FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT IN SIERRA LEONE: CHALLENGES AND PROSPECTS

BY

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LEGON
AUGUST 2014
DECLARATION

I, Saidu Mohamed Conteh, hereby declare that this Dissertation is the result of an original research conducted by me under the supervision of Dr. Antwi Danso, and that it has not been submitted elsewhere, wholly or partially, for any other purposes. References to other materials have been duly acknowledged.

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(SUPERVISOR)

DATE:................................

DATE:................................
DEDICATION

This research work is dedicated to my mother, my lovely wife, Hawa Koloneh Conteh and children, Binta and Saidu for their prayerful support towards the success of my course as well as their understanding over my long period of absence.
ACKNOWLEDGEMENTS

A work of this nature cannot be undertaken without the contributions of a number of people. In this regard, I would like to thank Legon Centre for International Relations and Diplomacy (LECIAD), University of Ghana, especially Dr Antwi Danso, for not only supervising this project but also proof reading and offering advice for its speedy completion. My family, especially my wife, Hawa Koloneh Conteh, my children; Binta Conteh and Saidu Mohamed Conteh. They also need to be commended for their support and understanding. Worthy of special mention is my mother and sisters for their assistance to my wife and son in my absence.

I must pay my gratitude to Major-General SO Williams, Chief of Defence Staff (CDS) for his invaluable support throughout the course. General Williams gave his blessing for me to pursue the course. My special thanks also goes to Brigadier General JE Milton, Deputy Chief of Defence Staff for allowing me to pursue the course unhindered.
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>APC</td>
<td>All People’s Congress</td>
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<tr>
<td>BEA</td>
<td>Bureau for Economic Analysis</td>
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<tr>
<td>DBRC</td>
<td>Doing Business Reform Committee</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Committee of West African States</td>
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<tr>
<td>EEZ</td>
<td>Exclusive Economic Zone</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GAFI</td>
<td>General Assembly for Investment</td>
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<tr>
<td>GCLME</td>
<td>Guinea Current Large Marine Ecosystem</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
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<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
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<tr>
<td>IFC</td>
<td>International Financial Corporation</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JVP</td>
<td>Joint Venture Partnership</td>
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<tr>
<td>LIC</td>
<td>Low Income Countries</td>
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<tr>
<td>MDA’s</td>
<td>Ministries, Departments and Agencies</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<tr>
<td>NASSIT</td>
<td>National Social Security and Insurance Trust</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>RLC</td>
<td>Reform Legislation Committee</td>
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<tr>
<td>SLDTTP</td>
<td>Sierra Leone Directorate for Technology Transfer and Promotion</td>
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<td>SLIEPA</td>
<td>Sierra Leone Investment and Export Promotion Agency</td>
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<td>SLITF</td>
<td>Sierra Leone Industrial Training Fund</td>
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<tr>
<td>SLTEDA</td>
<td>Sierra Leone Technological Development Area</td>
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<tr>
<td>SLPPPB</td>
<td>Sierra Leone Public Private Partnership Bureau</td>
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<tr>
<td>SLPP</td>
<td>Sierra Leone People’s Party</td>
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<tr>
<td>TEDA</td>
<td>Tianjin-based Economic Development Area</td>
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<tr>
<td>TNC</td>
<td>Trans-national Corporation</td>
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<tr>
<td>TT</td>
<td>Technological Transfer</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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ABSTRACT

The world has become a global village, where interdependence in economic relations is promoting cross-border investment among nations in the form of Foreign Direct Investment (FDI). There is no doubt that, FDI is a veritable tool for economic development, however, a conducive environment is needed to maximize its benefits. In Sierra Leone, the gains made in FDI and economic developments were destroyed during the civil war in the country. With the end of the war in 2002, FDI seems to be concentrated in the mining sector, despite government’s interest and efforts at attracting it across other sectors. Thus, the country’s domestic capacity to sustain mass employment and improved standard of living, industrial as well as revenue generation continues to dwindle. It is against this backdrop that this study undertook an assessment of chosen sectors of the Sierra Leone economy in order to ascertain the impact of FDI to the economic development of the country. The research covered the period 2000 to 2009. In order to achieve the study’s objective, the exploratory method of research was used. Relevant data were sourced through unstructured interviews, visit to libraries and the internet network. The data collected were analyzed qualitatively before arriving at logical deductions and presented descriptively using statistical diagrams, for easy comprehension. After a detailed analysis of data, the researcher identified poor technological base, inadequate skilled manpower, macroeconomic instability, lack of infrastructure, and lack of value chain economic development policy directions to be challenges confronting FDI and economic development in Sierra Leone. Even with the presence of these challenges, FDI still holds the prospects of skill transfer to local manpower, improved source of revenue to enhance the productive capacity of the country. The researcher therefore proceeded with some strategies to surmount those identified challenges. Accordingly, strategies such as technology transfer, skilled manpower development, macroeconomic stability, infrastructural development through PPP and value chain economic development policy direction, through value addition was advanced. Finally, the study drew relevant recommendations which are geared towards making Sierra Leone’s economy favourably placed to attract FDI necessary for economic development. The recommendations are pragmatic approaches to underpin equitable distribution of FDI across economic sectors of Sierra Leone.
CHAPTER ONE
RESEARCH DESIGN

1.1 Background of the Study

The world has become a global village, where interdependence in economic relations encompasses promoting cross-border investments among nations. Although economic cooperation among countries was an important part of ancient and medieval economies, it acquired new significance after about 1500, (Lekachman, 2008). During this period, European countries pursued imperialism and building of empires around the world with the aim of acquiring resources in return for little expense as possible. This made overseas investment an arm of colonial government policy (Pakenham, 1991:3). This form of economic relations called mercantilism, was practiced in the sixteenth and seventeenth centuries (Walter, 1973:9). Global economic relations began to assume the present form with the establishment of the modern Westphalia states in the seventeenth and eighteenth centuries. Then it was envisaged by scholars that the trend towards increasing interdependency in cross-border investments among national economies will continue into the future (Adam, 1904:1).

Central to the realisation of greater cross-border economic ties among nations, the Industrial Revolution of the Eighteenth Century brought fundamental changes in this regard (Hackett, 1992:5). Through this breakthrough, the world has recorded tremendous advancement in science and technology which has significantly enhanced the general welfare and standard of living of the human race. Most importantly, the breakthrough of the Eighteenth Century increased production capacity, wealth, and volume of trade and fostered more economic ties among nations. One of such ways in which nations cooperate economically among themselves in this unified global economy is through Foreign Direct Investment (FDI). Globally, FDI had
continued to play an extraordinary and growing role in business. It provides the host nation with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, financing and a strong impetus to overall economic development (Graham and Spaulding 2005:7).

Economic development, in its simplest form, is the progressive change in the socio-economic structure of a nation, which includes high output and increase in taxable basis as well as wealth creation (Adam Smith Institute, 2006:12). The phenomenon demands that legal and institutional adjustments are made to give incentives for innovation, investments, efficient production as well as distribution system for goods and services. Thus, public policy generally aims at continuous and sustained economic development and expansion of national economies through FDI so that a developing society could evolve into a developed one.

