Sierra Leone after the War
Reconstruction, Aid and Corruption

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Acknowledgements

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List of Abbreviations

WTO – World Trade Organisation

IMF – International Monetary Fund

WFP – World Food Programme

OECD – Organisation for Economic Co-operation and Development

DAC – Development Assistance Committee

ECOWAS – Economic Community of West African States

GDP – Gross Domestic Product

LLC – Limited Liability Company

PAYE – Pay-As-You-Earn

NCDDDR – National Committee for Disarmament, Demobilisation and Reintegration

ACC – Anti Corruption Commission

DFID – Department for International Development

FDI – Foreign Direct Investment

EXIM Bank – Export-Import Bank

FOCAC – Forum on China-Africa Cooperation

HIPC – Heavily Indebted Poor Countries

MDG – Millennium Development Goals

CDF – Comprehensive Development Framework
Executive Summary

“Eleven years ago, in a famous cover depicting an image of chaos and war in Sierra Leone, the Economist Magazine scornfully wrote off Africa as ‘The hopeless Continent.’ In doing so, it reflected a view that was pervasive at the time: that Africa was backward condemned inexorably to violence, corruption and failure. “Since The Economist regretfully labelled Africa ‘the hopeless continent’ a decade ago, a profound change has taken hold.” These are not my words. As the Economist has been gracious enough to admit, it was wrong. (2011 issue: ‘Africa Rising.’)

Investing in Africa: Opportunities and Prospects

Investors have stayed away from the African continent for a very long time and rightfully so. The continent is fraught with civil unrest from Somalia to Sudan, from Libya to Democratic Republic of Congo. Most of the countries that are experiencing civil unrests are resource-rich nations. This gives credence to the concept of ‘resource curse’ for resource-rich nations. Sierra Leone is no exception, having suffered an eleven-year long civil war, from 1991 to 2002, causing major setbacks for the country, from loss of lives to a disrupted economic system. However, with the speed of economic growth around the world, Africa has become an important entity with its vast natural resource deposits. The world needs Africa to fuel its economic growth, which has seen the influence and presence of China, with the fastest growing economy, see significant growth on the continent.

Sierra Leone now enjoys some stability and its economy steadily growing. With the recent discovery of two oil wells off the coasts of Freetown is bound to see more FDI coming the country’s way. The country also has embarked on reopening some of its mines that were closed because of the civil war. The country is expected to start negotiating for mining and exploration contracts.

For the past 50 years, China has been working hard to strategically position itself in Africa and developed important bilateral relationships to maintain a strong foothold on the

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1 The Economist, Print edition 13th May 2000
2 http://www.economist.com/node/21541015
3 http://www.focac.org/eng/jlydh/sjzs/t920699.htm
continent. China has become Africa’s leading single donor, on a continent that largely depends on aid; this is a major advantage for the Asian giant.

Western and Chinese aid are both aimed at the same goal, the UN’s Millennium Development Goals (MDG). However, there are significant differences in their policies and implementations. The difference can be found in their conditions and/or what they are tied to (place or company to spend it with).
1 Introduction

Sierra Leone, a country in West Africa, was founded in 1787 as a settlement for freed slaves after the end of the slave trade. Colonized by the British in 1808, control did not extend to the whole of the country until 1896, when Sierra Leone was declared a Protectorate. In 1961, after one hundred and fifty years of British rule, Sierra Leone gained its independence. The country has suffered from political instability in its fifty-one years of independence. These have had severe Political ramifications on Sierra Leone. The eleven year civil war, beginning in 1991 and lasted until 2002, has seen seventy-five thousand lives lost, two hundred thousand injuries and half a million people fleeing to other countries as refugees. Post-war reconstruction efforts have seen the influx of foreign agencies (Kanu, 2007).

The civil unrest was mainly caused by years of bad governance, endemic corruption and the denial of basic human rights that created the deplorable conditions that made conflict inevitable (International Crisis Group, 2008). However, Major Jonathan P. Riley argues that the Revolutionary United Front started their uprising against the Sierra Leonean government in response to abuses from the government. The RUF was then quickly taken over by criminals with no social or political objective, from there on the war was fuelled by greed (Riley, 2006).

Sierra Leone’s resources, mainly diamonds, played an important role in the country’s unrest (Zack-Williams, 1999). Diamonds are a very important part of Sierra Leone’s economy, being a big source of employment. The corruption that is bred through the easy transportation and smuggling of diamonds is the country’s main threat to peace. Conflict diamonds has given rise to the regulatory document known as the Kimberly Process Certification Scheme (KPCS) to tackle the sale of conflict diamonds through control and verification in the trading of diamonds (Grant, 2005).
In the aftermath of the civil war, Sierra Leone has seen quite a large outpour of aid from the international community. The UK Department of International Development (UK DFID), United Nations Mission in Sierra Leone (UNAMSIL), United Nations Development Programme (UNDP) and United Nations High Commissioner for Refugees (UNHCR) developed the framework for peace and development based on the objectives; Repatriation, Reintegration, Rehabilitation and Reconstruction. It is estimated that reconstruction is costing the British government £100 million and the UN $16.4 billion a year (Baker and May, 2004).

In its part to assist in the peace process, the United States spent $45 million reintegrating former rebel fighters and help in the efforts to improve management and control of the diamond sector (HRW, 2004).

USAID is focussed on promoting good governance and transparency as a way to help in the reconstruction process and avoid public displeasure (USAID, 2006). Despite the efforts of the donors to stem corruption (Freeman, 2008), Sierra Leoneans continue to witness their government’s corruption through the government officials’ luxurious lifestyles (Baker and Roy 2006). Direct aid is not reaching Sierra Leone as officials keep redirecting and siphoning funds (Freeman, 2008).

In Sierra Leone, like in most other African countries, rice is the staple food and over 50% of the grain is imported. Sierra Leone plans to use China, not as a donor, but as an ally in an effort to develop and increase rice production in the country. This objective is an achievable one as China, on only 8% of the world’s arable land, feeds 20% of the world’s population. China grows about 95% of what it consumes. But as China’s commitment to joining the World Trade Organisation, tariffs had to be reduced gradually, exposing Chinese farmers to competition from abroad. This has led some Chinese farmers to consider investing abroad, mainly in Africa (Brautigam, 2009, P.233-4).
This has come at an opportune time for African countries as China embarks on giving assistance and investing in agriculture in the continent. Western aid to agriculture, including fisheries, irrigation and drainage and forestry, through agencies like the World Bank has been cut down from 20% in 1980 down to 5% by 2000 (Eicher, 2003).

1.1 Background

The purpose for this paper is to give better understanding of Sierra Leone and its natural resource endowments, which will be useful to investors. It is to create a better understanding for investors that will be venturing into culturally different environment from those they are accustomed to in their native countries. The research is conducted for the African Studies Centre, an independent scientific institution aimed at creating a better understanding and insight into historical, current and future social developments in Sub-Saharan Africa. The centre aims to promote the dissemination of knowledge and understanding of African societies in the wider public sphere. The centre also aims to function as a national centre in the field of African studies and contribute to the education and teaching of these sciences.

1.2 Research Questions

Research question: How can the abundance of natural resources help Sierra Leone rebuild after the war?

The research focuses on explaining how Sierra Leone, a resource-rich nation, that is heavily dependent on foreign aid, can develop an economy that will be more dependent on revenues generated from its own resources. Sierra Leone is one of the world’s poorest countries, even though it is well endowed with natural resources (diamonds, gold, iron ore, bauxite, etc.). The research first looks at the ‘Resource Curse’, something that Sierra Leone has suffered, giving rise to the eleven-year civil war. It addresses Sierra Leone’s political problems, corruption and underdeveloped infrastructure.
The research looks at literature focused on different countries that have suffered the ‘Resource Curse’, developing resource-rich countries that have seen some growth and Norway, a resource-rich country that has defied the norm. It shows how good governance and investing in public bureaucratic institutions can benefit the nation and its population.

In order to reach an understanding of how Sierra Leone will use its natural resources to rebuild its economy, we have to take into account the fact that they will have to enter into contracts with companies from other countries through bilateral diplomatic relations with the home countries. This is why the first sub-questions as shown below are relevant in supporting the main research question. With China as a big consumer of resources, it becomes a major player in Sierra Leone’s quest to develop its mining industry, thus the significance of sub-questions one.

**Sub-question 1:** What role can China play in the rebuilding of Sierra Leone?

This sub-question is important as it is directly linked to the research question in the sense that China, projected to surpass the United States as biggest consumer of natural resources, gives Sierra Leone a potential trade and development partner. This is accentuated by China’s increasing presence and interest in the African continent.

As Sierra Leone is heavily depended on foreign aid, and China fast becoming a leading donor, especially to the African continent, it is important to understand the differences between Western and Chinese aid systems. Aid places an important role in diplomatic relationships and can affect relations with partners of different policies and goals. This is why the report continues to give a brief explanation of these differences (Western and Chinese aid). That should explain the relevance of sub-question 2, which is as follows:

**Sub-question 2:** What is the difference between Western and Chinese aid?
This sub-question is relevant to both the research question and the first sub-question. It addresses Sierra Leone’s dependence on aid, which is being provided mainly by Western donors through institutions like the World Bank, International Monetary Fund and other aid organisations. China is fast becoming the leading aid donor on the African continent. This is why this sub-question is important; to show what differences exist in aid from the two donor entities, and provide a chance to make an informed decision on what aid will be more beneficial.

1.3 Discussion

This report will discuss the economy of Sierra Leone, mainly focusing on the mining sector (natural resources) and gauging China’s world demand of these resources. To understand how the country is affected by the ‘Resource Curse’, the report addresses the eleven-year civil war that was driven by bad governance and financed with ‘blood diamonds’. The report will have a country analysis and also look at trade with other countries and the reconstruction efforts that have taken place so far. The report will not be complete without mentioning the problems that have plagued Sierra Leone during the reconstruction process, corrupt allocation of funds and contracts, etc.

The second part will look at China and its Africa involvement, a brief history of its economic rise and its foreign policies. The Chinese Foreign Direct Investment on the African continent will also be mentioned, to see opportunities that exist for investors.

As aid is an important source of development in Africa as a whole and Sierra Leone in particular, the third part of the report focuses on the differences between Western and Chinese aid, looking at how an understanding of the different types of aid can be an advantage. With China being a big donor and Western donors having led the way for decades, it is important to see how these two methods differ. This part looks at the history
of both aid methods and the developments and changes they went through to what they have become today.

1.4 Thesis Structure
To achieve a comprehensive report, the paper follows a clear path to help the reader get a better understanding in the right order.

Chapter one begins with an introduction of Sierra Leone with a quick summary of its history, which is elaborated on in detail in a later chapter. The introduction also gives a background of the client and the company mission. This is followed with the first introduction of the reader to the research question and sub-questions. The introduction concludes with an explanation of what will be discussed in the paper and finally a structure of the paper itself.

Chapter two contains the literature review, which looks at different reports that point out or support different theories, some supporting the main research question and some that dispute it. It continues to give a more detailed introduction to Sierra Leone’s history, politics and present situation, with a look at different parts of its economy, trade relations and partnerships, a country analysis, the country’s post-war reconstruction and the problems that it encounters with its reconstruction process. The report then introduces the reader to China and its fast growing economy, a brief history and present position. China’s presence in Africa is taken into account, with a brief look at its foreign policies, FDI and its role in Sierra Leone. Chapter two concludes with an introduction Chinese and Western aid and the differences between the two aid systems.

