go through the administrative and logistical challenges of exporting their products and finding buyers for them.

With increased trade between agricultural producers of CPO; wholesale and retail businesses that will be selling KITC products; transportation and logistics businesses; and other contractors, this investment will record positive effects on the Sierra Leone economy especially reducing the current strain on foreign exchange required for importations.

Since the expected production outputs of all KITC products will first of all meet current demands for the Sierra Leone market and available for exports, the effect of this manufacturing business will be positive for Sierra Leone's Balance of Payments. Additionally, the reduction of cheap imports substituted by high quality KITC products is also another aspect that is positive for the Sierra Leone economy. With respect to Fiscal and Trade incentives requests highlighted in this proposal, we have made a good case justifying this request by what other African countries have done to encourage manufacturing investments; and the total positive effect of KITCs investment on the Sierra Leone economy.

In addition, support for KITCs investment will encourage investment in the manufacturing sector which is positive for our "Made in Sierra Leone" initiative; and increase the diversity of investments made in the country. The ripple effect of KITCs success and its encouragement of other investments in manufacturing shouldn't be underestimated as other investors will take on other ventures in the sector.

1.0 INTRODUCTION

1.1 Background

KITC, a private company registered in Sierra Leone, is undertaking an industrial investment project, for the refining and fractionation of palm oil and palm kernel oil; and production of Refined Bleached and Deodorised (RBD) cooking oil and other related products including soap, margarine and cooking butter. These products will be sold primarily in the domestic market as substitutes for imports of similar products; and for exports to other countries in the ECOWAS region. The project is expected to, among other things, help improve on Sierra Leone's Balance of Trade and Balance of Payments; ease pressures on foreign currency Exchange Rates; increase national output values; create skilled jobs in industry; and help build supply chains on the input and output sides of the operation.

1.2 Business Case Study

As part of its business development activities, KITC commissioned this study of its business case, to identify factors that could enhance the chances of success for the business, as well as the principal risks and threats it would face in an economy like Sierra Leone, with the key objective of promoting the success factors and mitigating the risk factors. It is envisaged that some of these factors could be exogenous to the company and would require interventions from the Government through a mix of policy and regulatory measures that have market and fiscal implications. This Business Case Report seeks to articulate the details of the investments, its potential benefits to the economy, the required policy and regulatory interventions from the Government and the expected results and outcomes of such interventions. It takes into account the fact that Sierra Leone is a net importer of many consumer products, including those that the project aims to manufacture; it also considers the international market landscape for the production and supply of the products to be produced and the competitive muscle the Sierra Leone economy has in the wider international trade schemes.

To further minimise the risks of changes in policies that could adversely affect the long-term viability of the project, KITC is preparing a draft Investment Concession Agreement, for the attention of Cabinet and Parliament. The draft agreement takes into account the conclusions and recommendations of the analysis carried out in this Report, and seeks to protect and guarantee that the KITC investment projects achieves its business and wider socio-economic objectives.

1.3 Elements of the Report

This report is divided into six (6) sections. Section 2 gives an overview of the economic and financial operating environment. Section 3 gives a description of the project scope; in terms of the factory development aspects, products to be manufactured, production and output targets, supply chain development and capital expenditures. Section 4 looks at the general market conditions for the specific products to be manufactured by KITC; focusing on the countries of origin of the imports, import volumes and values, international production and supply of edible oils. Section 5 presents a justification for special concessions to be applied to KITC's operations, in terms of the potential benefits and given the competitive landscape in the international trade of its products. Section 6 provides a summary of the concession terms identified herein, which is expected to form the basis of consultations with Government bodies as a key success factor for the project.

2.0 THE OPERATING ENVIRONMENT

2.1 Economic and Financial Outlook

Sierra Leone's economic fundamentals present an attractive investment proposition. In 2013, Sierra Leone's real GDP growth was approximately 20 per cent. While this fell during the height of the Ebola crisis, with estimates for 2014 and forecasts for 2015 predicting negative growth, Sierra Leone is projected to return to solid growth as the country recovers from the outbreak and coinciding drop in commodity prices. The iron ore price decline affected macro-financial stability and reversed the country's remarkable positive growth trajectory as economic growth declined from a buoyant 20.1% in 2013 to 4.6% in 2014 and thereafter contracted by 21.5% in 2015 according to the latest estimates.

GDP

Real Gross Domestic Growth (GDP) is projected to recover from -20.6% in 2015 to 5.4% in 2017. The IMF projects medium-term growth to pick up to around 6.5% by 2020 from 4.3% in 2016.

Inflation

Consumer Price Inflation continues to rise on account of exchange rate pass-through and accommodative monetary stance. Rising from a base of 9.5% in December 2015, inflation reached 17.41% in December 2016. Exchange rate pressures remain unabated. The local currency (the Leone) had depreciated by 28.73% in December 2016 (year-on-year).

Government Fiscal Operations

The overall fiscal balance (excluding grants) was projected to recover slightly from -9.6% of non-iron ore GDP in 2015 to -8.1% in 2016. Total domestic revenue collection for 2017 is projected at Le3.5 trillion, up from Le2.68 trillion set in 2016.

International Trade

Sierra Leone is a net importer, recording consistent negative trade and current account balances. Sierra Leone recorded a trade deficit of 52.89 USD Million in June of 2016. Balance of Trade in Sierra Leone averaged -29.14 USD Million between 2006 and 2016. In June 2016, the Bank of Sierra Leone increased its weekly foreign exchange auction from $1 million to $3 million. This notwithstanding, it has been able to maintain foreign exchange reserves of at least 3.5 months of import cover.

The GoSL's A4P programme is aimed at boosting the country's investment climate and capitalising on the current political stability. The programme emphasises private sector-led growth, with a particular focus on diversifying the economy and improving the enabling environment for private sector-led growth through, for instance, improvements in energy, water and transport infrastructure.

The KITC Project is one that could set in motion, a spiral of private investments in the manufacturing industry, which could have a high long-term impact on economic stability and growth, given its cross-sector effects on output, high-skilled jobs, international trade and taxes.

2.2 Investment Policy Framework

The Investment Promotion Act 2004 (IPA), which serves as the foundation of the private investment regime in Sierra Leone, has as its purpose the promotion and attraction of private investment, both domestic and foreign, "for the development of value-adding opportunities, export creation and investment opportunities." The IPA offers significant incentives to foreign investors in Sierra Leone, including the ability to repatriate profits and capital without restriction, the ability for companies to carry forward losses indefinitely and customs exemptions for expatriate workers and their families.

2.2.1 Tax Incentives

A variety of tax and non-tax incentives for both local and foreign investors have been designed to channel investments to specific industries and encourage engagement in eligible new enterprises and expansion projects in agriculture, agro-industries, manufacturing and construction. Incentives include income tax exemptions, deductions for income tax purposes and import duty exemptions. These are explored in greater detail in Parts I of this Investor Guide. The IPA supplements these incentives with a framework for the settlement of disputes in an international forum, providing for United Nations Commission on International Trade Law (UNCITRAL) arbitration (or resolution under such other international machinery as the parties may agree) in the event of a dispute between an investor and the GoSL with respect to (a) an investment in a business enterprise, or (b) investments that have been obstructed or delayed by the GoSL.

Sierra Leone's Income Tax Act 2000 and various Finance Acts contain various incentives to encourage private sector investment and promote the inflow of foreign capital and technology into Sierra Leone. These include Income Tax exemptions, deductions for income tax purposes, import duty exemptions and Goods and Services Tax exemptions. Such incentives are contingent on the satisfaction of relevant criteria including the need to improve local content,

which is explored in further detail below. General incentives include income tax relief on plant, machinery and equipment; a three-year grace period on import duties for new and existing businesses importing plants, machinery or equipment; lower import duty rates for raw materials; and 100 percent tax deductions for expenditure on research and development, training, and the development of social services (such as the building of schools and hospitals). Sector-specific incentives have also been implemented for investments in agriculture, energy, infrastructure, tourism and pharmaceuticals. These are outlined in the relevant sections in Part II below. Additional incentives are provided to Special Economic Zone (SEZ)s, including import and export duty exemptions, three-year corporate tax holidays and expedited government services including customs, immigration and registration.

2.2.2 Foreign Trade

As a member of the WTO, Sierra Leone's "most-favoured-nation" (MFN) tariff rates are applied to other WTO Members. This has not been affected by the recent implementation of the ECOWAS common external tariff (CET), as the CET rates are within Sierra Leone's WTO binding commitments. Imports from other MRU states are duty free. Customs clearance for imported goods was simplified in the early 2000s. The Customs Act 2011 further reformed import and export requirements, providing clarification to what was previously a complicated and time-consuming process.