According to Morrison, in 2008, worldwide inflows of FDI reached United States Dollar (USD) 1.4 trillion and nations continue to take advantage of this development to prosper their economies (UNCTAD, 2008). China is currently one of the world’s fastest-growing economies with an annual real Gross Domestic Product (GDP) growth rate of 9.6 percent, from 1979 to 2005. In January 2009 alone, total foreign trade was USD141.8 billion, with trade surplus of USD39.1 billion. Foreign companies accounted for 52.2 percent or USD74.05 billion of the trade, while state-owned businesses accounted for 22.3 percent, or 31.65 billion dollars. Its trade boom is as a result of large inflows of FDI totaling USD92.4 billion in 2008 (Morrison, 2009:2). In August 2009 alone, it received USD7.5 billion of FDI and this accounted for over half of its global trade. As a result of this high inflow of FDI, China established 100 free-trade zones to support the expansion of its industrial base necessary for economic development (Jian, 2009). This is thus an effect of FDI on the economic development of a nation.
On the African Continent, Ghana, Nigeria and South Africa offer an interesting scenario for FDI, as these countries inflows increased in the past years. Ghana is expected to continue to increase over the medium term driven by the country’s stable political environment and investment opportunities in the oil and gas industries. Real GDP is expected to grow at 7.6% in 2012 followed by an annual average of 10.7% in 2013-2016. This growth is predicated on the expectation that the oil and gas boom will continue and will attract foreign participation. In Nigeria, investment has continued pour in as investors recognize the immense growth potential of Africa’s largest consumer market. The Economic Intelligence Unit (EIU) has estimated an annual net direct investment of Nigeria at US$ 11 billion by 2016. These investments have generated employment, technology transfer and increased local capacity production in essential commodities which are stimulating the economic development of Ghana and Nigeria (Economic Intelligence Unit, 2012).

The World Investment Report notes that, unlike Ghana and Nigeria, the domestic environment of Sierra Leone after a decade of civil war, which officially ended in 2002, has made little progress in attracting FDI for the overall economic development of the country. FDI inward flow fluctuated considerably between 2000 and 2009. Most of the FDIs are concentrated in the mining sector, which accounts for about 90 percent of exports earnings (World Investment Report, 2008). However, the tourism sector, which has the potential of generating USD100 million annually, is yet to attract substantial FDI for improved economic development (IMF, 2005). CIA in 2009, ranked 73 according to global economic growth index, a fall from fortieth position in 2003. Despite several Government efforts at promoting a ‘Sierra Leone International Investment Forum’, both at home and abroad, FDI in Sierra Leone has still not stimulated substantial economic development (Commonwealth Business Council, 2006). It is, therefore,
against this background that the researcher was motivated to undertake this research study on FDI and economic development in Sierra Leone.

1.2 Statement of the Problem

Sierra Leone has enormous potential for attracting FDI as was the case during the pre-conflict era in which inflow exceeded USD100 million in 1986. However, throughout the civil war period, the gains made in FDI and economic development of Sierra Leone was destroyed as investors left the country. This further plunged the country into reduced domestic capacity to sustain mass employment and improved standards of living, low industrial as well as revenue generation bases. Since the end of the civil war in January 2002, some sectors like agriculture and tourism are yet to attract needed FDI inflow, while investors continue to concentrate in the mining sector, despite government interest and efforts at attracting FDI across other sectors.

In addition, impediments to foreign investment still persist in the chronic shortages of skilled workers and professionals as well as infrastructure. Their availability is necessary for attracting FDI so as to facilitate economic development. While scholars accentuated on the need to attract FDI to facilitate the rapid economic development of Sierra Leone, little attention is paid to the post-conflict realities as a variable in the prospects of examining such a goal. This dissertation is an enquiry into the prospects and challenges of attracting FDI into Sierra Leone within a post-conflict setting.

1.3 Objective of the Study

The general objective of this study is to discuss the impact of FDI on the economic development of Sierra Leone. However, the specific objectives are to:
• Establish the relationship between FDI and economic development.
• Evaluate the contributions of FDI to the economic development of Sierra Leone.
• Identify the challenges militating against the efforts of the Government at attracting FDI for the economic development of Sierra Leone.
• Proffer strategies to attract adequate FDI for the economic development of Sierra Leone, a post-conflict setting.

1.4 Research Questions

It is in view of the foregoing situation that this study seeks to answer the following research questions:

• What is the relationship between FDI and economic development?
• What are the contributions of FDI to the economic development of Sierra Leone?
• What are the challenges militating against the effort of the Government at attracting FDI for the economic development of Sierra Leone?
• What strategies could be adopted to attract adequate FDI for the economic development of Sierra Leone?

1.5 Hypothesis

Foreign Direct Investment is a catalyst for economic development in Africa, especially in a post-conflict setting like Sierra Leone.

1.6 Significance of the Study

This study is expected to be of immense significance to policy makers in Sierra Leone’s Investment and Export Promotion Agency (SLIEPA). It will also assist officials within the
Government of Sierra Leone to identify those impediments to FDI and economic development in the country as well as corresponding measures to address the impediments. Finally, it will add to the existing body of knowledge on the subject matter as well as serve as useful reference material for future studies.

1.7 Theoretical Framework

The research is guided by the eclectic paradigm theory advocated by John H. Dunning. It is also known as the OLI-Model or OLI-Framework. The Dunning’s (1993:6) theory has been considered as a basis for analysing how FDI is attracted to a host country. The theory contends that FDI is determined by the relative location advantages of particular countries for certain activities. Locations abundant in particular resources will attract Trans-national Corporations (TNCs) whose activities make intensive use of these resources. The investment could be either green or brown field investments. The theory clearly underscores the fact that there are certain countries that are endowed with certain resources which attract FDI.

A major criticism of the theory came from two scholars, Lilach Nachum and Cliff Wymbs. To them, the characteristics of investing firms such as size, innovations, length of operation among others, affect their evaluation and ability to take operations abroad. As these characteristics vary across firms, specific location advantages have different values for them. Hence, the factors affecting ability of firms to take operations abroad are not identical across TNCs and do not exist in isolation from the characteristics of the investing firms. The argument underlying the critical view of these scholars is that since firms differ in terms of their competencies, the assets they control and strategic objectives, particular location have different value for them. Nevertheless,
this study believes the criticism could only be true for cross-border investment between developed countries.

In developing countries, firms, groups and individuals with little or no characteristics in enterprise operate for the enhancement of economic development and making of profit. Such investment could be in the form of green or brown field investment. Thus, in this study, Dunning’s theory of FDI is considered suitable for the basis of future analysis in the work.

1.8 Literature Review

In the past couple of years, studies on related research work have been done on FDI and economic development. Amongst such studies are the works of Aremu, Charles Harvey et al, Okafor, Nabende, Goldberge and Rania.

Goldberge, (2008:33) opines that FDI is an integral part of an open and effective international economic system and a major catalyst for economic development. It exposes the host economy to best practices in technology through intermediation of foreign firms which allow them to disaggregate the total production process of goods and services into separate stages. It also locates each of these stages in an environment where local factor endowment enable efficient production and encourage high output for improved economic development. Conversely, OECD (2004:3), sustained and stable economic development drive solidify the socio-economic structure of a state and this is a pre-requisite for determining more FDI inflow into an economy.