Chapter three is the methodology used to research the paper, with an introduction that explains the kind of research that the report is, a qualitative paper. The reader is reintroduced to the research question and sub-questions and chapter ends with stating the relevance of the research.
Chapter four contains the conclusions of the research and the recommendations of the author based on the data in the paper. References and appendices can be found in chapter five of the report.
2 Literary Review

The abundance of natural resources in a country is sometimes, or most times regarded as a curse. Often times, resource-poor nations tend to perform better than resource-rich nations in economic growth. Sierra Leone, being a resource-rich nation, has seen the curse side of abundance of resources, having suffered six coup d’états and an eleven year long civil war blamed mainly on the country’s diamonds. According to a report by the International Crisis Group in (ICG, 2008), the civil war in Sierra Leone was caused by years of bad governance, endemic corruption and the denial of basic human rights that created the deplorable conditions that made conflict inevitable.

According to Sachs and Warner (1997), there are only about eight resource-rich countries that have slow-growing economies; these are Bahrain, Saudi Arabia, Iraq, Libya, Kuwait, Oman, Qatar and United Arab Emirates. In the seventeenth century, resource-poor Netherlands outperformed Spain, despite Spain’s abundance of gold and silver from its colonies. Even in the nineteenth century, resource-poor countries continue to outperform resource-rich countries. For example, Japan and Switzerland are ahead of Russia in economic growth. The past forty to fifty years has seen newly industrialising countries with little to no resources as Singapore, Korea and Taiwan in East Asia doing well while many resources-rich economies such as oil-rich Venezuela, Mexico and Nigeria struggle.

In a paper for the Centre for Economic Policy, Gylfason (2000) stated that from 1965-1998, per capita GNP for OPEC (Organization of the Petroleum Exporting Countries) members as a whole saw a 1.3% annual decrease, compared to the 2.2% increase in low- and middle-income countries. The paper goes on to show that of 65 resource-rich nations, only four managed long-term investments exceeding 25% from 1970-1998 and per capita GNP growth exceeding 4%. These countries are Botswana, which is rich in diamonds, Indonesia, Malaysia
and Thailand; the Asian countries achieved this by diversifying their economies and industrialization.

As so well put by French philosopher, Jean Bodin 1776, “…men of a fat and fertile soil, are most commonly effeminate and cowards; whereas contrariwise a barren country make men temperate by necessity, and by consequence careful, vigilant, and industrious.”

An explanation of why resource-poor nations do better than resource-rich nations is attempted by Hirschman (1958), stating that manufacturing, as oppose to natural resource production leads to a more complex division of labour, thereby breeding a higher standard of living. According to Matsuyama (1992), resource-rich nations tend to suffer from de-industrialisation. The paper goes on to elaborate more, pointing out that large existence of natural resources tend to affect employment distribution throughout the economy as wealth effects pull resources in and out of non-traded sectors. Since the exploration of natural resources is usually unskilled labour, the manufacturing sector is neglected. Whereas a promotion of manufacturing ensures innovation, manufacturing is characterised by learning-by-doing that is external to individual firms. Matsuyama goes on to explain that the human gain to the economy fostered by a learning-induced manufacturing economy is proportional to sector production and not to individual firm production, making the social returns of manufacturing employment higher than that of private returns.

Richard Auty coined the term Resource Curse Thesis (1993) to explain how countries with an abundance of natural resources are unable to boost their economies with the wealth from these resources, and experience lower economic growth than countries with no abundance of natural resources.

Both studies by Matsuyama and Gylfason give credence to the fact that a natural resource based economy has a less skilled population and perhaps less high-quality capital-intensive
than other industries, thus having very little benefits to other industries. The population of resource-rich nations settle for low-skilled employment, through no fault of their own, fail to improve their children’s education and earning power. With the opportunity to make a lot of money from a small find they fail to find a benefit in education. Resource-rich countries also tend to be overconfident, overlooking the importance of good economic policies and education. Even with poor economic policies and weak education, resource-rich nations can survive on the natural resources for extended periods.

Another problem resource-rich nations face, as put by Norman (2005), is that the effects of abundant natural resources can undermine the quality of government and economic performance, thereby increasing the country’s vulnerability to conflicts.

According to a report for the United States Institute of Peace, Jill Shankleman (2006) writes that few developing or transition countries have managed both the political and economic challenges of natural resource dependency. Botswana, rich in diamonds, is one of the few countries that have leveraged its natural resources wealth to bring most of its population out of poverty, but still faces challenges with its HIV/AIDS epidemic. In Liberia, Democratic Republic of Congo and Iraq, natural resource wealth continues to be factor in destabilisation.

However, Torvik (2009) argues that the lack of economic growth of resource-rich nations should not be solely blamed on the “resource curse”, as it may be reasonable to believe most countries that export natural resources have weak property rights protection, much corruption and poor quality public bureaucracy. Torvik goes on to point out that if these are not controlled, blaming low growth on abundance of resources can be misleading, when in fact the problem is the quality of these institutions.

An increase natural resource exports can damage resource-rich nation’s productive economic sectors by causing an increase of the real exchange rate and wage increase, which
makes tradable sectors less competitive. This is referred to as the Dutch Disease (Investopedia). Humphreys et al explain how the Netherlands, after discovering natural gas reserves in the North Sea, found their manufacturing sector suddenly performing less than was anticipated. The paper explains how in the Dutch case it was manufacturing that was affected, but in developing countries, it is usually agriculture that suffers, giving Australia’s gold boom in the nineteenth century, Colombian coffee in the 1970s and the looting of Latin America’s gold in sixteenth-century Spanish and Portuguese imperialists.

The most notable exception to the “Resource Curse” is Norway, solely based on the country’s approach to its resources development. Unlike most other countries that get revenues from rent on exploitation and royalties, Norway gets revenue from taxing the producers’ profits (oil and gas activities), direct ownership in fields and infrastructure, charges and fees and dividends from Statoil, the government controlled gas and oil company (Persily 2011). Gross (2004) puts Norway’s Petroleum Fund of Norway at US$147 billion (NOK940.7 billion). There is also the Alaska Permanent Fund, which ensures that revenue from the State’s resources is fairly distributed. It has grown into highly diversified mutual fund that pays a yearly dividend of US$919.84 per person to qualified residents.

The earliest records of Chinese visit to Africa date back to the 15th Century when emperor Zhu Di sent Zheng He on overseas voyages (CCTV.com, 2002). In recent years, Chinese-African diplomatic ties can be traced to over fifty years ago (Politzer, 2008). As demonstrate by African Anti-China sentiments, Africans begin to have mixed feelings of Chinese presence (Economist, 2011). This is also seen in the Zambia elections of 2011, where opposition leader Michael Sata won a landslide victory riding on Anti-China campaigning (Pavgi, 2011). These resentments are mainly due to the fact that Chinese migrant workers do not only work on national projects but also break into the local market, like selling chicken, shoes, clothes, etc. in the local markets (du Venage, 2011).
China and Africa have a mutual relationship, China providing Africa with cheap goods and services and Africa providing China with its energy and resource requirements to fuel its rapid economic growth and expansion (Kaplinsky et al, 2006). China is the biggest investor in Africa (Alden, 2007). The Chinese government explicitly encourages Chinese firms to invest abroad, especially in resource-rich countries in Africa and in resource-incentive projects or projects where there is a technological edge to manifest comparative advantage, such as textile and apparel (Zafar, 2007).

2.1 Sierra Leone

To have a better understanding of the country’s position, it is imperative to have a bit of knowledge about its political history and present political situation. A look at some of the most important sectors of Sierra Leone’s economy, and some of its trading partners will help improve an understanding of the country. Seeing as Sierra Leone depends heavily on foreign aid, even though it has vast deposits of natural resources, it will only do the reader justice to understand how Sierra Leone can foster relationships that will help it gradually reduce its dependence on aid. This part of the report will also look at the economy of Sierra Leone, its resource deposits (diamonds, gold, bauxite, iron ore, rutile and the recently discovered petroleum), and agriculture. How these resources can be used to improve the country’s economy, corruption and the civil war will also be examined in the report.

2.1.1 Introduction

Sierra Leone, a country in West Africa, was founded in 1787 as a settlement for freed slaves after the end of the slave trade. Colonized by the British in 1808, control did not extend to the whole of the country until 1896, when Sierra Leone was declared a Protectorate. In 1961, after one hundred and fifty years of British rule, Sierra Leone gained its independence.

Since gaining independence in 1961, Sierra Leone has only seen five democratically elected leaders. Under the banner of the Sierra Leone People’s Party (SLPP), Sir Milton Margai became Sierra Leone’s first Prime Minister until his death in 1964. His brother, Sir Albert Margai then became prime minister until 1967 when the first multiparty elections were held in Sierra Leone. These elections was won by the Siaka Stevens led All People’s Congress (APC) in a narrow victory that saw Stevens as Prime Minister until 1971, when Sierra Leone became a republic. Within hours of assuming office, Brigadier General David Lansana overthrew Stevens in a bloodless coup d’état. After a year military officers led by Brigadier Andrew Juxon-Smith overthrew Lansana’s government. This government stayed in power for only a month and was overthrown by Brigadier General John Amadu Bangura, who handed power back to Stevens. Sierra Leone saw three coup d’état in one year (April 1967 – April 1968). Siaka Stevens became the first president of Sierra Leone, sworn in for a five-year term. In 1978 the APC introduced one-party rule and local government elections were abolished.

After the resignation of Siaka Stevens in 1985, Major General Joseph Saidu Momoh, the then commander of the Armed Forces, succeeded him. Due to mounting pressures both from inside and outside the country, a multi-party constitution was reintroduced in October 1991. By then Corporal Foday Saybana Sankoh, with the help of Charles Taylor of Liberia, formed the Revolutionary United Front (RUF) and attacks on Momoh’s government started.

In 1992, a young Captain Valentine Strasser overthrew the government of Joseph Momoh. Strasser maintained relations with the international community and continued to support the Economic Community of West African States (ECOWAS) in their bid to curb the fighting in Liberia through Economic Community of West African States Monitoring Group (ECOMOG). This led to Charles Taylor increasing his support for the RUF.
Brigadier Julius Maada Bio, who then handed power to Ahmed Tejan Kabbah after the elections of 1996, arrested Strasser in a 1996 coup d'état. Kabbah was then overthrown by military officers loyal to Major General Johnny Paul Koroma and led by Corporal Tamba Gborie. The new junta invited the RUF to a joint rule. This government was overthrown by the Nigerian-led ECOMOG troops and President Kabbah was reinstated after 10 months of exile in Guinea. From pressure from Nigeria and the U.S., President Kabbah agreed to a power share that saw Sankoh as vice president of Sierra Leone. This arrangement lasted only a year and was dissolved in 2000 when RUF rebels abducted UN peacekeepers and renewed attacks on the nation’s capital, Freetown.

Kabbah was president until 2007 when presidential elections were held again. Ernest Bai Koroma won the second round after all candidates failed to secure the mandated 50% requirement in the first round.

The country is bordered by the Republic of Guinea (Guinea-Conakry) to the north and east, the Atlantic Ocean to the west and southeast the Republic of Liberia to the southeast. Sierra Leone covers a total area of 71,740 km² (27,699 sq mi) and has a population of 5.696 million people.

2.1.2 The Civil War

In March 1991, the Revolutionary United Front (RUF) under the leadership of Foday Sankoh, comprising of Sierra Leonean rebels, Liberian rebels loyal to Charles Taylor, and mercenaries from Burkina Faso, invaded Sierra Leone from the east, beginning the country’s eleven-year bloody civil war. Even though most reports blame the civil war on diamonds, giving rise to the name “Blood Diamonds”, the problem is much deeper than it seems on the surface. There are other factors that play a more important role to cause the civil unrest, the two most important being revenge from a disgruntled rebel leader and the other, and most

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5 http://www.diplomatshandbook.org/pdf/Handbook_SierraLeone.pdf
6 http://www.worldpress.org/Africa/2193.cfm
viable reason, decades of bad governance, denial of basic human rights causing deplorable living conditions and endemic corrupt practices by ministers and government officials. It is without doubt that after the initial invasion, the rebels fought to control Sierra Leone’s diamond-rich towns (Tongo, Kaduna, and Kono) and used proceeds from mined diamonds to finance their war efforts. Diamonds came into play during the war, but not a cause of the whole affair.