Recent reforms have been designed to encourage agricultural investment. These include the introduction of a three-year exemption on import duties in respect of plant, machinery and equipment. Raw materials also attract a reduced import duty rate of 3 per cent.

3.0 THE PROJECT DESCRIPTION

3.1 Overview

KITC has committed resources to develop and operate a vertically integrated industrial operation, which will utilise all types of Crude Palm Oil (CPO) – red palm oil and yellow masanki palm oil. The red palm oil is used mainly in the food chain in Sierra Leone and this will not be used in the production process of KITC. The yellow masanki palm oil, which is usually smuggled to neighbouring countries will be used in the production process. There are two types of yellow masanki palm oil, namely low acidity produced by palm oil mills (by SOCFIN, Gold Tree and Sierra Leone Agriculture) and high acidity produced by small farmers. Beside the main factory plant, a 65 ton milliing plant for Palm Kernel nuts to produce a range of other finished oil-based products will be operational bearing in mind most of the palm kernel nuts are been wasted. The operation is expected to serve as a bulk purchaser of palm kernels and crude palm oils from large oil palm plantations to smallholder farmers at international market price, to be used as inputs in its factory production line. The production capacity of the factory is designed to enable complete replacement of importation of the key products, as well as enable the export of other value-added products to other sub-regional markets.

All the machinery and structures for the factory have been ordered and have started to arrive at the port, showing the commitment of KITC to this project. The factory can handle crude palm oil inputs of up to 120 Metric Tons per day [120 Mt/d]. It is also establishing a palm kernel nut-cracking line and pressing line that can handle up to 65 Metric Tons milling of nuts per day and 25 Metric Tons of Crude Palm Kernel Oil per day. The business operation is expected to establish an input supply chain that will create palm oil purchase networks that include up to 15,000 smallholder farmers and medium sized oil palm farm estates. **The business is also expected to generate up to 165 new skilled industrial jobs and more than 500 indirect jobs through purchasing, distribution and contracting. The distribution network for the finished products is projected to include over 1,000 small to medium sized businesses and create new business for domestic transport, logistics, wholesale and retail enterprises**. The project is also expected to save up to US$ 50 Million of foreign exchange that is currently being used to import goods that will be produced by the factory, as the use increases in the domestic market. Exports of some of its excess finished products are expected to generate foreign exchange for the economy.

As a Sierra Leonean owned company, the benefits of the investments are expected to be ploughed back into growth and expansion as well as new industrial operations in the country.

3.2 Products and Output Targets

The KITC factory operations shall produce a wide range of products from the key inputs of Crude Palm Oil and Palm Kernels purchased from farmers and large plantation estates. These are briefly described as follows

3.2.1 Refined Palm Olien

The KITC factory will utilise CPO as its main input to produce Refined Bleached and Deodorised (RBD) **Palm Olein.** Palm Olein is the liquid portion obtained by the fractionation of crude palm oil after crystallization at controlled temperatures. This product, which is especially suitable for frying and cooking, is a perfect substitute for all types of vegetable oils used for domestic and industrial cooking. It is of higher quality and value compared to other forms of refined vegetables oils extracted from sunflower, rapeseed, soybeans and peanuts.

This product will be utilised both as a finished product, for offer on shelves for domestic market; and for exporting excess amounts to neighbouring countries. The production of RBD Palm Olein for the domestic cooking industry implies substituting higher quality product with lower quality imports. The goal of KITC is to make this substitution without any increases in comparative shelf prices of the products.

3.2.2 Margarine and Confectionary Spreads

KITC factory will produce a range of margarine and other confectionary spreads from the Palm Stearin that is a by-product of the refinery process of the Crude Palm Oil in producing the Palm Olein. Palm stearin is the solid fraction of palm oil that is produced by partial crystallization at controlled temperature. It is more variable in composition than palm olein, the liquid fraction of palm oil, especially in terms of its solid fat content, and therefore has more variable physical characteristics.

In Sierra Leone today, 100 percent of all margarine, butter and other confectionary solid spreads are imported from various markets in Asia, Europe and the Americas. The KITC factory has the capacity to produce more volumes of these products than is currently imported. As a result, the Sierra Leone market is expected to be an anchor market for the products, while other neighbouring markets are expected to mop-up the excess production volumes.

3.2.3 Refined Palm Kernel Oils

Refined Palm Kernel Oil is derived from the dried kernels of the Oil Palm fruits. Presently, a large portion of the palm kernels derived in the production of crude palm oils are left as waste in the communities. The use of this as a raw material for the factory will increase the income and trade of small farmers are they will now have an off taker of their produce. KITC will have an operation that will collect palm kernels from small holder farms, medium sized oil palm

plantations and palm oil mills around the country, to be used for milling and production of refined palm kernel oils.

Refined Bleached and Deodorised Palm Kernel Oil (RBDKO) can be used for domestic and industrial cooking as a substitute for other types of refined vegetable oils. Presently, the World Food Programme (WFP) office is using RBDKO in its school feeding and other food relief operations in the country. In addition, this product is commonly used as inputs in the production of confectionery, detergents, paints, margarine, shampoos, soaps, spray oils, and surfactants.

KITC operations will produce RBDKO to be exported as input to confectionaries and other food industries; and used as inputs in its own production of margarine, soaps and detergents for the domestic markets. The volumes to be produced by KITC can substitute up to 70% percent of imports of vegetable oil and 100% of laundry soaps, detergents and, when combined with palm stearin, margarines and confectionary spreads. The RBDKO exports will largely target confectionaries and food production industries in Nigeria and Ghana[1].

3.2.4 Medicated Soaps and Detergents

The KITC factory, using refined oil products and by products, will produce a wide range of soaps and detergents to address the huge demand for soaps in the country. Imported soaps and detergents account for over 95% of soaps used for washing, cleaning and bathing in the country. Import Records show that official imports of detergents and soap-related products amount to approximately USD 4.5 Million per annum. KITC aims to generate FX savings for these kinds of products, as its factory operations shall produce various quality-grades of regular laundry soap bars, powdered and liquid detergents, regular and medicated bathing soaps for sale in the domestic markets and for export to neighbouring markets in the sub-region.

3.2.5 Animal Feed

The by-products and waste products generated from the milling, pressing and refinery process of palm oils and palm kernel oils can be combined to produced animal feed. The wastes from the production of margarines, confectionary spreads and the palm kernel cake generated from pressing the kernels can be combined to produce animal feeds for the poultry and piggery industries. As more and more small to medium sized poultries and piggeries are being established in the market, this source of protein and fats will serve as a reliable source of feed supply for their animals. KITC factory will produce standard animal feeds and establish a supply chain for animal farms in the country. This will enable expansion of their production

[1] Unilever, Honeywell Foods, De-United, Nasco Foods, Okin Biscuits etc

scales, as feed supplies have been identified by poultries and pig farms as a major barrier to expansion efforts.

3.2.6 Organic Fertiliser

The palm kernel cake can also be used to produce organic fertiliser. KITC factory will utilise excess palm kernel cakes not used in the production of animal feed, to produce organic fertilisers, which will be supplied to the nurseries and small holder oil palm farmers. This will help reduce the long-term volumes of fertiliser imports in the country.

3.2.7 Production Operation Targets

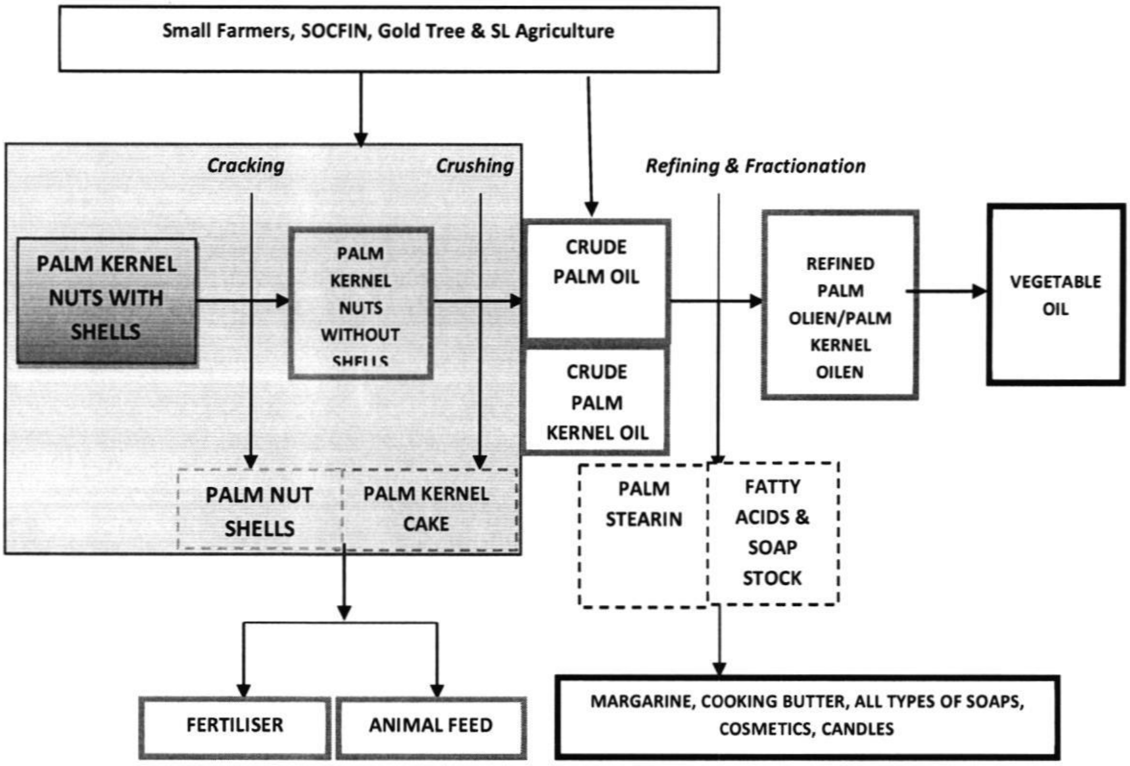
The installed factory capacity, production systems and planned operations are designed to enable the following levels of outputs of the various products. The palm oil fractionalisation line is designed to handle up to 100 Metric Tons of Crude Palm Oil per day and a palm kernel crushing line that can handle 400 Metric Tons of palm nuts in a week. With this level of inputs, varied levels of production can be achieved for the other types of finished products. The operational targets for the Oil Palm based production line is summarised in the following Table.