Aremu (2005) published a work on Attracting and Negotiating FDI with Transnational Corporation in Nigeria. Though his work is quite instructive and rich, it failed to conceptualise the term FDI so as to adequately educate his readers. Thus, the work did not cover the concept of
FDI in detail to enhance a wider understanding. Charles Harvey et al did their study on Foreign Investment in South Africa: The Policy Debate. The objective of this work was not to relate FDI and economic development in terms of production output, efficiency, revenue and employment generation, among others. It was focused on the criticism of FDI and how it serves as a significant factor in maintaining the then repressive apartheid regime of South Africa.

Okafor (2008), on the other hand, wrote on Political Instability and Economic Development: Nigeria Experience. His work was a reflection of how various economic reform policies of successive governments in Nigeria could not be sustained due to political instability. However, when making comparative analysis of FDI in the work, no statistical data was presented to justify the claim that in certain periods, Nigeria witnessed very low FDI inflow and at other periods FDI increased which impacted positively on economic development. Bende-Nabende, in his work, “Globalisation, FDI, Regional Integration and Sustainable Development: Theory, Evidence and Policy”, dwells extensively on how globalisation is spreading FDI across the globe with its economic benefits and negative consequences such as environmental degradation, disrespect for culture of host countries by international investors as well as human insecurity. The study is more of criticism borne from protagonist and antagonist views of FDI induced by globalization and as such failed to draw adequate linkages between FDI and economic development.

Rania Ihab Naguib’s (2009) thesis on “The Effects of Privatisation and FDI on Economic Growth in Egypt”, was an evaluation of how foreign investors took over stakes in Egyptian public manufacturing companies from 1993 to 2000. The thesis concentrated largely on brown field investment without considering green field investment which is also a vital aspect of FDI.
The Central Bank of Sierra Leone Report (2007) captures a large proportion of foreign firms that provided general characteristics of FDI in Sierra Leone. The analysis gives the total FDI inflows as well as flows by sector and origin. The Report gave a historically trajectory of FDI into Sierra Leone. It pointed out that De Beers was the primary foreign investor from the early 1930s through the mid-1980s. But even with their monopoly in their investment was fairly limited due to the low-capital intensity of the type of mining being conducted. It revealed that the significant decline of FDI in Mid-1980s was attributed to the exit of De Beers from Sierra Leone and by 1991 the eleven years rebel war by the Revolutionary United Front (RUF). However the study pointed out that by 2000 to 2003, investments by telecommunications companies increased. And renewed mining exploration projects raised FDI inflows.

UNCTAD (2010), Investment Report revealed that despite the increase of FDI in Sierra Leone, FDI inflows are considerably lower compared to other developing countries. The report focused on current FDI inflows in Sierra Leone without interrogating the reasons for low FDIs and ways to increase FDI inflows like other developing countries.

The works reviewed have very relevant contributions to the subject of FDI and economic development. However, none of them gave a holistic assessment of the impact FDI has on economic development such as increased production output, increase export, revenue and employment generation, among others, per sectors in a Low Income Country (LIC). In addition, none of them integrated the issues of FDI and economic development in Sierra Leone. It is this gap in the reviewed literature that this study sets out to fill and will thus add to the existing body of knowledge on the subject-matter.
1.9 Scope and Limitation of the Study

The research set out to study FDI and economic development in Sierra Leone from 2000-2009. This period was chosen because it covers the period of several Government efforts at attracting FDI through various international fora organised by SLIEPA. The period equally covers Government’s aggressive drives at improving the infrastructural (roads and power) base of the country so as to sustain FDI for economic development.

The limitation of this study was the problem of poor record keeping in public establishments of Sierra Leone as the statistical base of the country was destroyed during the civil war. However, the study is not affected as data from unstructured interviews with relevant primary sources and the archives of World Bank and IMF were used to authenticate as well as corroborate some of the findings. Similarly, the researcher was unable to conduct some of the scheduled interviews due to the reluctance of the respondents. Nevertheless, the data collected from those interviewed were sufficient enough for appropriate conclusions to be reached.

1.10 Methodology

The sources of data as well as method of data collection, analysis and presentation are as follows:

a. Sources of Data. The data for this study were gathered from primary and secondary sources.

(1) Primary Sources of Data. Primary data were collected through unstructured interviews with personalities of relevant institutions such as the Director of Investment Promotion in SLIEPA, Freetown. A senior economist in the Ministry of Finance and Economic Development and a senior banker in the Bank of Sierra Leone were
interviewed. The Head of Economics Department of Fourah Bay College, the Permanent Secretary of the Ministry of Tourism and a Director in the Ministry of Agriculture and Food Security were interviewed. Additionally, the Director of Mines, the Assistant Government Mining Engineer Ministry of Mineral Resources and the Fishery Officer of the Ministry of Fisheries were equally interviewed.

(2) **Secondary Sources of Data.** Secondary data were collected from books, journals, official publications, seminars and workshop papers, as well as policy documents, through visits to the libraries of the Ghana Armed Forces Command and Staff College (GAFCSC), National Library of Sierra Leone among others in Freetown. In addition, record archives of the United Nations (UN), the International Monetary Fund (IMF) and World Bank as well as other networks were consulted.

b. **Method of Data Analysis.** The data collected were analysed qualitatively before arriving at logical deductions and conclusions.

c. **Method of Data Presentation.** The collected data were presented descriptively as well as with statistical diagrams where necessary for easy comprehension.

1.11 **Organization of the Study**

The study is organized into four chapters. Chapter One outlines the Research Design. Chapter Two of the study centered on profile of foreign direct investment in Africa. Under this, the principles, theoretical underpinnings and basic tenets of FDI will be discussed. Also, an assessment of FDI in Africa, case study of FDI in some selected countries of Africa, and a comparative analysis of FDI between Africa and other regions of the world were done. The Chapter Three of the study centered on FDI and economic development in Sierra Leone. The
geography, history and economy of Sierra Leone were discussed briefly. There is also an evaluation of the sectoral contribution of FDI to the economic development of Sierra Leone under which the mining, tourism, banking and fishery sectors are examined. This chapter also identified the challenges militating against government efforts at attracting FDI for the economic development of Sierra Leone. The chapter brings out the prospects of FDI to the economic development of Sierra Leone, and finally proffers strategies to attract adequate FDI for the economic development of Sierra Leone. Chapter Four is the summary, conclusion and recommendations.
REFERENCES


CHAPTER TWO
PROFILE OF FOREIGN DIRECT INVESTMENT IN AFRICA

This chapter will discuss the principles, theoretical principles and the basic tenets of Foreign Direct Investment (FDI). It will further assess FDI inflow and outflow trends in Africa and thereafter undertakes a case study of FDI in selected countries. These countries are Egypt, South Africa (SA), Nigeria and Uganda. Lastly, the chapter concluded with some comparative analysis.

2.1 Principles, theoretical principles and Basic Tenets of FDI

The principles, theoretical principles and basic tenets are the building blocks for understanding FDI. The definition, types and forms of FDI incentives.

(a) Definition of FDI

Foreign direct investment does not include all investments across border. There are some features that make foreign direct investment different from other international investments and these are discussed below.

FDI is the investment made by a company outside its home country. It is the flow of long-term capital based on long term profit consideration involved in international production (Caves, 1996). This definition is correct but not complete as the important issues of control and management are not included in it. International investment can take two forms. It could either be portfolio investment, where the investors buy some non-controlling portion of the stock, bond or any other financial security, or direct investment where the investor participates in the control and management of such business venture. This is the type of investment by multinational companies and it tends to contribute more to economic growth than the portfolio investment.
Robert E. Lipsey (1999) notes that internationalized production arises from foreign direct investment. According to him, this is the investment that involves some degree of control of the acquired or created firm which is in any other country apart from the investors’ country. This involvement in the control of the investment is the main feature that distinguishes FDI from portfolio investment.