In 1989, Charles Taylor and his rebel troops, National Patriotic Front of Liberia (NPFL), tried to launch an attack on Liberia from Sierra Leone. The then president of Sierra Leone, Joseph Momoh, denied Taylor this request, and allowed ECOMOG forces to use Sierra Leone’s main airport as a base for operations against Taylor and his NPFL troops. Momoh also sent Sierra Leonean troops to join ECOMOG’s efforts in Liberia to stop Taylor’s war against the government of Samuel Doe. Diplomat’s Handbook reports Charles Taylor’s desire for revenge against Joseph Momoh led to his support of the RUF campaign against Momoh’s government. However, Taylor testified during his trial that he never supported the RUF, denying that he knew Foday Sankoh on a personal level.

The Diplomat’s Handbook also mentions the role of Sierra Leone’s military in the conflict, having been politicized by all presidents, asserting political control over the armed forces. This brought about the problem of soldiers being loyal to political parties instead of to the country they were meant to serve.

The deepest damage that can be blamed for the country’s civil unrest is the long history of bad governance. According to the International Crisis Group’s report of December 2004,

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7 http://www.globalsecurity.org/military/world/war/sierra_leone.htm
8 http://www.africa.ufl.edu/asq/v4/v4i1a1.htm
Liberia and Sierra Leone: Rebuilding Failed States\textsuperscript{11}; bad governance, rampant corruption and deplorable living conditions, created by the government’s denial of basic human rights to the populace, caused conflict to be inevitable. A clear indication was the huge fall in diamond profits, the country’s main source of foreign exchange and a major contributor to GDP, from US$200 million to and paltry US$100,000 in 1987\textsuperscript{12}. The youths felt alienated by the government and without any hopes of success, became easy pickings for rebel groups\textsuperscript{13}.

"Young people everywhere have considerable anxiety about their future, and if they do not find educational and employment opportunities, they naturally despair. This leads to feelings of exclusion and resentment that in the extreme can produce lawlessness, violence, and even anarchy as Sierra Leone witnessed during your civil conflict. The conditions that exist today are some of the same conditions that led to that conflict, and they must be addressed." Thomas N. Hull, US Ambassador to Sierra Leone\textsuperscript{14}

After eleven years of gruesome crimes and bloodshed in Sierra Leone, the war finally came to an end and Ahmed Tejan Kabbah was reinstated as president with the help of ECOMOG and UN forces. The war claimed a staggering 75,000 lives, 200,000 injuries and left over 500,000 people fleeing to other countries\textsuperscript{15}.

In the interview with Prof Dr Ellis, he maintained that for the country to avoid civil unrest in the future, policies should be set that will ensure the country’s wealth is evenly distributed. There has been enough evidence to show that the civil unrests in Sierra Leone have been as a result of corrupt practices on the parts of the politicians\textsuperscript{16}.

2.1.3 Economy

For a country that boasts substantial amount of mineral, agricultural and fishery resources, Sierra Leone is considered one of the poorest countries in the world. With such huge deposits of precious stones and metals, and the newly discovered petroleum, it is surprising

\textsuperscript{12} http://www.diplomatshandbook.org/pdf/Handbook_SierraLeone.pdf
\textsuperscript{13} http://www.columbia.edu/~mh2245/papers1/who_fights.pdf
\textsuperscript{14} http://freetown.usembassy.gov/sp062607.html
\textsuperscript{15} http://www.africa.ufl.edu/asq/v9/v9i3a3.htm
\textsuperscript{16} Appendix 2
that 60% of the country’s budget depends on foreign aid\textsuperscript{17}. It has a poverty ratio of 70.2% and a GDP per capita of $341\textsuperscript{18}. Mining continue to make up for the major part of the country’s economy, contributing 20% of GDP\textsuperscript{19}. Estimates of annual mineral exports are reported to be US$250 - US$300 million\textsuperscript{20}. Due to the rampant cases of corruption in the country, most of the mineral exports do not pass through the formal channels as illegal miners smuggle minerals out of the country. The main minerals found in Sierra Leone are diamond, rutile, and bauxite, gold and iron ore. Given the importance of rutile, bauxite and iron ore in industrialisations, this explains the importance of Sierra Leone to China, Brazil, India and other developing countries. Developed countries are destinations for diamond exports for their luxury markets.

\textbf{2.1.3.1 Agriculture}

About two-thirds of Sierra Leoneans engage in subsistence farming, which accounts for 49% of national income. Sierra Leone has 4.3 million hectares of arable land\textsuperscript{21}. Throughout its relationship with China, Sierra Leone has tried to benefit from Chinese farming technologies to develop its agricultural sector.

In 2001, Sierra Leone’s agricultural exports, consisting of coffee, cocoa, palm kernels, piassava, kola nuts, and ginger, reached $7.5 billion in 2001. Both the country’s staple food and most important crop is rice, grown by 80% of farmers, and millet saw a drop from an annual tonnage of 508,000 between 1989 and 1991 to 247,000 tons in 1999.

\textbf{2.1.3.2 Mining}

Sierra Leone enjoyed a GDP growth of 5.6% in 2011 and it is expected to increase to 6% in 2012. The country is blessed with huge deposits of diamond, gold, bauxite, rutile, zircon, iron
ore, ilmenite and the recently discovered petroleum (though not yet confirmed to be in commercial amounts).22

Mining contributed 70% of foreign exchange earnings, 20% of gross domestic product (GDP) and 15% of fiscal revenues23 before the civil war that began in 1991. In 2010, mining accounted for 60% of the country’s export revenues, diamond bringing in $133 million, $33 million from rutile and $31 million from bauxite. In 2011 Sierra Leone decided to reopen iron ore mines, after thirty years, and the government has projected an increase of 50% in the country’s GDP in 2012 from this mineral alone. It is estimated that annual revenues from Sierra Leone’s minerals could exceed $370.

The mining sector provides employment for about 14% of Sierra Leone’s workforce24. Given that mining does not need high qualifications, it is a good driving force to improve the mining sector to create more employment for Sierra Leoneans.

The literacy rate, according to a World Bank report on Sierra Leone 2009 stood at a lowly 57.61%25. This can be the first step for the country towards the eradication of poverty. If the adult population are given a livelihood (employment opportunities), the advent of child labour will eventually be stamped out, thus sending more children to school and reducing the illiteracy rate in the country. This will translate into highly skilled workers, who will eventually contribute to the development and rebuilding of the nation.

2.1.3.3 Rutile and Ilmenite

Rutile is composed mostly of and the most common natural form of titanium dioxide is a very useful mineral and has significant economic importance. Rutile is used in the production or refractory ceramics, as a pigment in paints, to threat the air and remove pollution. Rutile

22 http://news.bbc.co.uk/2/hi/africa/8259335.stm
23 http://www.revenuewatch.org/countries/africa/sierra-leone/extractive-industries
24 http://www.slminerals.org/content/index.php?option=com_content&view=article&id=4&Itemid=7
is also used in the following industries: aerospace, automobiles, sports and medicine\textsuperscript{26}. Demand for rutile is expected to be driven by the Chinese boom\textsuperscript{27}.

Sierra Leone has the world’s largest rutile mine in the world, covering an area of 580\textsuperscript{2} kilometres in the southwest. Through the company Sierra Rutile, owned by Titanium Fields Resource and US Titanium LLC, has a major market share in the world. Before it ceased mining in 1995, Sierra Rutile was responsible for 25% of the world’s rutile production\textsuperscript{28}.

Both Titanium Fields Resources and US Titanium LLC are US owned company, controlling majority shares in Sierra Rutile Limited, with the government of Sierra Leone having a minority share. In May, Serra Rutile Limited agreed to pay its PAYE (Pay-as-you-earn) taxes, thereby cancelling the government’s minority interest\textsuperscript{29}.

Given China’s fast growing auto industry, rutile will be in high demand. The Chinese auto industry has seen a growth rate of 47.8% in 2009 and 32.5%\textsuperscript{30} in 2010. By setting good bilateral and multilateral agreements between the two countries, it will make it easier for China to import some of its rutile from Sierra Leone, increasing the country’s exports and helping diversify the economy.

\textbf{2.1.3.4 Bauxite}

Bauxite is the most important aluminium ore and is used in the production of aluminium. Global market for bauxite, which had taken a big hit due to the global recession, is expected to reach 191.7 million metric tons\textsuperscript{31}. Sierra Leone represent just less than 1% of global production of bauxite, it is a significant amount for such a small country. This will represent approximately 1.9 million metric tons, at about $200 per metric ton. China alone represents

\begin{itemize}
\item \textsuperscript{26} http://www.mine-engineer.com/mining/mineral/rutile.htm
\item \textsuperscript{27} http://www.slminerals.org/content/index.php?option=com_content&view=article&id=4&Itemid=7
\item \textsuperscript{28} http://www.sierra-rutile.com/media/219306/28_feb2005sierrarutilerestartoperations.pdf
\item \textsuperscript{29} Ibid\textsuperscript{27}
\item \textsuperscript{30} http://www.forbes.com/sites/china/2011/05/20/chinas-auto-industry-shows-signs-of-impending-gridlock/
\item \textsuperscript{31} http://www.prweb.com/releases/BAUXITE/ALUMINA/prweb8128157.htm
\end{itemize}
about 40% of global demand for aluminium, and this is expected to reach 50% by 2020\textsuperscript{32}.

China’s quality of domestic bauxite is deteriorating, forcing China is import more bauxite than in the past. At the moment, Indonesia is China’s biggest supplier of bauxite, making up for about 75% of imports\textsuperscript{33}.

2.1.3.5 Diamonds

Sierra Leone’s key export commodity is also the country’s biggest threat to peace and stability\textsuperscript{34,35}. However, even with the potential threat that comes along with it, mining plays an important role in the country’s economy.

Sierra Leone’s annual diamond production is estimated to be between US$200 and US$400 million\textsuperscript{36}, yet revenues were only US$99 million in 2008, US$79 million in 2009\textsuperscript{37} and US$106 million in 2010\textsuperscript{38}.

In terms of employment, the mining industry is the leading employer of unskilled labour in Sierra Leone. Mining also fosters the growth of other industries. Mining communities tend to attract small businesses like small consumer items and small-scale foodstuff. As income is also generated for the families of miners, the children are not required to work and therefore can attend school, cutting down Sierra Leone’s illiteracy population.

2.1.3.6 Iron ore

Iron ore is the most abundant rock forming metal and composes of 5% of the earth’s crust. It is used in making steel and iron products. It is the most-used metal by both tonnage and purpose\textsuperscript{39}, and in high demand, especially by developing countries, like the BRIC countries

\textsuperscript{32} http://www.hydro.com/upload/Documents/Presentations/Quarterly/2011/Bauxite_Alumina_presentation_Q1-2011.pdf
\textsuperscript{33} Ibid\textsuperscript{3}\textsuperscript{3}
\textsuperscript{34} http://www.peri.umass.edu/fileadmin/pdf/UM-NS_Workshop/MaevePowlick.pdf
\textsuperscript{35} http://action.web.ca/home/pac/attach/sierraleone2002_e.pdf
\textsuperscript{36} http://www.irinnews.org/Report/44470/SIERRA-LEONE-President-puts-tighter-controls-on-diamond-mining
\textsuperscript{37} http://www.diamonds.net/news/Newsitem.aspx?ArticleID=31129
\textsuperscript{38} http://www.israelidiamond.co.il/english/news.aspx?boneid=918&objid=9831
\textsuperscript{39} http://iron-ore.shibang-china.com/iron-ore/application-uses.html
(Brazil, Russia, India and China). This is why the extraction of iron ore alone is expected to increase Sierra Leone’s GDP by 50%.