Production Line	Measure	Production Targets (Approx)
Crude Palm Oil Refinery and Fractionisation	Mt/Month	2,000
Crude Palm Kernel Oil	Mt/Month	500
Refine Palm Olein Production	Mt/Month	1,500
Margarine Production	Kg/Month	66,000
Toilet/Laundry Soaps	Cartoons/Month	192,000
Powdered Soap Production	Cartoons/Month	16,000
Liquid Soap Production	Litres/Month	12,000
Animal Feed Stock	Mt/Month	120
Organic Fertiliser	Mt/Month	120

The above operational and production targets for the various products will be sufficient to substitute the importation of up to 90% of all similar products and to export the refined palm kernel oils.

<u>The Production Process</u>

The following chart shows the manufacturing process to be employed by KITC in the oil palm refinery and fractionalisation.



3.2.8 Finished Output Production Forecasts

Based on the installed production capacity of the KITC factory, the planned operations and feasible levels of raw material procurements, the following table illustrates the production forecasts of the various types of products to be manufactured.

Item Description	Units of Measurement	Production Years 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RBD Palm Olien	Metric Tons	17,760	18,648	19,580	20,559	21,587	22,667	23,800	24,990	26,240	27,552	28,929	30,376
RBD PK Oil	Metric Tons	1,920	2,016	2,117	2,223	2,334	2,450	2,573	2,702	2,837	2,979	3,127	3,284
Margarine	Kilograms	792,240	831,852	873,445	917,117	962,973	1,011,121	1,061,677	1,114,761	1,170,499	1,229,024	1,290,475	1,354,999
Soap Bars	Cartons	192,000	201,600	211,680	222,264	233,377	245,046	257,298	270,163	283,671	297,855	312,748	328,385
Liquid Detergents	Cartons	120,000	126,000	132,300	138,915	145,861	153,154	160,811	168,852	177,295	186,159	195,467	205,241
Powdered Detergents	Cartons	600,000	630,000	661,500	694,575	729,304	765,769	804,057	844,260	886,473	930,797	977,337	1,026,204
Animal Feed	Metric Tons	1,200	1,260	1,323	1,389	1,459	1,532	1,608	1,689	1,773	1,862	1,955	2,052
Organic Fertiliser	Metric Tons	1,200	1,260	1,323	1,389	1,459	1,532	1,608	1,689	1,773	1,862	1,955	2,052

Source: Kissy Industry and Trading Company (SL) Limited

3.3 Factory Development

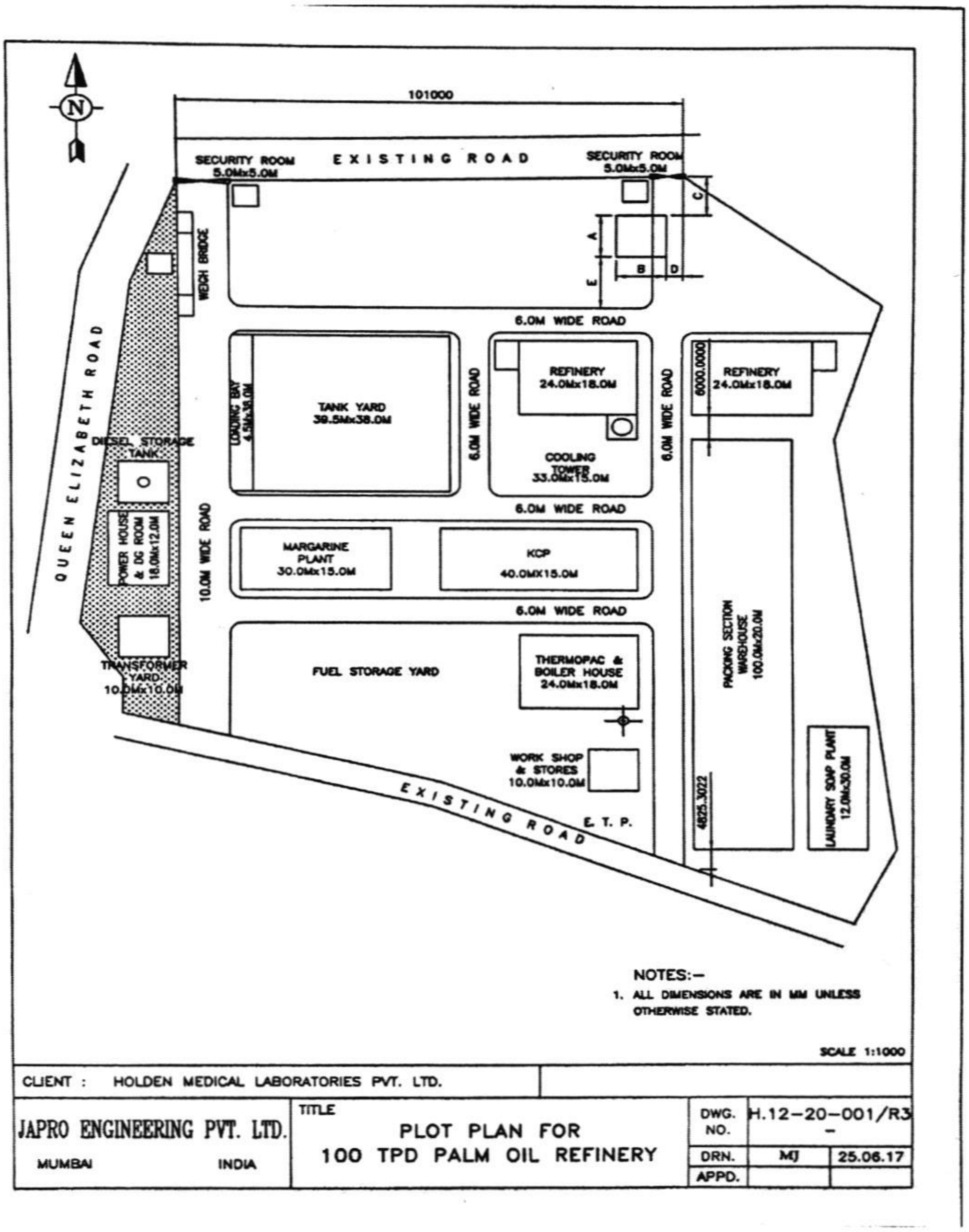
KITC, through the Ministry of Lands, has secured a piece of land equivalent to 12.2 acres in the Kissy Dockyard area. This area will be used for the establishment of the factory complex. The land is part of an unused annex of the now defunct crude petroleum oil refinery, which ceased operations in the early 1980s. The site is located close to the Queen Elizabeth II Quay and the National Revenue Authority Customs and Excise Department offices.

The areas marked yellow in the map below indicate land provided for the proposed factory.

Source: Kissy Industry and Trading Company

3.3.1 Factory Engineering Procurement and Construction

The factory producers, Alva Laval, have developed a design blueprint for the factory construction, as shown in the Figure below. KITC has signed an Engineering and Construction contract with Japro Engineers for the factory, which is expected to the commence once the land conveyancing processes are completed.