The Balance of Payment Manual fifth edition defined FDI as Investment made to acquire a lasting interest in an enterprise operating outside of the economy of the investor. It further explains that the investor’s purpose is to gain an effective voice in the management of the enterprise. Hence the investor must have 10% or more in the management. Based on this definition, the minimum contribution to management and control by the enterprise should be 10% for such to be considered as FDI. This definition is used for this paper and the data for FDI used in this paper follow this convention.

It is necessary to know the type of companies that are involved in FDI and what the motivation for FDI is. It is also necessary to know the bodies responsible for the regulation of FDI both at international and local levels. This will give insight into why FDI flows to some countries more than others. Jones (1996) defined a multinational enterprise (MNE) as a firm that controls operation or income generating assets in more than one country. He continued that ‘‘FDI is conventionally used as a proxy to measure the extent and direction of MNE activity’’. The investment by an MNE in any country apart from the home country is foreign direct investment; hence foreign direct investment is by the MNEs.

The main objective of MNEs, like any other business venture, is to maximize profit and to reduce cost. Therefore consideration is given to regions which are likely to bring highest returns on investments and enabling environment for business to succeed. This provides one of
the main reasons why there are more FDI in some places than others. According to Sethi et al. (2003) MNE investments will be higher in regions that provide the best mix of the traditional FDI determinants.

The department of the United Nations that is responsible for the development of FDI is the UNCTAD. This body was established in 1964 specifically to integrate the developing countries into the world economy through the encouragement of foreign direct investment. Specific functions include providing technical assistance to developing countries with special attentions to the needs of least developed countries and creating a forum for intergovernmental deliberations so as to have enabling environment for FDI. Most FDI flows are from the industrialised world to the developing countries. The developing countries have a major role to play because the policies of such countries go a long way in determining the inflow of FDI to such countries. Hence most of these countries have investment promotion agencies to encourage foreign investment.

(b) Types of FDI

There are two main types of FDI: One is horizontal and the other is vertical. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI. For example, Ford assembles cars in the United States. Through horizontal FDI, it does the same thing in different host countries such as the United Kingdom (UK), France, Taiwan, Saudi Arabia, and Australia. Horizontal FDI therefore refers to producing the same products or offering the same services in a host country as firms do at home.

While a horizontal pattern occurs when Multinational Corporations (MNCs) through FDI produce the same product or service in different host countries, vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform
value-adding activities stage by stage in a vertical fashion in a host country. In other words, a vertical FDI arises when a multinational firm fragments the production process internationally, thereby locating each stage of production in the country where it can be done at the least cost. For example, if Peugeot (the French automaker) only assembles cars and does not manufacture components in France, but in the UK, it can be said that Peugeot enters into components manufacturing through FDI. This pattern is called “upstream vertical FDI.” In a similar vein, if Volkswagen (the German automaker) does not engage in car distribution in Germany and, instead, invests in car dealerships in Saudi Arabia (a downstream activity), it can be said that Volkswagen is engaged in “downstream vertical FDI”.

While horizontal and vertical FDI serve different purposes, the bulk of FDI seems to be horizontal rather than vertical. As mentioned earlier, when a firm engages in horizontal FDI, it establishes multi-plant operations that duplicate similar products and services in multiple countries. This implies that a firm’s motive to adopt a horizontal pattern is mainly because it facilitates market access as opposed to reducing production costs and subsequent market share expansion. However, with vertical FDI firms engage in both FDI and exports. Unlike horizontal FDI in that the two countries involved are of similar size, and the nature of their operations resembles more of a pair of developed countries, in vertical FDI patterns, the home country is usually much larger and the two countries involved in FDI operations look like a developed home country and a developing host country. Put simply, in horizontal FDI patterns, the main objective to be met is how best to serve the host market (abroad), whereas in vertical FDI models, the primary objective of a firm is how best to serve the domestic (home) market.

(c) Forms of FDI Incentives

Foreign direct investment incentives may take the following forms:
- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- Export Processing Zones (EPZ)
- Bonded warehouses
- investment financial subsidies
- soft loan or loan guarantees
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.

2.2 **Assessment of FDI in Africa**

Foreign direct investment plays a vital role in pushing up economic growth rates in both developed and developing countries. It also contributes to transferring advanced technology to host countries, and stimulating local market competition. Moreover, it provides more training chances, and creates job opportunities. Accordingly, this leads to developing human capital in host countries, optimizing the use of available resources, and accelerating their integration into international markets. Thus, in-depth outflow and inward flow of FDI in Africa will be assessed.
(a) FDI Inflow

Over the years, FDI has become a vital source of economic development for the African continent, though the continent still lags behind other regions of the world. On an annual average basis, the region’s share of global FDI inflows was 1.8 per cent in the period 1986-90 and 0.8 per cent in the period 1999-2000 (Ajayi, 2006). A slight improvement was recorded in 2001 when inflows to the region rose from USD9 billion in 2000 to USD19 billion in 2001, increasing the region’s share of global FDI to 2.3 per cent. FDI inflows to the region fell by 40 per cent in 2002 but grew by 28 per cent in 2003. However, on an annual average basis, the share of Africa in global FDI inflows rose to 2.5 per cent over the period 2002-2003. Although this represents an improvement, it should be noted that this figure is 24.5 percentage points below the average share for developing countries over the same period.

Furthermore, in 2004 inflow stood at USD18 billion and estimated at USD88 billion in 2008. Even though UNCTAD 2008 statistics indicate that the flows of FDI in Africa improved, the continent is still well behind other areas in terms of received levels of FDI (Susan 2006). In 2008, the continent FDI inventory came to only USD510.5 billion against USD978 billion South America. While in 1980, Africa’s FDI inventory was higher than that of South America put at USD41 billion and USD36.4 billion respectively. Thus, Africa has benefited much less from FDI, a fact which questions the continent’s attractiveness. According to UNCTAD report, a country’s or region’s attractiveness can be appreciated based on its FDI inflow index, which measures its capacity to attract investment in regard to its economic situation and its competitiveness. The FDI inflow index in Africa is unfavourable (0.4 between 1998 and 2000 against 1.2 for South America and 0.6 for Asia. Yet the presence of considerable natural resources in the continent artificially credits the international attraction of FDI into Africa.
Most regrettably, FDI that goes into the continent is concentrated in few countries, which are the traditionally biggest recipients, pocketing a significant proportion. For example, of the increase in FDI flows between 1987–1990 and 1995–1998, 33 per cent went to four oil-producing countries: Angola, the Congo Republic, Equatorial Guinea and Nigeria. FDI in the oil industry remained dominant in 2002, with Angola, Algeria, Chad, Nigeria and Tunisia accounting for more than half of the 2002 inflows (Elbadawi, Ibrahim and Mwega 2007:16). In 2002, Egypt, Angola, Nigeria and South Africa had a share of 61.9 per cent. Given the importance of Tunisia in 2002, its inclusion brought these countries’ share to 70.11 per cent.