As Chinese iron ore imports from India decline, the decision by Sierra Leone to begin mining the mineral has come at an opportune time as China is set to look beyond India for its iron ore imports. China is the world’s biggest importer and highest consumer of iron ore as shown in the table below, is in the constant process of finding suppliers. This will be in the interest of Sierra Leone to negotiate mining contracts with the Chinese government and Chinese mining companies to strengthen bilateral and multilateral relationships.

Since the announcement of the reopening of the iron ore mines in Sierra Leone, projections show that iron ore production will contribute more to the country’s economy than diamonds in five years.

2.1.3.7 Petroleum

In 2009, a United States oil company, Anadarko Petroleum Corporation, the same company that discovered oil off the coast of Ghana in 2007, reported a discovery of deepwater oil well off the coast of Sierra Leone. In 2012, a consortium led by Anadarko Petroleum Corporation, consisting of Woodside Petroleum Ltd. (Australia), Repsol YPF (Spain) and Tullow Oil Plc. (United Kingdom) discovered another oil well off the coast of Sierra Leone and Liberia. This has sparked hopes of growth in the region and development is expected to come with the discovery.

41 http://tools.morningstar.co.uk/uk/stockreport/default.aspx?tab=3&vw=story&SecurityToken=0P00007OT7%5D3%5D0%5DE0WE%5DL&Id=0P00007OT7&lan=gb&LanguageId=en-gb&CurrencyId=GBP&ClientFund=0&lastPageURL=&IndexOverrideId=&IndexOverrideInvestmentType=&IndexOverrideLocalCategoryBaseCurrency=&story=111443664120605
42 http://news.bbc.co.uk/2/hi/africa/8259335.stm
43 http://www.bbc.co.uk/news/world-africa-17115042
The people of Sierra Leone are happy over the discovery and potential growth possibilities, but given the country’s history of violence over resources (diamonds), and the level of corruption, there is some scepticism as to whether the oil will benefit the people it is meant to benefit 44.

Full appraisal of the discovery’s commercial viability is not complete yet and can take between five to seven years.

With the China’s increasing demand of oil, Sierra Leone is in a position to negotiate contracts that will benefit the citizens. According to Prof Dr Ellis, to achieve this goal, there should be enough technical knowledge and an understanding of what is involved. An important part of this effort is for government ministers to refrain from taking bribes and work towards collective favourable deals instead of individual prosperity. Taking the problems with the mining contracts signed with the London Mining Company, this should serve as a lesson that the world is watching and will scrutinize how the welfare of its citizens are being handled 45.

The previous contracts have been deemed illegal with the terms in the contract heavily against the benefit of the Sierra Leonean citizenry. In February of 2012, London Mining Company agreed to a collective bargaining agreement with other mining companies and the United Mine Workers Union of Sierra Leone 46.

In May 2012, Julius Maada Bio, a former junta leader and now a civilian politician started work to renegotiate mining contracts to be in line with Sierra Leone’s law that requires mining companies to pay 37.5% corporate taxes 47.

45 http://www.nmj.org/home/press-release/60-sierra-leones-parliament-ratifies-illegal-mining-agreement-that-is-bad-for-the-countrys-development-
46 http://allafrica.com/stories/201202271404.html
47 http://af.reuters.com/article/topNews/idAFJOE84708A20120508?pageNumber=2&virtualBrandChannel=0&sp=true
Prof Dr Ellis was quick to add that as of yet there are no known interests from China in Sierra Leone’s oil. In the case that Chinese companies bid for oil contracts in Sierra Leone, this will likely increase China-Sierra Leone cooperation. Same goes with iron ore contracts, but with the bigger producers like Australia and Brazil, Sierra Leone becomes a minor interest for China at the moment.

He continues to point out that it is in the country’s interest to consider with Chinese companies as they have the technical know-how, but there should be consideration of the Sierra Leonean peoples’ interest at heart. Contracts should be beneficial to the Sierra Leonean economy and its people.

2.1.4 Trade

Sierra Leone is a member of the World Trade Organisation (WTO) and a lot of other major international organisations. According to the WTO, trade represented 52.5% of Sierra Leone’s GDP between the years of 2005-2007.

Sierra Leone’s trade depends heavily on diamonds, which accounts for 90% of the country’s exports. This makes Sierra Leone’s main trading partner Belgium, exports, in the form of diamonds to Antwerp, represent over half of Sierra Leone’s exports. Sierra Leone’s main exports after diamonds are coffee and cacao beans, rutile and fish. With the recent discovery of petroleum off the coast of Freetown by Anadarko, the country expects to develop its energy industry and see a boost in the economy from oil revenues. The discovery of a second oil well between Sierra Leone and Liberia further brightens the country’s outlook.

48 http://www.afribiz.info/content/import-and-export-snapshot-for-sierre-leone
49 http://www.wto.org/english/tratop_e/tpr_e/tpr243_e.htm
50 http://www.nationsencyclopedia.com/Africa/Sierra-Leone-FOREIGN-TRADE.html
In 2009, the US was the biggest consumer of oil with 18.6 million barrels a day, followed by China with 8.2 million barrels a day. However, in 2010, China overtook the United States of America as the biggest consumer of oil. This will be helping the country diversify its economy’s dependence on diamonds alone.

Sierra Leone’s main export commodity is diamonds, making up 46% of the country’s exports. Belgium being one of the top five countries for diamond cutting and polishing, it makes it Sierra Leone’s biggest trade partner, making up for 35.6% of the country’s exports, followed by the United States 20.1% then India 15.2%. Other exports include bauxite, diamonds and iron ores from the mining industry, cocoa, cassava, coffee and palm kernels from the agricultural industry and fish and timber from the fisheries and forestry industry, theses being the country’s main industries. The mining industry makes up most of the country’s exports, accounting for 4.5% of the country’s GDP and 79% of total export revenue. Agriculture, forestry and fisheries and other sectors account for the remainder.

In 2005, the United States of America was the world’s biggest consumer of cut and polished diamonds. In 2009 projections showed that China was on its way to overtake the US as the world’s largest consumer, with diamond sales reaching US$300 million. With China and Sierra Leonan relations advancing in a positive direction, this will help with the country’s revival efforts of the mining industry. Mining is the country’s biggest employer of unskilled labourers.

52 http://www.nationmaster.com/graph/ene_oil_con-energy-oil-consumption
53 http://www.bp.com/extendedgenericarticle.do?categoryId=2012968&contentId=7069439
56 http://www.afrbiz.info/content/import-and-export-snapshot-for-sierre-leone
2.1.5 Country Analysis

To have a better understanding of the potential for growth Sierra Leone we will have analyse the country using Porter’s Five Forces\(^{60}\) analysis. This is an industry analysis frame usually applied to companies, but for this report the same concept will be applied to Sierra Leone.

As Sierra Leone will need to be profitable with its natural resources to help build its economy, it will function more or less as a company, therefore the need for the Five Forces relevance. With good mining and exploration contracts and good positioning and pricing, Sierra Leone can realise big profits. These profits will be used to help rebuild the country (refer to main research question). Porter’s Five Forces gauges a company’s attractiveness, attractiveness referring to profitability. In the case of Sierra Leone, attractiveness will refer to mutual benefit for the country and its trade partners.

**Competition**

There are a lot of countries that compete with Sierra Leone on the resource market, example competitors in the diamond trade include Botswana, home to Africa’s biggest diamond reserves, Angola, South Africa, Namibia, in Africa and Russia, Canada, and Australia. Sierra Leone’s global share of diamond reserves is only 0.6\(^{61}\), but given the country’s size, this is a considerable amount.

Given the size of the country and the amount of mineral deposits, Sierra Leone significant competing advantage in the region and also globally. With low labour costs, Sierra Leone can compete against countries like Australia, South Africa, Brazil, etc., countries with larger mineral deposits.

**Substitutes**

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With most minerals there are synthetic substitutes already developed or being developed. This puts the country at a disadvantage, as it is underdeveloped when it comes to production of synthetic materials given its low literacy rate and lack of the right infrastructure and expertise.

**Buyer Power**

On the one hand, Sierra Leone has an advantage because the resources on offer are a critical part to fuel economic growth and the buyers cannot go without. Secondly, demands for the resources are high and buyers are aplenty, giving Sierra Leone the power to negotiate good contracts.

On the other hand, there are as many suppliers as there are buyers, giving the buyer an advantage to pick and choose where to buy. The products are standardized and switching supplier is not expensive or difficult.

**Supplier Power**

Under this factor, Sierra Leone is at a slight advantage. Even with many other suppliers on the market, and most of them with bigger deposits, Australia, Brazil, India, China, etc., Sierra Leone is a supplier and not a consumer, unlike the above mentioned countries.

Demand for mineral resources is quite high and keeps climbing, with the labour costs in Sierra Leone, the country can forge a competitive advantage over the other suppliers with competitive pricing.

**New Entrants**

As demonstrated in the discovery of oil in Sierra Leone, which is more than likely to see the country as a new entrant in the petroleum market, exploration continues in countries and discovery of mineral resources is usually mined.
Entry into the mineral resources market is not so difficult, the main barrier being the discovery of commercially viable deposits. Start-up mining costs are significantly high, but depending on the size deposits discovered, countries can always find partners willing to fund or assist in the mining or exploration process.

Mining technology is common and accessible, and so are the distribution channels, leaving Sierra Leone at a disadvantage to new entrants (countries with new discoveries of mineral resources).

### 2.1.5.1 Country Advantages

One of the country’s main advantages is its mineral deposits, abundant deposits of natural resources important for economic growth and a big workforce. Over 50% the country’s population is between the ages of fifteen and sixty-four\(^\text{62}\). With just over 35% of the population literate, mining provides the biggest number of unskilled labour. This provides low labour costs.

Besides the mineral resources, there is also agriculture, the country produces and exports coffee, cocoa, palm oil and peanuts. There is also a lot of small scale rice production but consumed locally. There is the opportunity to develop rice cultivation and help farmers move from small scale farming to a larger scale.

Fisheries is also a thriving industry in the coastal country, contributing about 10% of Sierra Leone’s GDP while provide direct employment for an estimated 100, 000 people and indirect employment for an estimate 500, 000 people, which accounts for 10% of the country’s population\(^\text{63}\).

Sierra Leone has the largest natural port in Africa and the third in the world, demonstrating the easy accessibility of the country for both import and export activities (sea freight). With

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\(^\text{63}\) http://www.sierraexpressmedia.com/archives/26257
assistance from the World Bank, Sierra Leone started work in upgrading its ports in 2005, aiming to position the Port of Sierra Leone as a regional port as rising costs at the Suez Canal makes the region a preferred alternative route for shipments between Asia and America\(^6^4\).

2.1.5.2 Country Disadvantages

As is the case with most African countries, the biggest disadvantage in investing and trading with Sierra Leone is political instability. A country that has seen so many coup d’états and civil wars in its 51 years of independence, investing in Sierra Leone exposes investors to a threat of instability that can see them to lose investments and possibly employees.

Corruption is another big problem in the West African country, ranked 132\(^6^4\) in 2010 by Transparency International. This is a huge improvement for Sierra Leone, a 14 places leap from its previous 146\(^6^5\) rank of 2009. This improvement is attributed to the country’s parliamentary Anti-Corruption Act 2008, passed in 2000, bringing into existence the Anti-Corruption Commission\(^6^6\). This shows that the government of Sierra Leone is working tirelessly to stamp corruption out of the system. This is to give investors the confidence to seek investment opportunities and do business with the country.

The country’s low literacy rate is a sign of lack of skilled labour; the World Bank reported that the country’s literacy rate was 57.61% of its population of 5.6 million. This is a significant improvement from the 47.93 of 2004 and 55.70 of 2008\(^6^7\). This is evident that the country is working towards an improved workforce and a developed economy.