3.3.2 Factory Specifications and Capacity

Palm Oil Refinery

- Manufacturers: Alfa Laval Refinery and Fractionation Equipment (Japro Engineering India)
- Tanks and Structures
- Daily Production Capacity: 120 tons

Margarine Plant

- Manufacturers: Cangrren (Unilever) China
- Daily Production Capacity: 25 tons

Palm Kernel Oil Mill

- Manufacturers: Japro Engineering
- Daily Production: 25 tons

Soap Plant

- Manufacturers: Japro Engineering
- Daily Production: 15 tons

Plastic Machinery and Plant

- Manufacturers: Jagmohan India
- Daily Production: 15 tons

All Plant and Machinery (including Oil Refinery)

- Technical Life Span: 25 years
- Purchase Condition: New
- Expected delivery dates: July to Dec 2017
- Expected commencement date for production: 1st Aug 2018

3.4 Input Purchasing and Supply Chain Analysis

The primary source of crude oil inputs for the factory operations will be from the established oil palm plantations of SOCFIN, Gold Tree and Sierra Leone Agriculture. In addition, the company will also engage in the purchase of *Masanki* palm oil and palm kernel nuts from small holder farms and communities.

Palm Oil Purchasing

The purchasing of the palm oil will be done via two channels:

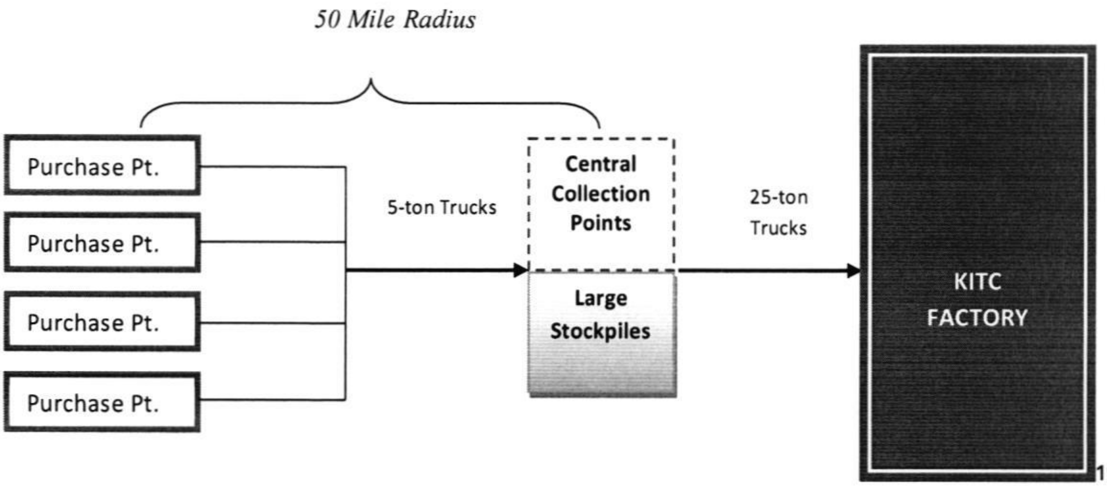
i. Directly from medium-sized local farmers, with large farms and established enough to enter into direct supply contracts with KITC. The supply contracts will indicate prices, volumes and delivery terms.
ii. Via purchasing aggregators, who shall be traders and/or transporters who have the financial and business organisational capacity to enter into purchase contracts with large numbers of small farmers. The volumes are aggregated and shall form the basis of supply transactions to KITC.

KITC will put in place schemes that will help organise this purchase agent network, such that they can use supply contracts with the company to secure access to finance and other financial services from banks, micro-finance institutions and insurance companies.

Raw materials acquired locally from small farmers and big agricultural companies will be bought at international market prices based on the Malaysia Index. This will improve the competitivenss of these business and will give them less incentive to smuggle their products out of Sierra Leone. In addition, KITC will take care of all the logistics involved when acquring its raw materials from small farmers.

Palm Kernel Transportation

KITC will operate central depots in major towns and cities that are within 50 Miles of purchasing points established by its agents. These depots will serve as central collection and storage points for the oils and the kernels, from where they shall be transported in large volumes to the main factory location at Kissy. The goal is to outsource the transport and logistics operations to a separate local firm, to enable resurgence of the 3rd Party Logistics (3PL) business which had slumped after mining operations slowed down in 2014.



4.0 PALM OIL MARKET ANALYSIS

Palm oil is a major commodity in the international commodity markets; both as a consumer product in foods and other non-food items. It has the highest share in the vegetable based oil market globally. Its high share among the vegetable oils globally is attributed mainly to the high yield of the crop, high profitability and high land efficiency. In spite of having minimal amounts of land under palm plantation, palm oil contributes to the largest production amongst all types of vegetable oils. Globally, palm oil market relies on production from Indonesia and Malaysia. As the consuming regions do not contribute much to the production, much of the requirements are met through trade.

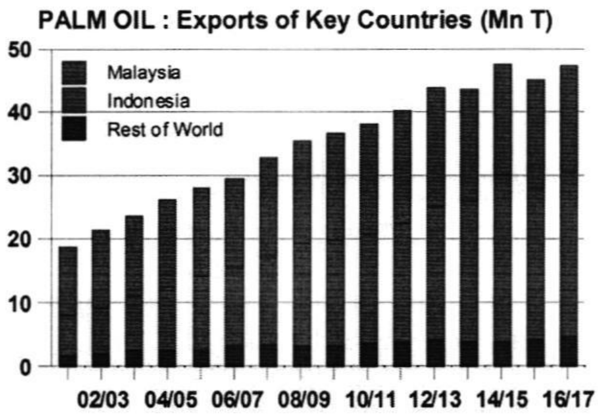
In terms of application, although the food sector comprises of 80% of the market share in the use of palm oil based products, non-food areas are becoming increasingly important. The trend away from petroleum-based products has meant growing demands for palm oil in the production of Soaps, Detergents, Surfactants, Cosmetics, Pharmaceuticals, Nutraceuticals and other similar products. This Business Case Report analyses the global palm oil industry in terms of its production, consumption, global trade and its prices. Focusing primarily on its major producers (Indonesia and Malaysia), who happen to be the leading origin of crude palm oil, refined vegetable oils and other palm oil based products, the report examines the import implications for the Sierra Leone economy and the impact of KITC operations on imports, exports and domestic trade of palm oil products.

4.1 International Production and Supply Trends

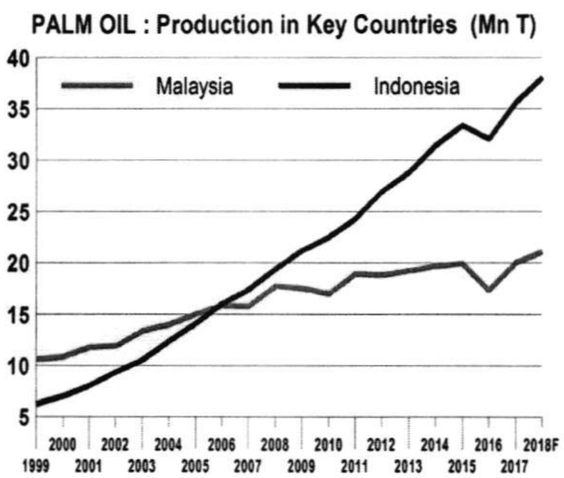
In 2014, global palm oil market was valued at USD 61.09 billion. Crude palm oil dominated the global palm oil market accounting for over 75% of the market in 2014. Growing application in surfactants, cosmetics, lubricants, edible oil and biodiesel was responsible for this high market share. Crude palm oil is also expected to experience a high growth rate, at a probable CAGR of 7.5% between 2015 to 2022; driven largely by the demands for cooking and food industry. Crude palm oil has relatively lower prices as compared to its competitors such as crude palm kernel oil and coconut oil, which make it the best-chosen cooking oil, predominantly in South East Asia and West Africa.

4.1.1 Global Production

Global palm oil production increased from about 15 Million Metric Tons in 1995 to about 50 Million Metric Tons in 2015; the highest production volume of any vegetable based oils, exceeding the next highest oilseed crop by about 10 Million Metric Tons. Oil palm is the most efficient oil crop in terms of land use. Among major oilseed crops, oil palm utilises the smallest percentage of cultivated lands but produces the largest percentage, 32 percent, of total crop oils and fats globally. It uses less than 50 percent of land required by other crops such as sunflower, soybean and rapeseed to produce the same amount of oil.



Indonesia and Malaysia are the two largest producers of palm oil, together accounting for about 85 percent of global production. The remaining production volumes are from South and Central America, producing 3.4 Million Metric Tons annually; West Africa, producing 2,4 Million Metric Tons and Thailand producing 1.8 Million Metric Tons per annum.