The primary sector remains the most important destination for FDI flows into the region, accounting for more than 50% of inflows from major investors to Africa over the period 1996-2000. Within the primary sector, oil and gas are the most important industries. Nevertheless, in 1995, 48 per cent of FDI inflows into Egypt were in services, 47 per cent in manufacturing and only 4 per cent in the primary sector. Mauritius has also been able to attract FDI into the manufacturing sector, mainly in textiles and electronics. Morocco’s FDI receipts have risen fivefold in the past decade, most of it in manufacturing and services. Since 1999, there has been an increase in inflows into the tertiary (service) sector. In fact in 1999, the tertiary sector attracted more inflows (USD3108 million) than the primary sector (USD2726 million). Equally, the primary and tertiary sectors attracted inflows worth USD2029 and USD1931 million respectively in 2000.

(b) FDI Outflow

According to Russ, most investment in Africa comes from outside the continent, particularly in EU, US and Asia. For example, total FDI inward stocks in 2002 were estimated at USD167 billion, while total African outward investment is only USD40 billion. This means that
total FDI outflows from Africa are small; put at an average of USD2.2 billion a year from 1992 to 1999 and USD1.3 billion in 2003. This is only 3.6 per cent of total outward investment from developing countries put at USD35.6 billion, and 0.2 per cent of total world outward FDI (Russ, 2008). Even though it was stated that not much of African investment goes outside the continent, yet South African FDI outflow to the EU stood at USD15 billion in 2002, which represent over 40 per cent of total African outward stock. In addition, USD2.3 billion of South African investment was in the US and 0.7 billion in Australia. Only USD1.4 billion of South African outward stocks were in other African countries, accounting for 3.6 per cent of total African outward stock, and less than 1 per cent of total African inward stock.

2.3 Case Study of FDI in Selected Countries of Africa

(a) Egypt

Egypt for long has not obtained its fair share of FDI necessary for economic development as statistics indicate a continuous decrease in these investments due to some impediments that hinder increase inflows. According to the UNCTAD World Investment Report 2000, FDI flows into Egypt decreased considerably during 2001-2003. The annual average of these flows amounted to USD 465 million during the period, declining by 58.6 per cent over 1998-2000 compared to 38.0 per cent in 1991-1997 (Naguib, 2009). This noticeable decline was due mainly to a number of factors, including the fall in mergers and acquisitions, terrorism and the deteriorating security in the Middle East as well as the implications of the financial crises that hit South East Asian countries, Russia and some Latin American countries since the end of 1997. Undoubtedly, those factors combined, affected the performance of the global economy in general, and the economies of developing countries including Egypt in particular which slowed
economic growth rates and widened budget deficits as well as rising inflation rates, exerting pressures on the exchange rate.

Also, the accumulated balance of the foreign direct capital reached USD20983 million or 26.2 per cent of GDP, rising by an annual average of 2.3 per cent during 2001-2003, against an annual average of 6 per cent during 1991-2000. Consequently, the share of FDI in the fixed capital formation decreased from 6.7 per cent in 2000, and 8.9 per cent during 1992-1997 to 2 per cent in 2003. The above mentioned developments were reflected in turn, in Egypt’s share of FDI as a percentage of total FDI to Africa. Although the volume of FDI to Africa rose by 28 per cent to USD 15 billion in 2003, Egypt’s share of these investments declined to 3.3 per cent for the annual average during 2001-2003, against 10.5 per cent during 1997-2000 and 15.5 per cent during 1991-1996. Similarly, the percentage contributions of FDI to GDP fluctuated from 1.70 per cent in 1990 to 0.99 per cent in 1995. It further climbed up to 1.24 per cent in 2000 and dropped to 0.29 per cent in 2003. Against this background, the rank of Egypt in the top ten African countries attracting investments retreated from second position during 1991-1996 and 1998-1999- to seventh during 2000 and 2001, then to eighth during 2002. In 2003 Egypt was excluded from this list. At the global level, Egypt’s rank continued to fall according to the UNCTAD Report, to 123 on the list of 140 countries during 2001-2003 fiscal years. Egypt, therefore, joins for the first time the list of the 20 countries attracting least investment in spite of its great potential (Niels and Lensink,2007:40).

In light of the abovementioned FDI situation in Egypt, the Government instituted several measures so as to redress the obstacles to FDI flows into the country. As a result, USD6.1 billion FDI inflow was recorded in 2006. It further rose to USD13.2 billion in 2007/08 and stood at USD5.2 billion from July-March of 2008/09. According to Egypt's General Authority for
Investment (GAFI), “there are currently 865 Chinese companies investing and operating in Egypt, representing a total investment of USD200 million” (Hermes et al, 2003:142-63).

(b) South Africa

Trends in inward FDI flow to South Africa show that the country received negative or very little inward FDI from 1985 to 1993 which fluctuated below R33 million. This is attributed to the disinvestments of the 1980s, which was in response to the political isolation of the apartheid regime as trade sanctions and investment boycotts were imposed by the world against apartheid South Africa.

After 1994 there was a gradual increase from around R1.3 billion to R3.5 billion in 1996. This is perhaps as a result of the political democratization and subsequent openness of the economy. Also, the year 1997 shows a marked increase in FDI inflow as it increased from R3.5 billion to R17.6 billion. The large inflow of investment in 1997 is a reflection of foreign participation in the partial privatization of Telkom. There is also a huge increase of 196 per cent in 1999 from R3.104 billion in 1998 to R9.184 billion in 1999 (Schoeman, et al 2009). Another marked increase was in 2001 when FDI inflow increased to a peak of R58.4 billion from R6 billion in 2000. The sale of a strategic stake in Telkom, which was a wholly government owned monopoly until 2001, contributed significantly to FDI in that year. The marked increase is also attributed to the unbundling and delisting of De Beers. However, the FDI inflow dropped in the following years to R5.1 billion in 2004 and FDI increased by 671 per cent to R39.7 billion in 2005. This was a result of a large transaction in the acquisition of ABSA (SA) by Barclays (UK) for R33 billion.

From the foregoing, it is clear that FDI has increased over time since the political democratization process of 1994, but relative to the size of South Africa’s economy and other
similar developing countries classified as emerging markets. Therefore, FDI performance is still below expected levels as it seems to be mostly in mergers and acquisitions and not Greenfield investment. Thus, taking into account the size of South Africa’s economy, the ratio of inward FDI to GDP shows that net inflows are very low. In 1997 it was put at 2.6 per cent, 1999 is 1.1 per cent, 2000 was 0.76 per cent, 2001 being the highest with 5.7 per cent, 2003 was estimated at 0.51 per cent and 2005 is 2.6 per cent. This is not good in comparison with other developing countries which average 3-5 per cent of GDP annually.

However, in terms of FDI outflow, South Africa is the third largest foreign investor in Africa following the UK (USD20 billion in 2002, 1.9 per cent of total UK investment stocks) and the US (USD19.0 billion in 2003). The stock of outward FDI from South Africa to the rest of Africa indicates that 90 per cent of South African FDI within Africa goes to Southern African countries. For example, in 2002 fiscal year, the stock of South African FDI was USD700 million in Mozambique, USD400 million in Mauritius, USD83 million in Namibia, USD60 million in Zimbabwe, USD29 million in Botswana, USD27 million in Swaziland, USD17 million in Lesotho and USD15 million in Zambia. Also, around USD129 million, or just 9 per cent of total stock of South African FDI in Africa, goes to other African countries than those mentioned above, like Tanzania, Uganda, Ghana, Nigeria and Cameroon among others. In addition, USD2.3 billion of South African investment is located in the US and 0.7 billion in Australia and other locations in Europe.