2.1.6 Reconstruction

Reconstruction after conflict is a tricky and arduous process, with peace hanging by a thin thread; it is very difficult to convince investors to assist in the reconstruction efforts. Donor

\(^{64}\) http://www.european-times.com/sector/transport-logistics/sierra-leone-ports-authority
\(^{65}\) http://www.sierraexpressmedia.com/archives/15476
\(^{66}\) http://www.anticorruption.gov.sl/faq.php?p=0&pn=FAQs#A0
agencies, aid being Sierra Leone’s biggest reconstruction source, understand quite well the threat to peace. Reconstruction cannot go ahead without peace; therefore, restoring peace should be the main goal.

“….However, in the gap between reality and the theory lies war”
- Villagers to a rapporteur for the ICG 68

Post-war reconstruction is financed through both internal and external resources. Internal resources counting as natural resources, government efforts and manpower (human labour), external resources come mostly in the form of aid from donor agencies. The bulk of Sierra Leone’s reconstruction efforts are financed by foreign aid, as the country has a long history of aid dependency. Aid accounts for about 60% of Sierra Leone’s gross national product (GNP) 69.

In the last years and immediate aftermath of the civil unrest, there has been a lot of aid coming into Sierra Leone from three main donors, the United Nations, United Kingdom through its Department of International Development (DFID) and the United States of America. These came in the form of military assistance, disarmament and reintegration exercises, policing, food aid and reconstruction. The reconstruction efforts in Sierra Leone were estimate to have cost the UK government £100 million and the UN US$16.4 billion annually 70. In its part to assist in the peace process, the United States spent US$45 million reintegrating former rebel fighters and help in the efforts to improve management and control of the diamond sector 71.

Aid cannot be the only source of reconstruction, as donors are bound to cut back on the assistance once there is stability in the country. This usually takes about 4 years after

71 http://hrw.org/english/docs/2004/01/21/sierra6989.htm
hostilities officially end\textsuperscript{72}. This reduction of assistance would have come into effect 2006 as the war was officially declared over in January 2002\textsuperscript{73}. The aid is only to assist the country to put its affairs into order and began with self-reconstruction financing through trade and good governance.

The Chinese government in their part has lobbied for project contracts in the rebuilding of infrastructure in the West African nation through bilateral and multilateral relations between the two countries. In 2010, the People’s Republic of China donated ¥60 million (equivalent to US$9.5 million) to ongoing projects in Sierra Leone, while also agreeing to undertake the construction of a new airport in Sierra Leone\textsuperscript{74} among other projects\textsuperscript{75}. In early 2012, the Chinese government also pledged to build a new market in Sierra Leone’s capital, Freetown\textsuperscript{76}. More details on China and its policies can be found under chapter 2.2 of this report.

Towards the end of 2011, in a show of strengthened relations, China has pledged to increase involvement in Sierra Leone by increasing investment and funding more development projects\textsuperscript{77}. However, given China’s obvious need for natural resources, some critics wonder if Sierra Leone stands to gain from this relationship.

Sierra Leone is set to benefit from the China-ECOWAS agreement in the form of the construction of a 150-room hotel, golf complex and three ferries\textsuperscript{78}. Other projects include assistance in telecommunications and mining contracts\textsuperscript{79}\textsuperscript{80}.

\textsuperscript{72} http://www.official-documents.gov.uk/document/cm67/6706/6706.pdf
\textsuperscript{73} http://www.bbc.co.uk/news/world-africa-14094419
\textsuperscript{74} http://news.sl/drwebsite/exec/view.cgi?archive=6&num=14201
\textsuperscript{75} http://www.china.org.cn/english/features/focac/183425.htm
\textsuperscript{76} http://www.siemreapnewsweekly.com/archives/5189
\textsuperscript{77} http://www.thesierraleonetelegraph.com/?p=670
\textsuperscript{78} http://www.nabc.nl/News/NABCNews/tabid/128/YearMonth/201107/ItemID/604/Title/SierraLeoneGhanatobenefitfromChinaEcowasagreement/Default.aspx
\textsuperscript{80} http://www.ft.com/cms/s/0/8e2c6de6-8e54-11df-964e-00144feab49a.html#axzz1vDVnYhco
2.1.7 Problems

The biggest problem in the reconstruction efforts in most post-war is the threat of peace and stability. After a conflict, peace in the country is still fragile and the country is vulnerable to disruptions and a fall into war again. During the conflict in Sierra Leone, there were different factions fighting in the war, the Kamajors, who were loyal to President Kabbah, the Revolutionary Untied Front rebels, loyal to Foday Sankoh, the military and the breakaway soldiers who wreaked havoc around the country. Most of the combatants were disgruntled youth, unhappy with the endemic corruption in the nation, with no hopes for a future or economic advancement. With reconstruction underway in the fragile country, if there is no sign of change from the previous norms, they could pick up arms against the government again.

Sierra Leone, like most post-war countries, is threatened by corruption; the misuse and mismanagement of funds meant for national development. Sierra Leone has had a history of bad governance and corrupt practices by ministers and government officials, which has been blamed for the country’s eleven-year civil war by the International Crisis Group in its 2004 report\(^81\). Even though the country is hailed for its strides towards national peace building through its National Committee for Disarmament, Demobilisation and Reintegration (NCDDR, which saw the 72, 490 combatants disarmed and 71, 043 demobilised\(^82\), corruption is still rampant in the country. The government of President Ahmed Tejan Kabbah set up the Anti Corruption Commission 2008\(^83\) (ACC). This has brought about a reduction in corruption in the small West African country, seeing a fourteen-place leap on the Transparency International corruption list, from 146\(^{th}\) up to 132\(^{nd}\)\(^84\). However, there are still problems with corruption on the ground as the government fails to lend support to the commission. The

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\(^82\) http://www.irinnews.org/Report/48444/SIERRA-LEONE-Disarmament-and-rehabilitation-completed-after-five-years

\(^83\) http://www.anticorruption.gov.sl/faq.php?p=0&pn=FAQs#A0

\(^84\) http://www.sierraexpressmedia.com/archives/15476
commission has failed to secure conviction of high-level government officers.\textsuperscript{85} Since coming into force in 2000, the ACC had been heavily funded by DFID, but funds have been cut due to dissatisfaction of with the commission’s work quality.\textsuperscript{86}

Another threat to the reconstruction process is the involvement of society in the exercise, either through dialogue or employment, preferably through the latter. This will ensure disarmed combatants being reintegrated into society and given employment. Rebuilding efforts should not only focus on infrastructure, but most importantly on the economy, reviving key economic sectors like the mining, agriculture and fishing industries to create employment for the population. Others can be given employment on construction sites, helping them learn new skills and a trade to help them make a living to support themselves [and their families].

2.2 China: Introduction

The rise of China is one of the most remarkable events of the 20\textsuperscript{th} and most of the 21\textsuperscript{st} century. Even with all the pressure from the other nations, China still terms itself as a developing nation. In 1978 China and Japan signed a long-term private trade agreement, which witnessed a rise in the trade between the two countries. In exchange for coal, oil and other resources, Japan exported technology, equipment and plants, construction materials and machine parts to China.\textsuperscript{87} China’s economic growth began in 1949, when the Communist Party took control of China and put into place development policies that saw an annual average growth of 4% from 1953 to 1978. After Mao Zedong, China put in reforms that saw an average annual economic growth of 8-10%, both periods giving China highest growth rate.

\textsuperscript{85} http://www.focus-on-sierra-leone.co.uk/Corruption_in_Salone.html
\textsuperscript{86} http://standardtimespress.org/?p=1020
\textsuperscript{87} https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=ACE10&paper_id=81
in developing countries at the time (1953-1978) and highest rate in economic history respectively.\textsuperscript{88}

In 2001, China officially joined the WTO (World Trade Organisation), opening the world’s most populous nation to the 142 members of the WTO\textsuperscript{89}. Joining the WTO came with conditions for China, beginning with the lowering of tariffs on imports, which at the time stood at 35% for industrial products, which was to be lowered over a period of five years to 17%, and agricultural products from 31.5% to 14.5% in a three year period, to fall in line with WTO conditions. China had to open its market to foreign firms and allow the firms to sell directly in the Chinese domestic market and opening the Chinese telecommunication and finance sectors to foreign competition\textsuperscript{90}.

Since joining the WTO, China’s economy has continued to show growth, witnessing an increase in FDI, reaching a record US$105.7 in 2010\textsuperscript{91}. China’s economy has seen significant growth in other areas as well, becoming the world’s second largest economy with GDP of ¥12 trillion (US$6.27 trillion) 2010 from less than ¥10 trillion (US$3.17 trillion) in 2001.

With China’s dramatic economic rise, which has seen the Asian giant surpass Japan as the world’s second largest economy in 2010\textsuperscript{92}, the international community has been putting pressure on China to take responsibility as a developed country\textsuperscript{93}. But according to the CIA World Fact book, China was ranked 120 in a list of 226 countries on per capita GDP\textsuperscript{94}, below a lot of countries labelled “developing country”. If China is forced to take responsibility as a developed country and denied the benefits of a developing nation, a lot a of countries that actually deserve the “developing country” status will have to be taken off the list of

\textsuperscript{88} http://forumonpublicpolicy.com/archive07/thomas.pdf
\textsuperscript{89} http://articles.cnn.com/2001-11-10/world/china.WTO_1_wto-meeting-wto-director-general-mike-moore-world-trade-organization?_s=PM:asiapcf
\textsuperscript{90} http://www.princeton.edu/~gchow/WTO.pdf
\textsuperscript{92} http://www.nytimes.com/2010/08/16/business/global/16yuan.html?pagewanted=all
developing countries as well. This is a sensitive issue, given China’s international clout; they can be expected to fight any move to remove them from a “developing country” status.

This “developing country” status has played an important role for China in building relations with African countries, in that they have a better understanding of each other’s struggles. When China preaches mutual respect to the African countries, it hits home, making China an example of growth possibility.

2.2.1 China in Africa

China’s presence in the African continent dates back to the 15th century, when Zheng Ho visited the continent as an emissary of emperor Zhu Di. Present day Sino-African diplomatic ties dates back to over 50 years. Since then, African leaders have been attracted to Chinese trade and aid policies as they, unlike traditional aid from the west, do not come with any conditions. Chinese aid to Africa, a source of income that the continent depends on heavily, has increased so significantly in recent years that China now gives more aid to the African continent than the World Bank.

A brief understanding of China’s foreign policy can be found in China’s diplomatic relations maxim, “Five Principles of Peaceful Coexistence”, which has given China a strong foothold in the African continent. Through the state-owned EXIM Bank, China disburses aid and trade financial transactions with its allies and partners.

China portrays itself as a “third world” country, in other words, it sees itself as a poor, developing nation, which means most African countries feel comfortable in their

95 http://www.cctv.com/english/TouchChina/TouchChina/ChineseCivilization/HistoricalCelebrities/MilitaryLeaders/20021224/100353.html
96 http://www.migrationinformation.org/feature/display.cfm?ID=690
relationships with China\textsuperscript{98}. As third world countries, African allies perceive a mutual relationship with China.

The Sino-Japanese trade agreement of 1978 terms is evident in the way China deals with its African counterparts, signing contractual agreements where in exchange for resources, China gives assistance in infrastructure development, exporting goods, services and technology to these countries.

Sino-African relationship is basically a symbiotic one, with both sides facing potential gains and losses in the process. On a broader basis, China gains resources to fuel its economic growth, a market for its manufactured goods and a destination for Chinese companies’ expansion goals (FDI). From a political point, Chinese expansion in Africa helps it establish its image as a superpower through allegiance from the African nations. In the process, it also gives China a support for its One China Policy, which holds that Taiwan is a part of China and not a sovereign nation\textsuperscript{99}.

On the other hand there are potential risks for China in a relationship with Africa, the biggest being Africa’s volatile political situations. With threats of political instability, and China’s “mutual non-interference in each other’s internal affairs”, Chinese company stand to lose investments in countries that fall into civil wars. Corruption is one of the risks China is bound to face in its dealings with Africa. The history of corruption and mismanagement in the governments of Africa is another hurdle China will have to address. At least with China aid and trade policies, money does not exchange hands and ensures corruption is at a minimum. Another risk is the cultural barriers that exist between the two entities. China will face a lot of cultural friction in its relationships with African nations. The continent being heterogeneous one, practises that will work in one area will fail in others.