Approximately 85% of all the palm oil in the world is produced in Malaysia and Indonesia. Indonesia produces about half of all the palm oil in the world and exports about half of all the palm oil in the world. Total palm oil production in the country is around 30 million tons. Besides being the biggest exporter, the country is also the largest consumer of palm oil. The country consumes between 25-30% of all palm oil domestically. Malaysia produces about 1/3rd of palm oil in the world; with total palm oil production in the country estimated around 20 million Metric tons per year. Around 15% of the palm oil is consumed directly in the country. Malaysia exports 85% of its palm oil.

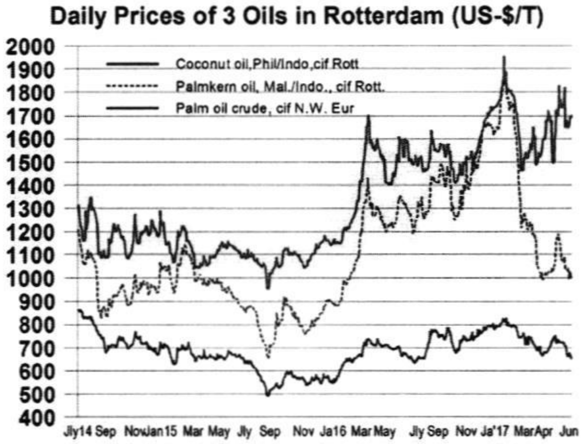
As shown in subsequent sections of this report, these two countries together account for more than 50% of all vegetable oils and soap products imported into Sierra Leone. More recently, imports of crude palm oil (also known as Red Palm Oil), which is the unrefined and

used for cooking local traditional dishes, is being imported from these two countries, packaged and sold at comparatively higher prices than those sold by farmers, local aggregators and small traders. This dominant market share invariably offers producers in these countries with significant powers to control prices on a global market as well as engage in aggressive trade practices against smaller producing countries.

KITCs goal is to utilise Sierra Leone's position as a relatively small market player, to significantly reduce the volume of imports from these countries, as a means of increasing national output, creating jobs, contributing to improve balance of trade and payments, and increasing tax revenues.

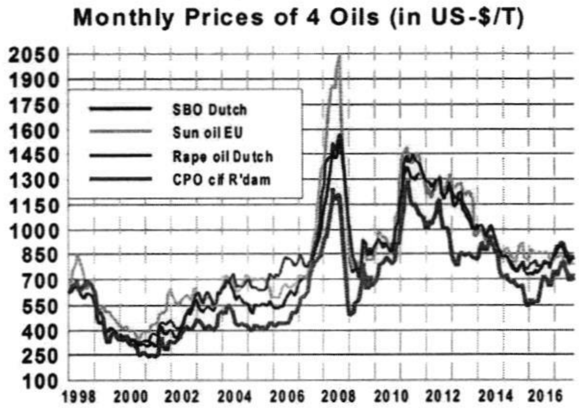
4.1.2 International Trade Prices

Significant price movements have always been a feature for the leading oils and fats traded on world markets. Monthly average palm oil prices, CIF Rotterdam, reached a high of $705 per tonne in 1998, then falling to a low of $234 per tonne in 2001 before recovering to trade more steadily in a range of $400 to $500 per tonne for the next four years. In the second half of 2006, prices started to rise steeply and reached levels of US$1,249 in March 2008. Prices remained high until July 2008 when, in line with other commodities and as a result of the developing world financial crisis, prices started to fall materially, reaching a low point of around $500 per tonne at the end of that year. Prices have since recovered progressively, reaching levels above $1,000 per tonne in 2011 and 2012 and remaining relatively steady for most of 2013 trading in a range of between $800 and $900 per tonne. The average CPO price, CIF Rotterdam, for the ten-year period 2006 - 2015 has been $844 per tonne.



Daily prices from July 2014 until 22 June 2017

Palm oil has followed the general trend of prices within the oils and fats complex because of its substitutability with other members of the oils group. This notwithstanding, crude palm oil has consistently been priced lower on the international trade markets, compared to other vegetable oils.



As shown in the tables, the CIF Rotterdam prices for CPO has been consistently lower than that of palm kernel oil, coconut oil, sunflower oil, rapeseed oil and soybean oil.

KITCs business plan utilises these pricing benchmarks in its financial plan because the main sources of its raw materials (CPO) will be from SOCFIN, Gold Tree and other large palm oil mills who will otherwise export to international markets using these price benchmarks. This also potentially offers small and medium sized farmers an opportunity to sell their products at relatively good prices compared to those prices offered in the domestic trade supply chains and cross-border routes.

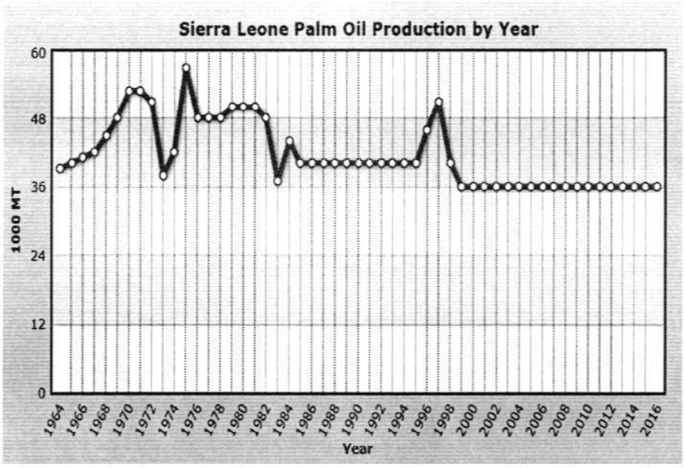
4.2 Domestic Production and Supply and Value Chains

In the 1960s and 1970s, Sierra Leone was a key player in the West Africa and emerging world palm oil market. The production of palm oil exceeded the domestic consumption and the excess was exported to the world palm oil market through the Sierra Leone Produce Marketing Board (SLPMB). The fortunes of Sierra Leone's palm oil production, however, changed in the 1980s and 90s due to management problems of the SLPMB and in the 1990s due to the civil war which lasted for about 11 years. The focus on the mining industries by Government as drivers of economic stability and growth further caused the industry to lag, compared to Malaysia and Indonesia, both of which were not major players in the oil palm industry in the 1960s and 70s.

4.2.1 Domestic Production

Oil palm has been an important cash and export crop in this country. After the civil war (1991-2000), Government plantations that were neglected and aged were rehabilitated; these still continue to have low yields. The small-scale traditional system, which produces 70% of total output relies mainly on wild plants for production and is used exclusively for domestic

consumption purposes. Available data from the Ministry of Trade and Industry suggests that about 18,000 hectares are in various degrees of aging, most of which were previously Government-owned plantation estates. In addition, about 32,000 hectares of cultivated oil palm land is in the form of smallholder oil-palm production with farm sizes averaging between 1 and 2,5 hectares. As shown in the figure, oil palm production, after increasing to a peak of about 54,000 Metric Tons in 1974, dropped to about 36,000 Metric Tons in 2000 and remained flat at that level until 2015.



Small farmers produce mainly high acidity content yellow masanki palm oil. This is not commercially viable as households prefer the red palm oil. Since KITCs first class machinery is designed to refine all types of palm oil with any type of acid content, small farmers through KITC will have a ready market for their produce thereby reducing the possibility of their produce to waste.

4.2.2 Large Scale Oil Palm Production

Between 2009 and 2014, due to proactive Government policies, a number of large scale oil palm cultivation and milling investments were made by various foreign investment groups.

SOCFIN

SOCFIN, a Belgian company, which invested in about in a large oil palm estate in the Malen chiefdom. The company has cultivated 7,100 Ha of oil palm. The company also invested about US$ 22 Million in a large oil mill with processing capacity of 30 tonnes per hour. Total investments made to date is estimated at US$ 122 Million.

Gold Tree

Gold Tree, a UK based company also took over an old Government oil palm estate in Daru and is planning additional investments in its nucleus farm. Gold Tree supports more than 7,500

out-growers who own and manage their own mature oil palms. This project is integrated with an oil mill that produces both crude palm oil from the FFBs and palm kernel oil from cracking the nuts and crushing the kernels from the palm oil waste. Presently it produces about 7,000 Metric Tons of crude palm oil per annum and is marketed domestically for cooking purposes and exported in the sub-regional markets. Over the next five years, Gold Tree proposes to kick-start the regeneration of smallholder oil palms in Sierra Leone by facilitating the replanting of 1,000 hectares of old palms owned by small farmers within a 40-km radius of its mill. This is expected to generate an additional 10,000 Mt per annum of fruits, 2,000 Mt of crude palm oil.

Sierra Leone Agriculture

Sierra Leone Agriculture, which was bought by the Indian group SIVA, has a medium-term investment plan targeting 40,000 hectares of oil palm cultivation.