(c) Nigeria

Nigeria’s FDI framework has successfully catapulted the nation to the top of the investment table in sub-Saharan Africa. This is in view to develop the country’s investment structure so as to enable Nigeria meet its target of becoming one of the world top 20 economies
by the year 2020. In line with this fact, FDI in the country is growing over the years. Nigeria was
the second largest FDI recipient in Africa in 2002. FDI inflows increased from USD486 million
has been hovering at around USD1 billion (NIPC, 2010). In 2004, it rose to USD2.1 billion and
reached USD1.1 billion in 2009 making the country the nineteenth greatest recipient of FDI in the
world. However, most of these investments are concentrated in the primary sector in which
partners from the USA through Chevron, Texaco and Exxon Mobile had investment stock of
USD3.4 in 2009.

Also, the UK, one of the host country of Shell account for about 20 per cent of Nigeria’s
total FDI. In addition, Nigeria is China second largest trading partner in Africa with USD3
billion investments in 2003 and USD6 billion in 2009. The oil and gas sector received 75 per
cent of China’s FDI in Nigeria. Other sectors also received the share of FDI inflows into the
country. For example, between 2001 and 2009, the telecom sector received USD18 billion in
FDI on the backdrop of a liberalized regime that has made Nigeria Africa’s biggest mobile phone
market. However, FDI outflows from Nigeria have been very insignificant or none existing.

(d) Uganda

Uganda has achieved sustained economic growth accompanied by a significant reduction
in inflation since the mid 1980s. Strict fiscal discipline, a tight monetary stance and a flexible
exchange rate regime have allowed the country to reap the benefits of a market-oriented reform
agenda. Openness to trade has allowed investments in economic activity in which the country
possesses comparative advantage. Moreover the pace of privatization, which is believed to be
quite fast compared with most African countries, has further facilitated rapid inflows of FDI. For
example, data from the private capital flows survey conducted in 2001 indicated that by 2000,
total inflows of FDI to Uganda were composed of 51 per cent equity capital, 12 per cent reinvested earnings and 37 per cent net inter-company loans (Mbowana, 2006). Also, other preliminary estimates from the 2003 survey suggest a change in this trend in 2001, with both equity capital and reinvested earnings rising to about 80 per cent and 26 per cent, respectively, as net inter-company loans drop significantly to 6 per cent. On a gross basis, FDI investment in form of inter-company loans contributes the largest share of total FDI amounting to about 56 per cent of total inflows compared with 38 per cent from equity capital. Indeed, this is the case for most developing countries where inter-company borrowing exceeds equity capital due to the higher returns associated with it, and partly explaining the rapidly growing private sector debt.

From 1991-96, Uganda recorded USD65 million in FDI inflow, this figure moved to USD607 million in 1997-1999 and was estimated at USD758 million from 2000-2002. The figure stood at 644 million in 2006 and increased to 733 million in 2007. Further FDI gain was made in 2008, estimated at 787 million which rose to 799 million in 2009 (UNCTAD, 2010). Therefore, the contributions of FDI to GDP from 1991-1996 was 7.7 per cent, 1997 is 15.5 per cent, 1998 is 18.5 per cent, 1999 is 21.1 per cent and 2000 is 22.7 per cent. Other periods include 2001 which dropped to 21.3 per cent and 2002 increased to 24.0 per cent. In addition, 2006 was estimated at 5.2 per cent, 2007 was 6.1 per cent, 2008 is 6.2 per cent and 2009 6.4 per cent. Indeed, FDI in Uganda is growing at a faster rate compared to the other countries studied.

From the foregoing discussions, it is indicative that Africa is lagging behind compared to other regions in the world. Thus, this backwardness tends to weaken the credibility of the continent in attracting FDI. Though, several investors have diversified into Africa over the past years, it can still be inferred that this is due to the raw material availability in the continent. Therefore, FDI in Africa is largely in the primary sector.
REFERENCES


CHAPTER THREE

FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT
IN SIERRA LEONE

This chapter focuses on the contribution of FDI to the economic development of Sierra Leone. It starts with some background information on Sierra Leone. It evaluates the sectoral contributions of FDI to the economic development of Sierra Leone and provided a comparative analysis of selected economic sectors. The challenges militating against Government efforts at attracting FDI for the economic development of Sierra Leone are discussed and finally, the prospects of FDI to the economic development of Sierra Leone are highlighted.

3.1 Geography, History and Economy of Sierra Leone

For a clearer understanding of Sierra Leone, it is necessary to situate the country by looking at its geography, history and economy. This cursory examination has revealed the basic fundamentals that make the country a suitable destination for FDI.

(a) Geography

Sierra Leone is located in West Africa and covers an area of 71,740 square kilometers. It is bordered to the north west, north and north-east by the Republic of Guinea, the east and south east by the Republic of Liberia and to the south west and west by the Atlantic Ocean. The country has a coastline of about 300 miles. It lies between Latitudes 7° N and 10° N and Longitudes 10° 30’W and 13° W. The coastline is characterized by extensive flora of mangrove plants and a number of estuaries as well as rivers that are navigable for short distances Alexander (1961:1). Sierra Leone has an Exclusive Economic Zone (EEZ) of 200 nautical miles (nm). Thulla confirmed that the geographical layout of the country offers enough opportunities for FDI.
to flourish, especially in the fishery sector. The attracted FDI would thus foster economic development.

(b) History

The name Sierra Leone, meaning ‘Lion Mountains’, was coined by a Portuguese explorer Pedro da Cintra, who visited the country in 1462 (Alie, 1990:4). The political history of Sierra Leone, as it is presently constituted, began in 1787 when Britain established a colony at Freetown for slaves repatriated from Britain and the United States, as well as slaves rescued from shipwrecks (Kilson, 1966:8). The land of the original settlement, where the capital city later developed, was purchased from local chiefs. In 1808, the country was declared a Crown Colony and in 1896 the interior was declared a British Protectorate (Sibthorpe, 1970:6).

The first elections for the legislative council were held under the Constitution of 1924. A new constitution was endorsed in 1951, followed by the introduction of a ministerial system in 1953. Sir Milton Margai, a former physician and leader of the Sierra Leone People’s Party (SLPP), was appointed Chief Minister in 1954 and Prime Minister in 1960. The country subsequently gained full independence from the British on 27 April 1961 (Kilson, 1966). For about 11 years, from 1991 to 2002, the country witnessed a brutal civil war.

Since the end of the civil war, the Presidential Election of 2007 was seen as the first real test of Sierra Leone’s commitment to democracy (IFES 2009:1). Alhaji Ahmad Tejan Kabbah had served his two-term limit of 5 years each from 1996 to 2007 and his Vice President, Solomon Ekuma Berewa, became the SLPP candidate for the 2007 Presidential Elections. Berewa lost to the opposition candidate, Ernest Bai Koroma of the All People’s Congress (APC) party, in a close runoff election held in September 2007 (Microsoft Encarta, 2009). The election was adjudged credible. Thus, Caulker noted that the conduct of the election has reduced the fear
of uncertainty in the country and this has created a condition for FDI to be attracted for sustained economic development.