\textsuperscript{98} http://afe.easia.columbia.edu/special/china_1950_forpol_principles.htm
\textsuperscript{99} http://www.slate.com/articles/news_and_politics/explainer/2000/05/what_is_the_onechina_policy.html
Africa needs to find investment for its massive infrastructural needs, estimated to be US$20 billion annually\textsuperscript{100} and China’s desire to invest in African infrastructure development is a gain for the continent. The inflow of FDI into Africa is another gain for the continent. Between 2002 and 2009, the continent’s average annual FDI intake was a meagre US$24\textsuperscript{101}, even though the continent gave the developing world’s highest return on FDI\textsuperscript{102}. Chinese FDI in the African continent has grown to US$1.6 billion in 2007 from US$75 million in 2003\textsuperscript{103}.

In order to accelerate development, Africa has to sustain growth rates and seek to expand its trade volume, especially with its exports. Trade with China in 2008 was US$107 billion\textsuperscript{104} and US$122.2 billion\textsuperscript{105} in 2011, making the continent China’s second biggest trade partner behind the United States of America. Trade with China has seen the continent enjoy a 5.4\%\textsuperscript{106} economic growth rate in 2007 but has gradually slowed down to 4.95 in 2010 and a forecasted 3.7\% in 2011\textsuperscript{107}. China exempted 440 African exports from tariffs\textsuperscript{108} in an effort to encourage African countries to export more than just fuel and increase trade between China and Africa.

So far, Africa’s biggest benefit from its partnership with China in terms of aid and assistance came in the form of China’s pledge to cancel US$1.2 billion of debt owed by the Heavily Indebted Poor Countries (HIPC) at the First Ministerial Forum on China-Africa Cooperation.

\textsuperscript{100} http://www.saiia.org.za/images/stories/research/chap/chap_toolkit_200909.pdf P.39
\textsuperscript{102} http://archive.unctad.org/templates/webflyer.asp?docid=10499&intitemID=15288&lang=1
\textsuperscript{103} http://www.saiia.org.za/images/stories/research/chap/chap_toolkit_200909.pdf P.39
\textsuperscript{104} http://news.xinhuanet.com/english/2009-02/11/content_10803769.htm

Brautigam, \textit{The Dragon’s Gift}, 11-12
(FOCAC) in 2000\textsuperscript{109}. By September 2009, Premier Wen Jiabao announced that China has cancelled US$3.83 debts for HICP globally, mostly made up of African countries\textsuperscript{110}.

Due to African countries’ poor credit ratings, borrowing commercial capital is expensive, given they have to pay large risk premiums. Borrowing from Western commercial lenders comes with high interest rates, while Chinese loans, because they are subsidized by their aid budget, carry lower interest rate. China has provided financing for Angolan projects at rates of 0.75%-1.25 below the rates of the Western lenders (e.g. Standard Chartered Banks). Given the sizes of these loans, the difference is very big, and China also gives grace period and long repayment terms while Standard Chartered Bank gives no grace periods and offers faster repayment terms\textsuperscript{111}.

An important gain for Africa is the supply of professionalised training and technology by China. China has these resources in abundance and Africa is in need of the assistance. Rather than just extracting and importing raw materials, China has built factories on the continent to process these materials\textsuperscript{112}. By 2004, China has trained over 11,000 African professionals in agriculture, telecommunications, education, environmental protection, etc.

Like everything with a positive take, there are also risks for the African continent in doing business with China. One of these risks is Chinese loans to African countries. Since most Chinese loans are backed by natural resources, this demonstrates that China is more inclined to lend to countries that can repay their loans\textsuperscript{113}. This means that borrowing countries depend on global market prices to services their loans, making them vulnerable to price shocks, natural disasters and other variables beyond the control of these borrowers.

\textsuperscript{109}http://www.fmprc.gov.cn/zfft/eng/ltda/dybjjhy/DOC12009/1606797.htm
\textsuperscript{110}http://news.xinhuanet.com/english2010/china/2010-09/23/c_13525852.htm
\textsuperscript{111}http://www.foreignaffairs.com/articles/65916/deborah-brautigam/africa%E2%80%99s-eastern-promise
\textsuperscript{112}Brautigam, \textit{The Dragon’s Gift}, 223
\textsuperscript{113}http://www.oecd.org/dataoecd/62/12/40152567.pdf P.34-39
The risk that has the biggest impact on the ordinary African is the influx of cheap Chinese products on the African market and migrant Chinese workers. This exposes African producers and workers to foreign competition that will put a strain on them. Africa imported US$50 billion of Chinese goods in 2008, most of it cheap consumer goods that could have been produced by African firms\(^{114}\).

With the problem of Chinese migrant workers, we have already begun seeing its effects across the continent. In Zambia, voters came out in the numbers to vote Michael Sata as the country’s new president, riding on an anti-China campaign\(^{115}\). With Chinese workers being more experienced and productive than African workers\(^{116}\), the unemployment numbers are bound to increase with the increase of Chinese migrant workers. Bitterness keeps growing across the continent against Chinese workers and traders as they compete with African merchants and manufacturers. There is also the problem of treatment of African workers by their Chinese workers\(^{117}\).

### 2.2.2 Foreign Policy

The “Five Principles of Peaceful Coexistence”, the basis of China’s foreign policy states China recognises its friends under ‘(i) mutual respect for sovereignty and territorial integrity, (ii) mutual non-aggression, (iii) mutual non-interference in each other’s internal affairs, (iv) equality and mutual benefit and (v) peaceful co-existence’. This was introduced over 50 years ago, when China, India and Myanmar signed relationship agreement that will respect independent nations’ sovereignty.

China’s foreign policy can be said to put more emphasis on three important parts, these being foreign direct investment (FDI), aid and trade. FDI covers China or Chinese firms

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\(^{114}\) Brautigam, *The Dragon’s Gift* 221


\(^{117}\) [http://www.economist.com/node/18586448](http://www.economist.com/node/18586448)
investing assets in domestic infrastructures, equipment and organisations in a bid to foster stronger relationships or to expand markets. Trade focuses on the importation of goods and services from and exportation of goods and services to the partner countries. Trade between China and its African counterparts come mainly in the form of China importing raw material, natural resources, etc. and exporting foodstuff, goods and services. Aid from China to Africa comes in the form of scholarships, infrastructure building, military assistance, medical assistance, agricultural assistance, etc. Most of the aid comes in the form of export credit and lines of credit to Chinese-related companies.

Based on the fourth maxim, equality and mutual benefit, projects are designed to be of benefit to both the firm or China and the recipients (the society or country that us the beneficiary). The mutual benefit in the relationship for both China and Africa as a whole is that Africa imports cheap consumer goods and appropriate capital goods from China while in return China gets the commodities it needs for to continue its economic growth\footnote{http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano\_in/zonas\_in/ar99-2010}.

2.2.3 Foreign Direct Investment

China is by far the leading investor on the African continent, with trade exceeding $100 billion in 2011\footnote{http://www.bbc.co.uk/news/business-12098204}. Since the initiation of the Chinese government’s “go out policy”, also known as the “going global strategy” in 2001, Chinese foreign direct investment has increased significantly worldwide. In 2011 global FDI flows were US$1, 114 billion, a 1% increase from 2010’s US$1, 122 billion\footnote{http://www.twnside.org.sg/title2/finance/2011/finance110104.htm}. China’s $100 billion contribution represents 8.9% of the global FDI flow in 2010.

“We like Chinese investment because we have one meeting; we discuss what they want to do, and then they just do it... There are no benchmarks or preconditions”
Contrary to popular belief, not most of China’s foreign direct investment in Africa is only in resource-rich countries. Most of China’s Africa investments went to non-resource rich country, resource rich countries receiving only 37% of the total amount of China’s investment in Africa. However, because of China’s high demand for resources and energy to fuel its growth, Chinese foreign direct investment enterprises usually seek equity in resources or try to secure long-term contracts.

2.2.4 China in Sierra Leone

After China joined the World Trade Organisation in 2001, they had to start reducing tariffs and open up its markets to the world. This meant Chinese rural farmers being exposed to foreign competition for the first time in decades. China has fed 20% of the world’s population on only 8% of the world’s arable land. China, the world’s largest producer of rice, has grown 95% of what it consumes before its membership to the WTO. To cope with impending foreign competition, many Chinese farmers looked towards the African continent. They intended to start investing in agriculture, bringing their expertise and working with the locals to use the advantage of land availability. This will be beneficial to Sierra Leone, as it will help the country achieve food self-sustainability and reduce its dependence on importation.

Food sustainability is a very important political negotiations tool, as the West has used food as a political to pressure countries. The price of the food on the global market is not controlled by traders (buyers and sellers), but by powerful governments and transnational
companies (which play according to their home nations’ interests). Self-sustainability will ensure that countries can even the playing field a little to their advantage.

Sierra Leone can enter into contractual agreements with China on assistance in productive and progressive agricultural reforms, in exchange for its natural resources, mainly bauxite, rutile, iron ore, etc. Given China’s increasing consumption of these resources and more to fuel its economic growth\(^{128}\) will put Sierra Leone in a good negotiating position.

China has already begun making strides in fostering relations through agriculture assistance as demonstrated in the visit of China’s Minister of Agriculture, Han Changfu’s visit to Sierra Leone as special envoy during the country’s 50\(^{th}\) independence anniversary.

### 2.2.5 Chinese and Western Foreign Aid

The Britannica Encyclopaedia defines foreign aid as “the international transfer of capital, goods or services from a country or international organisation for the benefit of the recipient country or its population”\(^{129}\). Foreign aid comes in different forms and different kinds; it can be in economic, emergency or humanitarian after disasters or military assistance. It can be either developmental or humanitarian aid. Most aid is tied, coming with conditions for good governance, democracy, spending, etc., which in turn puts the receiving nations in a stranglehold.

Emergency or humanitarian aid is an important form of aid and is usually sudden and requires rapid reaction from the international community. This refers to aid sent to countries in the event of a natural disaster, e.g. the earthquake and tsunami in Japan, the famine in the horn of Africa and the floods in Thailand, and also during or after man-made disasters like wars. Humanitarian aid usually comes in the form of food, medications and labour force in instances of rescue missions and military assistance in times conflict.

\(^{128}\) [http://news.bbc.co.uk/2/hi/asia-pacific/4272577.stm](http://news.bbc.co.uk/2/hi/asia-pacific/4272577.stm)

Development aid is aid that is given to developing countries to promote development. Development can be either through economic growth, infrastructure building or other means\textsuperscript{130}. Development aid is given through international aid institutions of individual countries or through multilateral organisations (e.g. World Bank, World Food Programme and Organisation for Economic Co-operation and Development). Development aid can also be from individual donor through aid agencies like ActionAid, Caritas, and Oxfam, just to name a few.

\subsection*{2.2.5.1 Western Aid}

Western aid, one of the most dominant aid systems we have today, can be traced back sixty-eight years to the Bretton Woods Conference in 1944 and the inaugural speech of the then American President Harry S. Truman (1949), in which he stated

\begin{quote}
"[…] we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people."\textsuperscript{131}
\end{quote}

The Bretton Woods institutions are the World Bank and the International Monetary Fund (IMF), established in 1944\textsuperscript{132}. This brought about a change of attitude and approach towards traditional aid, and gave birth to the system we have today.

The three fundamentals of Western aid are; (i) relief aid, (ii) colonial development aid and (iii) US technical aid. Relief aid began in the early 19\textsuperscript{th} century; the easy access to information played a major role, making it easy for countries to obtain information of disasters abroad\textsuperscript{133}.