With all these pipeline projects, domestic production of oil palm is expected to peak at about 70,000 Metric Tons within 6 years. These three industrial estates are expected to be the primary suppliers of CPO to the KITC refinery. The company will, however, establish a purchasing supply chain network to target small holder farmers producing the Masanki crude palm oil, which is hardly used for cooking purposes.

4.3 Analysis of Imports in Sierra Leone

This section analysis the importation of edible vegetable oils and soap products into the country. This is to put into context the substitution and tax income effects of KITC investments. Ultimately, the goal is to substitute imports of key products with those produced by the factor. This needs to be analysed in the context of import volumes, as these reflect current demand levels on the one hand and tax revenues, as they reflect incomes realised by Government from the imports. If it can be demonstrated that the production from KITC operations can match current import levels; and potential taxes generated can match or exceed import taxes; then a strong case for granting special policy and regulatory concessions can be made.

4.3.1 Import Volumes and Values

The following tables indicate the current import volumes of various items to be produced by KITC in 2016.

Oils and Edible Spreads

Approximately 13,671 Metric Tons of edible palm oil products were imported in 2016, with a total CIF value of about Le 60.23 Billion. Of this amount, CPO products accounted for about 49 percent of the total volume imported; refined palm olein products accounted for 24 percent; margarine accounted for 16 percent; refined coconut oils accounted for 4 percent; and others refined vegetable oils accounted for 6 percent.

Analysis of Import Volumes & Values by Product Type			
Item Description	Gross Weight (Mt)	CIF Value (Million Le)	Percent of Total
Crude Palm Oil	7,575	29,647.43	49.22%
Palm Olein	3,000	14,504.61	24.08%
Margarine	1,920	9,901.17	16.44%
Refined Coconut Oil	514	2,444.17	4.06%
Other Refined Vegetable Oils	662	3,733.52	6.20%
Total	**13,671**	**60,230.91**	**100%**

Soap Products

Approximately 11,909 Metric Tons of Soap products, including soap bars for laundry and bathing, powdered and liquid detergents, shampoos and related products were imported in 2016. The total CIF value of these imports was about Le 56.47 Billion Leones.

Item Description	Taxes (Million Leones)		
	Gross Weight (Mt)	CIF Value (Million Le)	Percent of Total
Powdered Detergents	2,905.68	10,404.43	18.42%
Soap Bars	3,137.38	12,623.69	22.35%
Other Soap Products	5,866.43	33,448.44	59.23%
Total	11,909.49	**56,476.56**	**100.0%**

4.3.2 Countries of Origin

Imports of the key products targeted by the KITC project originate from a wide range of countries and regions. The Asian countries of India, Malaysia and Indonesia dominate edible oil products; while soaps and detergents have a relatively wider spread in countries of origin. The following tables provide summaries of imports from various countries of the products under review.

Oils and Edible Spreads

Edible palm oil and other vegetable oils originated primarily from Indonesia, India and Malaysia, with these 3 countries accounting for about 64 percent of the CIF values of imports. Imports from the EU countries accounted for about 18 percent, followed by the UAE with 12 percent and all other countries accounting for about 6 percent. The only African country that exported edible oil products to Sierra Leone in 2016 was Senegal, and imports from this country accounted for only 0.003 percent of total imports.

Analysis of Import by Country of Origin			
Country of Origin	Gross Weight (Mt)	CIF Value (Million Le)	Percent of Total
Indonesia	4,201	17,392	28.88%
India	2,873	10,903	18.10%
Malaysia	2,075	9,991	16.59%
European Union	2,030	11,082	18.40%
UAE	1,647	7,283	12.09%
Others	846	3,580	5.94%
Total	**13,673**	**60,231**	**100%**

Soaps

Soaps and soap based products are imported from a wider spread of countries, with the EU, Malaysia and India accounting for 19.95 percent, 16.93 percent and 12.21 percent respectively. Malaysia and the UAE both account for about 8 percent each, while imports from about 16 other countries account for about 34 percent of the total CIF value of imports. Soap imports from three African countries of Nigeria, Senegal and Togo accounted for approximately 4 percent of total imports in 2016.

Analysis of Import by Country of Origin			
Country of Origin	Gross Weight (Mt)	CIF Value (Million Le)	Percent of Total
INDONESIA	1,304	4,873,693	8.63%
India	1,524	6,895,584	12.21%
Malaysia	2,965	9,560,407	16.93%
European Union	1,002	11,264,683	19.95%
UNITED ARAB EMIRA'	1,005	4,579,452	8.11%
Others	4,109	19,302,740	34.18%
Total	**11,909**	**56,476,559**	**100%**

4.3.3 Import Tax Analysis

Analysis of Import Taxes by Product Type					
Item Description	Taxes (Million Leones)				Percent of Total Taxes
	Goods & Services Tax	Import Duties	Withholding Tax	Total Item Tax	
Crude Palm Oil	2,199.00	471.04	357.61	3,027.66	25.33%
Palm Olein	2,037.98	1,195.78	268.49	3,502.26	29.30%
Margarine	1,782.18	1,980.20	95.95	3,858.33	32.27%
Refined Coconut Oil	403.29	244.42	73.22	720.93	6.03%
Other Refined Vegetable Oils	507.09	292.33	45.98	845.41	7.07%
Total	**6,929.54**	**4,183.78**	**841.26**	**11,954.57**	**100%**

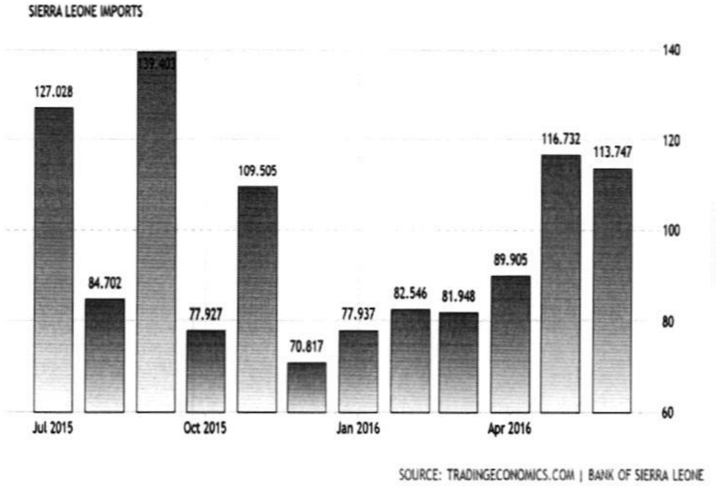
Item Description	Taxes (Million Leones)				Percent of Total Taxes
	Goods & Services Tax	Import Duties	Withholding Tax	Total Item Tax	
Powdered Detergents	1,760,320.20	1,530,400.20	143,615.55	3,434,335.94	20.15%
Soap Bars	2,020,367.03	2,232,576.54	307,522.47	4,560,466.05	26.76%
Other Soap Products	4,734,401.98	3,581,142.65	732,157.36	9,047,701.99	53.09%
Total	**8,515,089.21**	**7,344,119.39**	**1,183,295.38**	**17,042,503.98**	100.00%

Taxes paid on imported goods are collected in the form of import duties, GST and withholding tax. Import taxes paid on edible palm oil products amounted to Le 11.95 Billion in 2016 [approximately US$ 1.7 Million]; of which Le 6.92 Billion were Goods and Services Tax, Le 4.18 Billion being Import Duties and Le 0.84 Billion being withholding taxes. The tax analysis above shows that taxes on refined palm oil products generate higher taxes compared to imported CPO. Compared to the 7,500 Mt of CPO products imported, only about 3,00 Mt of refined Palm Olein products generated more import taxed. Approximately 29 percent of total import taxes were attributed to refined products, compared to about 25 percent for CPO products. 1,900 Mt of Margarine generated even higher tax revenues compared to both palm oil and refined palm oil products.

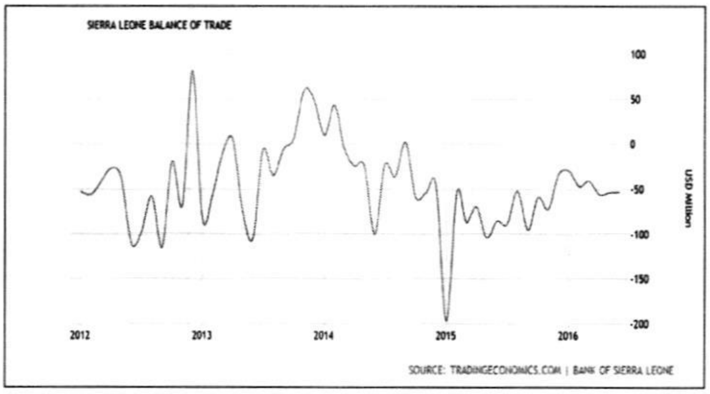
The essence of this analysis is that the greater the value addition, the higher the taxes generated. As KITC aims at value addition on oil palm products, the potential taxes that will accrue will be high enough to offset the import taxes displaced from the substitution of imports with domestic production. The foregoing tax revenues, should serve as an important benchmark in measuring the impact of the KITC project on Government tax revenues.