(c) Economy

Despite its abundant mineral wealth in diamonds, rutile, bauxite, gold and rich agricultural and aquatic resources, Sierra Leone’s economic performance has been fluctuating. In the interview conducted by Melvin (2009), he opined that the country experienced an average annual GDP growth of 4 percent in the 1960s, but declined to 1.9 in the 1970s and further to 0.5 percents in the 1980s, before turning negative in the 1990s. The country’s GDP increased by 7.5 percent from Le3, 342,595 million in 2004 to Le3, 591,721 million in 2005; about 2 percent below the 2004 growth rate. Sierra Leone is a poor country of 6.2 million people with per-capita income of about USD140.00 in 1998, a decline from USD380.00 in 1980 due to 2.2 percent annual population growth rate (CIA, 2009).

Agriculture is the most dominant sector of the economy, contributing approximately 45 percent to GDP and providing about 75 percent of total employment for the country’s labour force. Pessima noted that it is also a significant source of foreign exchange earnings as it provides major primary exports namely coffee, cocoa, piassava and ginger (Koortor 2009). Performance of the mining sector, the country’s major foreign exchange earner in 2008, was lower than envisaged, as total export receipts recorded USD215.67 million, 21.6 percent below USD245.24million registered for 2007. Other important sectors of the economy are fishery, tourism, banking and manufacturing.

FDI is playing a very significant role to the economic development of the country even though it is still fluctuating. Appendix 2 is an analysis of FDI and its contribution to GDP in Sierra Leone. An analysis of the diagrams in Figures 4.1 and 4.2 indicates that from 2000 to
2003, FDI inflow maintained a declining trend due to the effects of the Sierra Leone civil war which reduced its contribution to the GDP. However, the combined massive reconstruction efforts of both the international community and the Sierra Leone Government brought an upward trend to FDI. The country recorded its highest inflow of FDI in 2005, but contribution to GDP was put at just 4.91 percent, as a result of fear of conflict resurgence. Inward FDI flow was followed by another downward trend in 2006 and an up-ward movement in 2007 as well as 14 percent contribution to GDP due to rising investor confidence. Nevertheless, FDI and its contribution to GDP plunged in 2008 to 2009 due to the ongoing global economic crisis.

Source: Adapted from Appendix 1
3.2 Sectoral Evaluation of the Contributions of Foreign Direct Investment to the Economic Development of Sierra Leone

FDI has made contributions to various sectors in the economy of Sierra Leone. Amongst the sectors are the banking, tourism, mining and fishery sectors. The contributions of FDI to these sectors are evaluated in the subsequent paragraphs.

(a) Banking Sector

There are currently 14 commercial banks operating in Sierra Leone as shown in Appendix 2. Out of these, 11 are foreign banks and are green-field investments, accounting for 75 percent of USD1,897,933,080 total banking assets with an aggregate FDI stock of USD87,400,000 from 2000-2009. Though the commercial banking industry is still small, relative to the market of the country’s economy, its potential to grow is quite big. Thus, Appendices 3

Source: Adapted from Appendix 1.
and 4 are highlights of foreign banks contributions to the economic development of Sierra Leone.

**FIGURE 4.3: CONTRIBUTIONS OF FOREIGN BANKS TO THE ECONOMIC DEVELOPMENT OF SIERRA LEONE-2000-2009**

From the statistical diagram in Figure 4.3 above, it is clear that foreign banks operating in Sierra Leone’s banking sector have made tremendous contributions to the economic development of the country. Foreign banks have created 1,271 jobs. Manufacturers have also been financed to the tune of USD24,001,977 and credits to the tune of USD264,973,083 were made available for other investments such as export financing and Public Private Partnership (PPP). Thus, FDI has contributed immensely in the banking sector and to the economic development of Sierra Leone (Central Bank Report, 2000-2009).

(b) **Tourism Sector**

Sierra Leone’s tourism industry is still at its nascent stage due to the setback that befell it during the civil unrest in the country in which infrastructure were badly damaged. The
The government of Sierra Leone is currently giving priority to the development of the sector so as to improve tourist visits. Most foreign investment attracted to the sector are green-field investments in the form of operators, international car rental companies, hotel chains, tour operators, tour guides, courier companies, eatery resorts and travel agencies among others. New tourism and leisure facilities are being developed around the country (SLIEPA, 2009:11). This development was facilitated by the recent addition of Freetown to the routes of some African airlines. Total capital investment in the sector is estimated to be Le39.9 billion or USD13.4 million representing 4.3 percent of total national investment in the year 2009 (Report of the Association of Tourism Investors, 2009). It has been forecasted that by 2019 investment would reach Le107.0 billion or USD30.2 million.

**Figure 4.4** is a graphical representation of data from Appendix 5 which gives highlight of the contribution of foreign firms to Sierra Leone’s tourism development. From the diagram, it is obvious that the tourism sector in Sierra Leone is nascent, as total revenue generated as well as tourist’s visits in the sector for 10 years, 2000 to 2009, amounted to only USD 802,706.864 and 331,740 respectively. Though the sector has great potential for growth, Caulker decried that the
11 year civil war still cast some shadow of insecurity on the country, which discourages the much needed tourists visits that would attract more foreign firms into the sector (Caulker, 2009:13). Consequently, this has hampered the development of the tourism sector and thus its limited contribution to the economic development of Sierra Leone.

(c) Mining Sector

Sierra Leone is blessed with solid mineral deposits including precious metals, gemstones and base minerals. There are proven deposits of diamonds, rutile, bauxite, illmenite, gold, chromite, platinum, and clays. However, the sector is still extractive in nature and has not increased in value due to the poor technological environment of the country, fluctuating exchange rate regime as well as skilled manpower shortages (SLIEPA, 2009). Nevertheless, the sector in 2009 accounted for nearly 90 percent of foreign exchange earnings and created direct and indirect employment to the tune of 350,000 people, representing 15 percent of the country’s total labour force, www.american.edu/TEDI/Leone.htm.

In 2011, there were 8 foreign mining companies in Sierra Leone all of which are either brown-field or green-field investors operating large scale mining. They are in the category of exploration, servicing and consulting firms which accounted for USD210 million FDI stock in the sector. The list of foreign mining companies is as shown below:

Table 3.1  Foreign Mining Companies Operating in Sierra Leone

<table>
<thead>
<tr>
<th>Serial</th>
<th>Name of Mining Company</th>
<th>Home Country Destination</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>African Minerals</td>
<td>UK</td>
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<tr>
<td>2.</td>
<td>Koidu Holdings</td>
<td>South Africa</td>
<td></td>
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<td>3.</td>
<td>Sierra Rutile</td>
<td>USA</td>
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<td>4.</td>
<td>London Mining</td>
<td>UK</td>
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<tr>
<td>5.</td>
<td>Cluff Gold</td>
<td>UK</td>
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</tbody>
</table>
African Minerals, one of the mining giants, completed the country’s first aeromagnetic survey in 2004 which led to a large mineral exploration portfolio for Sierra Leone. The company’s flagship project, Tonkolili Iron Ore Project, is a magnetite resource of 5.1 billion tonnes. This project is world class and the potential exists for an additional 5 billion tonnes resource while exploration activities at Tonkolili have also confirmed the potential for 800 million tonnes of hematite mineralization (www.african-minerals.com). In the African Mineral Interim Report, others are the Marampa Iron Ore Project, located approximately 50 miles from Tonkolili and so far USD25 million have been committed towards the project. This development would place the country as one of the largest exporters of iron ore in the world (SLIEPA, 2009).