Colonial development aid began around 1920, when there was a change of approach by the colonial powers that colonies should be self-financed, using public investments to expand

\textsuperscript{131} http://www.bartleby.com/124/pres53.html
\textsuperscript{132} http://www.brettonwoodsproject.org/item.shtml?x=320747
health services and development projects\textsuperscript{134}. Actual assistance began around 1929, with colonial powers providing development aid through loans and grants\textsuperscript{135}. US technical aid covers mainly aid given to Latin American countries by the United States through its government corporations Inter-American Affairs and Inter-American Education Foundation. This began around 1942 when exports from the Latin American region to Europe were disrupted by World War I and to counter Nazi Germany’s efforts to foster closer ties with governments in the region\textsuperscript{136}. These three fundamentals laid the groundwork for development of aid.

The Organisation for Economic Co-operation and Development (OECD) is a major player in the aid distribution, alongside the World Bank and the International Monetary Fund (IMF). The OECD has created the Development Assistance Committee (DAC), made up of twenty-four member countries of the OECD\textsuperscript{137}. This committee is responsible for issues surrounding aid and aid allocation.

2.2.5.2 Chinese Aid

Unlike Western aid, Chinese aid was developed following China’s emergence as a superpower, its growing presence and influence in Africa. Having overcome poverty, low industrialisation and low education levels, China has stood out as a significant world player\textsuperscript{138}, making China a blueprint of development for developing countries. Chinese aid can be traced back to the Cold War, when the US imposed an economic embargo on the China. China was forced to look for other economic partners, and they turned to North Korea. First

\textsuperscript{134} Ibid.
\textsuperscript{135} Clifort and Little (2009), International Aid: The Flow of Public Resources From Rich to Poor Countries, The United States: Transaction Publishers
\textsuperscript{137} http://www.oecd.org/document/5/0,3746.en_2649_34603_1893350_1_1_1_1,00.html
China aid was the transfer of food (grain), medicine and industrial materials to North Korea during the war.\(^{139}\)

China’s foreign policy is based on the ‘Five Principles of Peaceful Coexistence’ fundamentals of mutual respect for sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefit and peaceful co-existence. The two principles that are at the centre of China’s foreign policy are mutual respect for sovereignty and territorial integrity and non-interference in each other’s internal affairs, staying out of internal conflicts.

2.2.6 Differences between Chinese and Traditional Aid

Western aid is mostly conditional and in some instances also tied. Conditional aid is one that puts a mandate on the recipient nation with conditions that have to be met to qualify for the aid. These are conditions that are on paper, there are unwritten conditions that a giving nation expects a receiving nation to do, for example support at international organisations like UN and WTO, defence support, FDI and market expansion, missionary enterprises and cultural extension\(^{140}\), and in some case, to create a friendly environment for the country’s migrant workers.

The main principle at the core of Western aid is the Comprehensive Development Framework (CDF), which is in accordance with the Paris Declaration on Aid Effectiveness of 2005\(^{141}\). The CDF has four pillars, namely; good governance, an equitable judicial system, an

\(^{139}\) Brautigam, 2009


\(^{141}\) http://browse.oecdbookshop.org/oecd/pdfs/free/4305181e.pdf
accountable financial system and enforceable civil rights. The CDF has four principles; long

term vision, country ownership, partnership and measurable results.

Good Governance, referring to a legitimate government, democratically elected and not

oppressive, is an important pillar in the Western aid system. Governance is defined by the

Commission on Global Governance report of 1995 as “The sum of many ways individuals and

institutions, public and private, manage their common affairs.” According to the UN

Economic and Social Commission for Asia and the Pacific, good governance has eight

characteristics, these are; participation, rule of law, transparency, consensus oriented,

accountability, effectiveness and efficiency, responsiveness and equity and inclusiveness.

These are some of the conditions Western donors put forward for recipient countries to

qualify for aid, in most cases seen as a threat to a country’s sovereignty (interference in

internal issues). A prime example is the UK’s threats to withdraw aid from countries that ban

homosexuality. This has irked three of Africa’s heavy hitters, Nigeria, Ghana and

Uganda, countries with oil deposits.

Tied aid is one which forces the receiving to spend the funds in or on companies from the

giving country. Sometimes it is that the funds are spent on projects that the donor country

chooses and not what the recipient country needs. Eritrea was required to spend its funds

received to build a railway on foreign goods and services, even though it would have been

cheaper using local resources and expertise. The US, France, Canada, Japan and Germany


6726~piPK:437378~theSitePK:29506,00.html

67~piPK:51533~theSitePK:40941,00.html
145 http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp
147 http://www.usafricaonline.com/2011/11/01/same-sex-marriage-homosexuality-showdown-nigerias-senate-

148 http://www.bbc.co.uk/news/world-africa-15524013
and some of the countries that insist recipients spend aid funds buying products that originate from their countries. US law requires that food aid be spent on American soil to buy foods, using up almost half of the funds on transportation instead of feeding the hungry\textsuperscript{149}. According to Oxfam America, a reform in US food aid, an additional 17 million people\textsuperscript{150} will be saved with no extra costs. Norway, Denmark, the Netherlands and the United Kingdom are countries that make up for 90\% of untied aid\textsuperscript{151}.

The United Kingdom through its Department of International Development (DFID) remains Sierra Leone’s largest aid donor, providing £50 million (US$80 million)\textsuperscript{152} in 2010, followed by the World Bank and the EU.

With China’s mutual respect for sovereignty and territorial integrity and mutual non-interference in each other’s internal affairs, they do not place conditions on governance and internal struggles and laws. A fundamental difference between Chinese and Western aid to Africa, and why Africans prefer Chinese aid to Western aid, is that China treats African countries as equals, unlike the Western donors, who often impose their values and ideology (e.g. UK aid withdrawal threat to gay hostile countries). Chinese aid disregards internal conflicts, bad governance, etc. Aid negotiations with China are far simpler than with Western donors. When an African country negotiates with the EU for example, they have to conduct 27 separate meetings with 27 individual countries. This becomes a complicated process, whereas with the Chinese, there’s only one meeting, discuss what they want and begin with the projects. There are no benchmarks, which explains why African leaders like doing business with the Chinese\textsuperscript{153}.

\textsuperscript{149} http://www.thedailybeast.com/newsweek/2008/09/19/feeding-the-900-million-let-them-eat-micronutrients.html

\textsuperscript{150} http://www.oxfamamerica.org/campaigns/food-justice/food-aid

\textsuperscript{151} http://ipsnews.net/news.asp?idnews=24509

\textsuperscript{152} http://www.oxfamamerica.org/campaigns/food-justice/food-aid

\textsuperscript{153} http://www.pambazuka.org/en/category/courses/32432
However, non-political conditionality does not necessarily mean untied aid. Chinese aid is tied to Chinese companies, using domestic firms to carry out projects in the recipient countries. The funds are usually deposited with China’s EXIMBANK, paying Chinese companies directly, cutting out the politicians, local officials and construction crews.

The problem in Sierra Leone getting off its dependence on aid, the powers that be must want to work towards achieving this goal. According to the observations of Prof Dr Stephen Ellis, politics in Sierra Leone uses aid as a resource. Although he does think that the country can stop its aid dependence, he adds that it will not be an easy feat due to aid being a resource instead of a supplement. Some of the problems of aid are that the recipient government loses policy autonomy, not being able to implement their own development policies as they can be forced by the donor countries’ policies. Even though Sierra Leone’s dependence on aid has dropped from 96.86% of total government expenditure in 2000 to 92.00% in 2009.

Prof Dr Ellis states that an increased cooperation between China and Sierra Leone might affect Sierra Leone’s relations with its Western donors because of China’s human rights records, but was quick to point out that depending on how well Sierra Leone handles it, it can still maintain good relations with its Western partners.

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3 Methodology

3.1 Introduction

This report is a qualitative research on the economy of Sierra Leone, its political history, present political situation and natural resources. It follows a pattern of addressing studies of resource-rich countries, their behaviour, their successes and failures and theories on why this is the case. Due to the qualitative nature of the report, the main method of the research is desk research. The author used secondary data from official documents of respected institutions, especially to collect historical values and impact of aid which is best presented by institutions like the World Bank, IMF and other aid agencies.

To understand the aid policies of China and Western donors, different papers with different viewpoints were used to gather information. With the continuing debates on Western and Chinese aid policies (conditionality, good governance, ‘tied’ aid), many sources had to be used to provide a better understanding.

3.2 Research Questions

As already introduced in the introduction, the research question and sub-questions are reintroduced below to keep the reader focused on the purpose of this report.

Research question: How can the abundance of natural resources help Sierra Leone rebuild after the war?

The research focuses on explaining how Sierra Leone, a resource-rich nation, that is heavily dependent on foreign aid, can develop an economy that will be more dependent on revenues generated from its own resources. Sierra Leone is one of the world's poorest countries, even though it is well endowed with natural resources (diamonds, gold, iron ore, bauxite, etc.). The research first looks at the ‘Resource Curse’, something that Sierra Leone
has suffered, giving rise to the eleven-year civil war. It addresses Sierra Leone’s political problems, corruption and underdeveloped infrastructure.

The research looks at literature focused on different countries that have suffered the ‘Resource Curse’, developing resource-rich countries that have seen some growth and Norway, a resource-rich country that has defied the norm. It shows how good governance and investing in public bureaucratic institutions can benefit the nation and its population.

In order to reach an understanding of how Sierra Leone will use its natural resources to rebuild its economy, we have to take into account the fact that they will have to enter into contracts with companies from other countries through bilateral diplomatic relations with the home countries. This is why the first sub-questions as shown below are relevant in supporting the main research question. With China as a big consumer of resources, it becomes a major player in Sierra Leone’s quest to develop its mining industry, thus the significance of sub-questions one.

**Sub-question 1:** What role can China play in the rebuilding of Sierra Leone?

This sub-question is important as it is directly linked to the research question in the sense that China, projected to surpass the United States as biggest consumer of natural resources, gives Sierra Leone a potential trade and development partner. This is accentuated by China’s increasing presence and interest in the African continent.

As Sierra Leone is heavily depended on foreign aid, and China fast becoming a leading donor, especially to the African continent, it is important to understand the differences between Western and Chinese aid systems. Aid places an important role in diplomatic relationships and can affect relations with partners of different policies and goals. This is why the report continues to give a brief explanation of these differences (Western and Chinese aid). That should explain the relevance of sub-question 2, which is as follows:
Sub-question 2: What is the difference between Western and Chinese aid?

This sub-question is relevant to both the research question and the first sub-question. It addresses Sierra Leone’s dependence on aid, which is being provided mainly by Western donors through institutions like the World Bank, International Monetary Fund and other aid organisations. China is fast becoming the leading aid donor on the African continent. This is why this sub-question is important; to show what differences exist in aid from the two donor entities, and provide a chance to make an informed decision on what aid will be more beneficial.

3.3 Data collection

Data collection was mainly through available works by professionals in the different topics covered in this report. Majority of the research is desktop research, and one set of questions sent out to people suggested by the client. The client has stated that the report does not need more than desktop and extensive reading, but to have at least one other view will give the report a balance.

The questions were sent to three different professors, Prof Deborah Brautigam\(^\text{156}\) of American University, Washington DC, Prof Dr Stephen Ellis\(^\text{157}\) of the African Studies Centre, Leiden and Pro Dr Paul Richards of Wageningen University\(^\text{158}\).

The size of the data is determined by the client, because the report is mainly qualitative research, the sampling is quite small. The client did not require any primary data for the research, but to give the report some balance, the researcher, with the consent of the client, sought the expertise of Prof Dr. Stephen Ellis.

\(^{156}\) http://www.american.edu/profiles/faculty/dbrauti.cfm
\(^{157}\) http://www.ascleiden.nl/research/Ellis_SDK.aspx
\(^{158}\) http://www.tad.wur.nl/UK/People/Faculty/Paul/
An extensive literary review, showing two theories of the main research question, is at the beginning of the report to help the reader understand the questions and prepare for the further reading in the body of the report.