4.3.4 Balance of Trade

Sierra Leone's import levels are consistently high. Imports decreased to 113.75 USD Million in June 2016 from 116.73 USD Million in May of 2016. Imports in Sierra Leone averaged 62.67 USD Million between 2010 and 2016, reaching an all-time high of 289.44 USD Million in November of 2011.



The high import bills, coupled with low export levels, create unfavourable balance of trade and payments. As seen in the figures, there is a correlation between import levels and balance of trade levels; as exports remain fairly constant. The KITC project will help reduce import bills, month-on-month, and ease the balance of trade pressures.



5.0 JUSTIFICATION FOR PROPOSED INVESTMENT CONCESSIONS

According the **African Development Bank**'s Economic Outlook 2017, *'manufacturing is the "missing link" in Sierra Leone's structural transformation as labour migrates from low productivity agricultural activities in the rural areas directly to low productivity services (informal jobs in the urban areas) without a transformative industrial sector'*. In order for Sierra Leone to achieve and maintain a balanced and sustainable long-term growth trajectory, it is important that the manufacturing industrial sector is substantially improved. Current balance of trade and payment levels are unsustainable and foreign exchange pressures will continue to drive currency depreciation with pass-through price inflationary effects. In order to reverse this trend, and to create jobs for increasingly high urban populations, manufacturing should be given priority.

The promoters of KITC, who have over 30 years' experience of doing business in Sierra Leone, recognise that investments in the manufacturing sector offer win-win scenarios for the Government in their drive towards growth and poverty reduction on the one hand; and private investments who require social and economic stability to generate long-term return on investments. The following sections provide justification and basis for providing a special regime of concessions for the KITC Palm Refinery project by the Government of Sierra Leone.

5.1 Direct Economic Benefits

It is now well established in the growth and development literature that there is a strong causal relation between the growth of manufacturing output and GDP growth. The nature, scope and performance of the manufacturing sector of any country has a positive relationship with the economic growth of the economy. In most developed countries, the increase in the share of the manufacturing sector enable them in their national economy to grow at a faster rate. With the right policies in place, the manufacturing sector of a country can help transform a difficult and sluggish recovery into a resurgent and resilient one. After all, manufacturing has the highest multiplier effect than any other sector of our economy. The experience of emerging economies in Asia, Latin America and even Subs Sahara Africa has shown that the development trajectory mainly depends on the performances and structure of manufacturing sector in those countries. The path to development for economies in the last 200 years that have made the transition to high incomes has often involved the development of significant manufacturing sectors (Gregory, 2006).

5.1.1 Increasing National Output

In recent years, several African countries have demonstrated renewed commitment to manufacturing development as part of a broader agenda to diversify their economies, build resilience to shocks, and develop productive capacity for high and sustained economic growth, the creation of employment opportunities and substantial poverty reduction (UNIDO, 2011). Countries such as Ghana, Tanzania, Ethiopia and Rwanda have, over the past decade, promoted aggressive industrial development policies and programmes that support manufacturing. The evidence from these countries is conclusive that manufacturing has characteristics which make it the engine of growth for two main reasons. Firstly, manufacturing itself is subject to increasing returns, while other land-based activities and petty services are subject to diminishing returns. Secondly, as the manufacturing sector expands, and draws labour from other sectors where there are diminishing returns, productivity in these activities rises automatically because the average product of labour is above the marginal product. Thus, the faster manufacturing output grows, the faster the growth of productivity in the economy, which is the major source of GDP growth and living standards.

As Sierra Leone gears up to recover from a slump in commodity prices and the mining sector; and in the wake of post-Ebola recovery efforts, an industrial project of this scale will not only generate output, jobs and taxes on its own, it serves as a beacon and demonstrative example to attract additional private investments in the country. The fact that it will be producing consumer goods, makes it sustainable in the long term as the products will always be in demand. The value-added output in the transformation of crude palm oil and other finished products, will shift the output accounting from foreign economies where the imports originate, to Sierra Leone's GDP.

5.1.2 Job Creation and Enterprise Development

A structural shift towards more value-adding and higher labour-absorbing manufacturing sectors is essential to shift to a path that generates higher levels of employment. A rapidly growing manufacturing sector can play an important role in indirect employment. In addition to the well-known role of stimulating backward linkages to primary sectors, growth in manufacturing also promotes employment through 'forward' linkages in the services sectors. The KITC project is expected to create jobs in three ways:

- Direct Employment: the project will create new factory jobs at various levels of management, technical, vocational and support. It is estimated that the direct employment

to be created by this project will be between 50 and 100 jobs. This not only generates personal and family incomes, it also helps improve on the social security of the employees and their families. The requirements of the factory operations further imply that highly skilled engineering and technical jobs will be created for youths leaving university and other technical and vocational institutions; thereby increasing the return on investments in education.

- Indirect Employment: The operational model of KITC is expected to generate purchasing networks for the raw materials from smallholder farmers. The new demand for the palm oil is expected to stimulate expansions in farm sizes and supply chain networks. This is expected to generate employment and labour productivity for hundreds of people in the country.

- New Enterprises: The operations of KITC will generate business contracts in the third-party transport and logistics, distribution and sales and other procurements. These will create business opportunities for existing businesses to expand their portfolios or for new businesses to emerge to provide services to the company. As more people become employed, the demand side of the economy will be further positively affected as more goods and services will be demanded by people earning new or higher incomes

  This project offers the Government economic planning authorities, an opportunity to gain better understanding of the direct and indirect channels through which diversified manufacturing growth can maximize economy-wide employment - particularly in relation to the services sector. This will further help them develop more appropriate and responsive policy choices.

5.1.3 Taxes

The KITC industries project is expected to generate new tax revenues for the Government in the form of income taxes from enterprises doing business with the company (i.e. small farmers, transporters etc.) which are not captured at the moment; from PAYE Taxes of its staff; and after a period of time, from Goods and Services Tax and Corporation Taxes. The amount of total taxes to be generated from or because of the KITC business operations around year-5 of operations is estimated to exceed **US$ 6 Million** annually. This far surpasses the total taxes from these products of US$ 3.7 Million highlighted under part 4.

5.1.4 Easing FX Pressures

Monthly import bills fall between US$ 48 Million and US$ 65 Million. These import bills, largely driven by food, petroleum and heavy machinery inputs, pose significant long-term challenges

for maintaining stable macroeconomic regimes vis a vis inflation, balance of payment and reserves. With expected production values of up to US$ 35 Million, these will contribute to easing demand on foreign exchange for importation of these products. The export of some finished products will also generate foreign exchange for the economy. This has a positive knock-on effect on the exchange rate and domestic food prices.

5.2 Levelling the International Trade Playing Field

The data and evidence shows that KITC will be competing against players that are operating in economies that have significant competitive advantage from the perspectives of both market dominance and the ability to control prices. Exporters of refined vegetable oils, margarines and edible spreads, soaps, detergents and other related products from Indonesia, India, Malaysia and the EU have greater market influence compared to a business the size of KITC. The evidence also indicates that importers, who are motivated by the desire to keep costs low and sell as high-enough prices, tend to go for extremely low-quality products especially from Asian markets. These products are sold to importers at very low prices because they have to dispose of their stocks; and practically dump these products in small countries like Sierra Leone. The combined effect of sourcing low-quality and cheap products from suppliers that have inventory glots, renders it difficult and almost impossible to compete on price terms.

There is evidence of protective policy regimes implemented by other West African countries in the early 2000s as they pursued the development of their local manufacturing industries. In the mid-2000s, the Nigerian Government published a list of items that were prohibited from importation. Key among which were refined vegetable oil products, margarines and edible spreads, soaps and detergents. These policy actions were initiated to help the local manufacturing industries to emerge and become more competitive enough economies of scale to compete with imports; and the protection regimes were lifted. The Declaration of the Nigerian Customs Refined vegetable oil 1507.10.00.00-1516.20.90.00.but excluding refined linseed, castor and olive oil. Soaps and Detergents H.S. Code 3401.11.10.00 – 3402.90.00.00. (www.customs.gov.ng/ProhibitionList/import.php). This single policy has helped promote private investments in manufacturing in a wide range of consumer items in the pharmaceutical, furniture, foods and animal processing industries. These protectionist policies have helped manufacturing companies like Dangote Industries to grow.

This proposal is calling for such policies to be initiated for import items with HS Codes that are close substitutes of products to be produced by KITC and in some cases some raw materials

that will benefit small farmers. This will provide a favourable environment for the business to grow at a relatively fast rate and generate the positive results in a short period of time.