3.4 Relevance

This report is of great relevance to both the client and the researcher, in regards to the fact that it sheds light on issues that are in constant change and quite important.

The client is an independent research institution that aims at promoting awareness and an understanding of the socio-economic, social sciences and humanities of the African continent. The ASC disseminates knowledge and understanding of African societies in the wider public sector. It strives to be a national centre in the field of African studies and contribute in the education and teaching of these sciences, making information available for different purposes to interested parties.

The researcher, being of African descent, finds the research of significant importance as it creates an opportunity to gain a better understanding of the workings of African diplomacy. This will be relevant in the researcher’s future plans of contributing to development at a national level in particular and the continent as a whole.
4 Conclusions

Research has shown that resource-rich countries tend to fall victim to the “Resource curse”, where the country fails to do well economically even though there is a presence of vast natural resources. History has proven Sierra Leone to have been victim through its 11-year civil war that has been blamed on bad governance, which was linked to the way the country’s diamond mining industry was managed. The redistribution of the wealth realised from the sale of these diamonds was unfair, and benefitted only a select number of Sierra Leoneans. With the recent discovery of oil reserves, absolute caution should be taken in the future to avoid future civil unrest.

There are studies on resource-rich countries that have prospered and avoided the ‘resource curse’ completely (Norway) or have advanced to overcome the phenomenon and experience growth (Botswana, Thailand, and Indonesia). Available research shows that with good policies and efforts to tackle corrupt practises, resource-rich countries can overcome the adversities of the ‘resource-curse’ and experience economic growth.

By using Norway as an example, research shows that with good economic policies resource-rich countries can avoid the “resource curse” and prosper economically. The report has stated that if Sierra Leone is to study and implement the Norwegian way of resource revenue sharing system, the country can develop different sectors of its economy and maintain a high standard for its populace. Therefore, by setting in good economic policies, Sierra Leone can use its natural resource and rebuild its economy after the war.

The above conclusion helps answer the main research question (How can the abundance of natural resources help Sierra Leone rebuild after the war?).
The relevance of sub-question one, (What role can China play in the rebuilding of Sierra Leone?) to the main research question (How can the abundance of natural resources help Sierra Leone rebuild after the war?) is based on China’s heavy presence on the African continent. Many of the African leaders have shown more interest in working with China on development projects due to China’s lack of conditionality.

China is already involved in Sierra Leone’s rebuilding through direct bilateral relations and through ECOWAS. For China to play a bigger role in the rebuilding, Sierra Leone has to understand China’s needs and use them to its advantage. For example, after China joined the WTO, it began tariff reductions and opening its markets to foreign competition. This meant the rural Chinese farmers became exposed to foreign competition for the first time. To cope with this competition, Chinese farmers have begun investing abroad, and most of them have their eyes set on the African continent. This means Sierra Leone can get into contractual agreements with Chinese farmers, who have higher levels of technical expertise to develop its agricultural sector.

China’s high demand for minerals is also a positive thing for Sierra Leone in its quest for rebuilding. China’s interest provides Sierra Leone with more negotiating options for mining and exploration contracts, making sure they can get into agreements that will be beneficial to the average Sierra Leonean. The country’s lack of sufficient technical knowledge is a disadvantage in negotiating profitable mining and exploration contracts, but having more options will help put things in a more clear perspective.

Sub-question two, (What is the difference between Western and Chinese aid?) is relevant to the previous two questions because of the heavy dependence of Sierra Leone on aid. With China fast becoming one of the biggest donors to Africa, it is important to understand the differences between Western and Chinese aid, how it might affect Sierra Leone’s relations with its Western partners in the future. With China not deterred by human rights abuses and
Western donors promoting fair treatment, there are bound to be clashes of interest and policies being undermined, as is the case with Zimbabwe\textsuperscript{159}.

Chinese aid is different from Western aid in the sense that Western aid is conditional. Most aid from Western donors is in line with policies that the donor country wants to promote instead of the needs of the recipient country. Western aid conditions also include good governance and democratisation requirements to receive aid, and sometimes tied to be spent in the economy of the donor nation.

Chinese aid on the other hand is not conditional and does not focus on conditions of governance or human rights records. Only similarity with some Western donors is that Chinese aid is tied to be spent with Chinese companies. Chinese aid is usually focussed on the needs of the recipient nation, mainly in the form of infrastructure development, education scholarships and technical training.

The biggest problem with Sierra Leone weaning off aid dependency is that the country’s political elite is not working towards stopping aid. As pointed out by Prof Ellis (appendix 2), aid is used as a resource by the people that represent the country.

4.1 Recommendations

For Sierra Leone to reap the maximum benefits from its natural resources there will have to be significant policy changes. There are enough examples that the country can emulate, for example, by adopting Norway’s policy on its oil revenue distribution, Sierra Leone can build a strong reserve to help maintain a good quality of living in times of bad market prices and not be held hostage of market conditions. Prof Dr Ellis maintains that the Norwegian model is seen to have worked well and is worth a close study. This is will a good way for Sierra Leone to avoid the resource curse.

\textsuperscript{159} http://articles.cnn.com/2011-02-12/world/zimbabwe.china_1_mugabe-and-tsvangirai-democratic-change-sanctions?_s=PM:WORLD
To ensure that the country is in a good position to negotiate lucrative contracts, Sierra Leone will have to invest heavily in education and increase the population of technically savvy professionals with good understanding of the workings of mining and exploration. By diversifying contracts, spreading different resource explorations between different countries or companies, partners will be forced to concentrate on having Sierra Leone’s interest at heart to maintain the contracts. This will give Sierra Leone a chance to compare and be more informed when contract renewals are up.

Most importantly, the political elite of Sierra Leone have to implement transparent exercises and involve the population. This will educate the people on what is being doing with the country’s revenues and how it is benefitting the country. This will be a good step towards reducing or even avoiding the possibilities of civil unrests in the future. By involving the populace, the government will have a better understanding of what the needs of the people are and be in a better position to deliver the right expectations or negotiate on what the government is in a position to deliver. This will involve how the revenue from the country’s resources can be spent, by holding parliament debates with representatives to understand the people’s needs.

Further research is recommended for any investors that are looking to enter the Sierra Leonean market. Research on the ground will be very useful as a lot of data on the country is not available. There is mainly a lot of general information on the country as a whole, but one will have to visit the country to gauge the interest of the local population and identify opportunities.
5 References


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Appendix 1: Figures

Norway oil revenue

Sierra Leone Agricultural GDP
World mineral demand

<table>
<thead>
<tr>
<th>Producers</th>
<th>Consumers</th>
<th>Exporters</th>
<th>Importers</th>
<th>Units</th>
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<td>50</td>
<td>Australia</td>
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<td>Europe</td>
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<td>Japan</td>
<td>7</td>
<td>United States</td>
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<td>United States</td>
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<td>India</td>
<td>7</td>
<td>Canada</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
<td>Russian Fed</td>
<td>7</td>
<td>Russian Fed</td>
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Coking coal

<table>
<thead>
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<th>Producers</th>
<th>Consumers</th>
<th>Exporters</th>
<th>Importers</th>
<th>Units</th>
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<td>Russian Fed</td>
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<td>South Africa</td>
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<td>Columbia</td>
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<td>Indonesia</td>
<td>4</td>
<td>South Africa</td>
<td>9</td>
<td>China</td>
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Thermal coal

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<th>Exporters</th>
<th>Importers</th>
<th>Units</th>
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<td>Russian Fed</td>
<td>12</td>
<td>Korea</td>
<td>7</td>
<td>Canada</td>
</tr>
</tbody>
</table>

Iron ore

Sources: ABARE; AME Mineral Economics; International Energy Agency; RBA

China bauxite demand

China has seen a big increase in bauxite imports

Sierra Leone aid
Sierra Leone

<table>
<thead>
<tr>
<th>Receipts</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>Net ODA (USD million)</td>
<td>370</td>
<td>440</td>
<td>475</td>
</tr>
<tr>
<td>Bilateral share (gross ODA)</td>
<td>46%</td>
<td>44%</td>
<td>42%</td>
</tr>
<tr>
<td>Net ODA / GNI</td>
<td>19.7%</td>
<td>24.1%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Net Private flows (USD million)</td>
<td>2</td>
<td>12</td>
<td>-</td>
</tr>
</tbody>
</table>

For reference

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6</td>
<td>5.7</td>
<td>5.9</td>
<td></td>
</tr>
</tbody>
</table>

| GNI per capita (Atlas USD)     | 220  | 240  | 246  |

<table>
<thead>
<tr>
<th>Top Ten Donors of gross ODA</th>
<th>(2005-10 average)</th>
<th>(USD m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 EU institutions</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>2 United Kingdom</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>3 IDA</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>4 IMF (Concessional Trust Funds)</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>5 United States</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>6 Japan</td>
<td>25</td>
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<td>7 Canada</td>
<td>21</td>
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<td>8 ADBF</td>
<td>19</td>
<td></td>
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<tr>
<td>9 Germany</td>
<td>15</td>
<td></td>
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<tr>
<td>10 Global Fund</td>
<td>15</td>
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</tr>
</tbody>
</table>

Bilateral ODA by Sector (2009-10)

- Education
- Health and population
- Other social sectors
- Economic infrastructure & services
- Production
- Multi-sector
- Programmatic assistance
- Action relating to Debt
- Humanitarian Aid
- Other & Unclassified/Unspecified

Sources: OECD, World Bank
Appendix 2: Interview with Prof Dr Stephen Ellis

1. Can Sierra Leone use its natural resources to stop its dependence on foreign aid?
   In principle, yes: how easy this might be in practice is another question. My own suspicion is that Sierra Leone’s political elite (and perhaps not only the political elite) uses dependency as a resource, and thus has little incentive to stop its dependence on foreign aid.

2. With the recent discoveries of oil reserves, do you think the country might suffer another civil unrest?
   It all depends how the wealth is used. But if the money is spread around a little bit, I doubt it.

3. Is Sierra Leone in a position to negotiate lucrative contracts?
   If it wants to do so. To do this requires a degree of technical knowledge that is in short supply in Sierra Leone, but above all government ministers must refrain from taking bribes in order to sign deals that are unfavourable to the country. You might consider taking a good luck at the deals signed by the London Mining Company.

4. China is already involved in Sierra Leone through bilateral relations and through ECOWAS. Will China’s involvement in Sierra Leone grow stronger with the discovery of oil?
   That depends whether a Chinese company bids to exploit the oil – to date I am not aware of any Chinese oil interest.

5. What influence will the reopening of the country’s iron ore mines have in its relationship with China?
   Same as previous question. China needs iron ore, but the really big producers are Australia and Brazil with which it already has good relationships.

6. Is it in the country’s interest to get into exploration and mining contracts with China/Chinese companies?
In principle, yes. Everything depends on how this is actually done.

7. **Should Sierra Leone use Norway’s model as blueprint if the oil wells are found to be commercially viable and also with its other minerals?**

   The Norwegian example has been shown to work, so it is worth studying closely.

8. **If China’s influence increases in Sierra Leone will it affect Sierra Leone’s relationship with its Western donors?**

   Yes, but there is no reason that SL cannot keep good relations with several partners.

9. **With revenue from the mining sector, should Sierra Leone focus on improving its health and education sectors first before the manufacturing sector?**

   There should be a serious debate among the people of Sierra Leone.

   Prof Dr. Stephen Ellis is a historian, with a broad range of interests in contemporary history and politics. His most recent book, coauthored with Solofo Randrianja, is a general history of Madagascar. His longer-term research concerns the history of Nigerian organized crime.

   In addition to his work at the African Studies Centre, from 1 December 2008,

   Stephen Ellis is working two days a week as a professor at the VU University of Amsterdam, where he occupies a Desmond Tutu chair of Youth, Sport and Reconciliation.

   Stephen Ellis is a member of various editorial boards, including of the journal African Affairs, of which he is a former editor.

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