5.3 Alignment with National Industrial Policy

The goal of the National Industrial Policy, as articulated in the National Industrial Policy of 2011, is to support market-led, regionally competitive and sustainable production of goods and services for the promotion of Sierra Leone's economic and social development. In fulfilment of the above goal, Government shall pursue the following objectives:

- Progressively raise the manufacturing industry's contribution to the GDP, currently at an average of 4.8% to an average of over 20% in 2030;

- Progressively increase the share of the local content in manufactured products; and

- Progressively increase the volume of exports of goods manufactured locally from the existing 0.1% to 1% by 2030, through the enhancement and development of skills, industrial competitiveness and quality infrastructure, especially in the areas of information, communications and transport.

  In order to achieve the objectives above, the Policy document further states that the Government of Sierra Leone shall, among other things:

- Establish and maintain an investment-friendly environment, including a facilitative administrative process; and

- Develop criteria for according special facilities/privileges to particular industries and sectors; Design appropriate policy instruments to support industries, which may include effective export promotion policies, financing policies, incentives and technology policies;

The proposal included herein falls squarely within the above strategies of "creating and maintaining investment-friendly environments" and "according special facilities/privileges" for large scale industrial manufacturing in the agro-processing sector, which is the largest potential contributors to the achievement of the stated goals of the Policy itself. In short, this proposal offers the Government an opportunity to demonstrate what it has committed to in a national policy document.

6.0 PROPOSED INVESTMENT CONCESSION TERMS

Based on the foregoing analysis, KITC is proposing to the Government of Sierra Leone, that the following special concessions and policy regimes be instituted as a means of increasing the pace at which the desired financial and economic objectives can be achieved, while reducing downside risks of failure. The concessions are classified into two categories: (i) Fiscal; and (ii) Trade.

6.1 Fiscal Incentives

The goal is to ensure that Government's long-term fiscal position in the form of taxes on the products under consideration are preserved, while trying to achieve the other benefits of the project. The proposed incentives will imply short-term revenue trade-offs on the part of Government, but the long-term smoothing effects of higher taxes when the business reaches full potential will more than offset the short-term losses. In this regard, the following fiscal incentives are herein proposed:

1. All tax incentives listed in the existing Investment Promotion Act and Finance Acts; including but not limited to:
   a. Waivers on import taxes (Import Duty, Goods and Services Tax, Withholding Income Tax and ECOWAS levy) for factory plant and machinery which is valued at over 10 Million US Dollars for a period of 3 years.
   b. Waivers on import taxes (Import Duty, Goods and Services Tax, Withholding Income Tax and ECOWAS levy) for all equipment and spare parts for a period of 3 years.
   c. Waivers on import taxes for imported raw materials for a period of 7 years of uninterrupted operation.
   d. Corporation Tax incentive for a period of 5 years starting from fiscal year with reported profit.

2. Waivers of Goods and Services Tax on finished products for a period of 5 years.

6.2 Trade Incentives

The goal is to ensure that negative trade practices on the part of importers or foreign exporters of the items to be produced by KITC does not suppress output and sales levels at less-than-breakeven operating points for long periods. Given that the plant's production capacity and raw material supply levels in the country are sufficient to enable more than sufficient substitution from domestic production, KITC herein proposes that:

1. Specific increase of duty **from 3% to 25% of Crude Oil and or Semi Refined Oil** imported as raw materials classified under Chapter 15 of the HS Code for a period of 10 years for the following reasons in addition to those specified earlier in this report:

   i. **Protection for the Agricultural Industry**
   To protect the Small farmers, SOCFIN, Gold Tree and Sierra Leone Agriculture which directly contribute to the Sierra Leone economy through investments, job creation, business creation and taxes. The amount of CPO used to produce all products by KITC will be sourced from within Sierra Leone. Therefore, since these producers can produce enough CPO for the Sierra Leone market, we need to protect them from imports overseas as their contribution to the Sierra Leone economy is enormous.

   ii. **Good Practice in other African countries**
   Other African countries have protected their industries by increasing the import duty rate of products that are in direct competition with products produced in their countries. The Nigerian example stated in Part 5 is one great example of the implementation of this policy. As a result of these protective measures implemented by the Nigerian government, they have seen rapid growth in their manufacturing industry. In addition, Guinea imposes a flat import duty fee which is approximate to 45% of the CIF on CPO to protect locally produced CPO. Ghana has also implemented some trade restrictions to protect locally produced products.

   iii. **Reduce the importation of low quality raw material**
   At the moment, we are experiencing "dumping" of low quality CPO into the Sierra Leone market. With increase in production of high quality CPO as a raw material by SOCFIN etc., Sierra Leone is better off not importing low quality CPO.

2. Government imposes prohibitive policies for the importation of items classified under the following WTO HS Codes for a period of 10 years:

   a. 15111010 - Crude Oil for manufacture of Soap
   b. 15119090 - Crude Oil for manufacture of Other Products
   c. 15171000 - Margarine, excluding liquid margarine
   d. 15152900 - Other fixed vegetable fats
   e. 34011110 - Toilet and bath soaps
   f. 34011110 - Medicated Soaps
   g. 34022000 - Soaps for retail
   h. 34020000 - Soaps in other forms (including powdered soap)

These prohibitive policies will include increases in import taxes and also limits to import volumes as the production of KITC increases over time to meet the demands of the Sierra Leone market.

3. However, even though government are inclined to protect industries from foreign imports. We kindly recommend that these trade incentives only benefit big investments in the Palm Oil manufacturing sector of daily production capacity of 100 Metric Tons and over.

   In light of this, we humbly suggest that these trade incentives are implemented in the upcoming **Finance Bill 2018**.

   As previously discussed, these measures have proven to be effective in stimulating the growth of a vibrant domestic manufacturing sector in other countries in the African region (the Nigeria example) and Asia. The long-term ripple effects of higher aggregate incomes, jobs, taxes and trade deficit reduction offer significant benefits to warrant these policy decisions.

APPENDIX 1 - CAPITAL EXPENDITURE BUDGET

CAPITAL EXPENDITURE AND WORKING CAPITAL BUDGET			
	ITEM DESCRIPTION	Units	Unit Cost ($)
A	**FACTORY CONSTRUCTION COSTS**		
	Land	Lump Sum	250,000
	Site Development & Infrastructure	Provisional Sum	1,750,000
	Building Costs	Lump Sum	5,250,000
	Utilities	Provisional Sum	
	Total Construction Costs		**7,250,000**
B	**MACHINERY AND EQUIPMENT COSTS**		
	Core Factory Line	1	8,000,000
	Ancillary Equipment	1	400,000
	Spares	Stock	100,000
	Total Machinery & Equipment Costs		**8,500,000**
C.	**STOCK OF IMPORTED RAW MATERIALS**		
	Bleaching Chemicals	Stock	60,000
	Packaging Material	Stock	90,000
	PVC Material	Stock	475,000
	Deodorising Chemicals	Stock	75,000
	Total Imported Raw Materials		**700,000**
D.	**INITIAL WORKING CAPITAL & CONTINGENCIES**		**3,200,000**
E	**TOTAL PROJECT COST**		**19,650,000.00**

Factory: Kissy Dock Yard
Office: Country Lodge, Hill Station
Freetown
Phone: +232 76 608346
+232 76 608346
+232 76 212 808

THANK YOU

APPENDIX B

LIST OF PRODUCTS TO BE COVERED BY THE TARRIF REGIME

Government imposes prohibitive policies for the importation of items classified under the following WTO HS Codes for a period of 10 years:

a. 15111010 - Crude Oil for manufacture of Soap
b. 15119090 - Crude Oil for manufacture of Other Products
c. 15171000 - Margarine, excluding liquid margarine
d. 15152900 - Other fixed vegetable fats
e. 34011110 - Toilet and bath soaps
f. 34011110 - Medicated Soaps
g. 34022000 - Soaps for retail
h. 34020000 - Soaps in other forms (including powdered soap)

These prohibitive policies will include increases in import taxes and also limits to import volumes as the production of KITC increases over time to meet the demands of the Sierra Leone market.

APPENDIX C

NON-EXCLUSIVE LIST OF PLANTS, MACHINERY AND EQUIPMENTS EXEMPT FROM IMPORT DUTIES AND TAXES

APPENDIX D

LIST OF PRODUCTS TO BE MANUFACTURED BY THE COMPANY

The Kissy Industry and Trading Company factory operations shall produce a wide range of products as follows:

- Refined Palm Oil (Palm Olien)
- Margarine and Confectionary Spreads
- Refined Palm Kernel Oil
- Toilet and Laundry Soap
- Liquid Soap
- Powdered Soap
- Animal Feedstocks
- Organic Fertilisers