In 2008, the African Minerals signed a lease agreement with the Government of Sierra Leone to refurbish and construct rail and port facilities for its iron ore production and shipping capacity requirements. It has also constructed a 74.5 miles asphalt road in the north of the country to facilitate the transportation of its products. Other players in the sector include Cluff Gold which began gold field exploration in 2005 and by 2007 a total of 18,400 meters of drilling has taken place (www.cluffgold.com 2010). By the completion of the drilling, the company identified a total mineral resource base of 14.631 million tonnes, equivalent to 1,455,000 ounces of gold. Thereafter, another scoping study was done which could produce approximately 140,000 to 200,000 ounces annually based on a total mineral resource of 1.35 million ounces. In addition, Sierra Minerals (2009), which is part of an international industrial and investment
group Vimetco N.V, is the only bauxite mining company in Sierra Leone and the second largest mining employer in the country. The company has a resource base of approximately 31 million tonnes of bauxite and currently produces around 1.2 million tonnes per annum for export.

The tables below(Appendices 8 and 9) provide an analysis of aggregate mineral production and revenue generation from 2000 to 2009 by foreign firms.

### Table 3.2  **Solid Mineral Production in Sierra Leone**

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>Diamond (Carats)</th>
<th>Bauxite (M tons)</th>
<th>Gold (Ounces)</th>
<th>Illmenite (M tons)</th>
<th>Rutile (M tons)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000</td>
<td>77,372</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>222,520</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>352,860</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>506,819</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>693,100</td>
<td>-</td>
<td>860</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>668,810</td>
<td>-</td>
<td>1,690</td>
<td>-</td>
<td>-</td>
<td>Out of 350,000 workforce in the mining sector FDI accounted for 33.6% of workers in diamond extraction and 36.7% of production. While in others FDI maintain 100% employment and production stakes</td>
</tr>
<tr>
<td>Serial</td>
<td>Year</td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
</tr>
<tr>
<td>--------</td>
<td>------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>7.</td>
<td>2006</td>
<td>582,330</td>
<td>1,071,140</td>
<td>2,280</td>
<td>13,820</td>
<td>73,600</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>2007</td>
<td>603,700</td>
<td>1,169,040</td>
<td>6,820</td>
<td>15,750</td>
<td>82,810</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>2008</td>
<td>371,290</td>
<td>954,370</td>
<td>6,290</td>
<td>17,260</td>
<td>78,910</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>2009</td>
<td>320,000</td>
<td>615,800</td>
<td>92,970</td>
<td>19,321</td>
<td>98,333</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Total</td>
<td>4,398,801</td>
<td>3,810,350</td>
<td>110,910</td>
<td>66,151</td>
<td>333,653</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sierra Leone Ministry of Mines.

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>(e)</th>
<th>(f)</th>
<th>(g)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000</td>
<td>16,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>FDI accounted for 36.7% of revenue from diamond production and 100% revenue generation in others</td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>25,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>41,700,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>76,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>53,000,000</td>
<td>-</td>
<td>344,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>51,000,000</td>
<td>-</td>
<td>845,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
### Table 3.3 Revenue Generated from Solid Mineral Production/Year ($)

<table>
<thead>
<tr>
<th>Year</th>
<th>Diamond</th>
<th>Bauxite</th>
<th>Gold</th>
<th>Illmenite</th>
<th>Rutile</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>110,000,000</td>
<td>2,067,000</td>
<td>1,368,000</td>
<td>906,000</td>
<td>63,000,000</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>142,048,500</td>
<td>2,320,706</td>
<td>5,486,000</td>
<td>1,200,600</td>
<td>78,146,000</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>198,803,800</td>
<td>906,326</td>
<td>5,661,000</td>
<td>2,569,300</td>
<td>66,658,700</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>132,007,000</td>
<td>573,000</td>
<td>83,673,000</td>
<td>3,567,000</td>
<td>133,000,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>845,559,300</td>
<td>5,867,032</td>
<td>97,377,000</td>
<td>8,242,900</td>
<td>340,804,700</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Sierra Leone Ministry of Mines.

A graphical representation of the above data is clearly shown below:

**MINERAL PRODUCTION IN SIERRA LEONE 2000-2009**

---

41
The graphs indicate that diamond dominated production activities and invariably contributed the highest revenue profile for Sierra Leone within the period under review. This could increase if value is added to the minerals before they are exported through value chain. Illmenite was the least produced and contributed the least to revenue generation. In the table, it is interesting to note that foreign mining firms accounted for 36.7 percent of diamond production in the country and 100 percent production stake in bauxite, gold, illmenite and rutile.

According to Sharkah, (2009), out of the 350,000 labour force in the sector in 2008, foreign firms contributed 33.6 percent of the figure, accounted for 36.7 percent of revenue from diamond production and maintained 100 percent revenue profile from bauxite, gold, illmenite, and rutile. Thus, FDI contributed substantially towards Sierra Leone’s economic development within the period under review.

**Fishery Sector**

The Republic of Sierra Leone has an extensive coastline and a continental shelf that contains commercially viable stocks of pelagic and demersal fish, shrimp, octopus, squid, lobsters and crabs (Development and Statistical Report, 2008). Among the high value exportable
fish are snapper, grouper, catfish, barracuda, tuna, cuttlefish, herring and sea bream. This offers a
good location abundant in resources advantage to investors in the sector in Sierra Leone, as
postulated by Dunning’s theory of FDI.

In 2006 and 2007, a survey was carried out in Sierra Leone waters by the Norwegian
fisheries research vessel, Dr Fridt jof Nansen under the auspices of a regional programme
“Guinea Current Large Marine Ecosystem Project” (GCLME). The GCLME was in
collaboration with the Food and Agriculture Organization (FAO) which estimated the standing
stock to be about 300,000mt, with Pelagic fish constituting about 90 percent of the estimated
biomass Ministry of Fishery and Marine Resources). There are several foreign fishing companies
involved in deep sea water industrial fishing in the country with a total inward FDI stock
estimated at USD42 million. Details of these companies are contained in Appendix 6.

Analyses of annual industrial fishery production as well as revenue and employment
generated from 2000 to 2009 by foreign firms are given below:

Table: 3.4  Annual Industrial Fishery Production by Foreign Firms 2000-2009

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>Shrimp</th>
<th>Lobster</th>
<th>Cuttlefish And Crab</th>
<th>Snail</th>
<th>Shark Rays</th>
<th>Demersal Fish</th>
<th>Tuna</th>
<th>Pelagic</th>
<th>Total</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
<td>(g)</td>
<td>(h)</td>
<td>(i)</td>
<td>(j)</td>
<td>(k)</td>
<td>(l)</td>
</tr>
<tr>
<td>1.</td>
<td>2000</td>
<td>1505</td>
<td>198</td>
<td>308</td>
<td>-</td>
<td>-</td>
<td>11127</td>
<td>0</td>
<td>1061</td>
<td>14199</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>1277</td>
<td>337</td>
<td>1169</td>
<td>-</td>
<td>120</td>
<td>10993</td>
<td>6166</td>
<td>2536</td>
<td>22598</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>1119</td>
<td>194</td>
<td>3562</td>
<td>-</td>
<td>126</td>
<td>7315</td>
<td>-</td>
<td>1405</td>
<td>13721</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>1541</td>
<td>215</td>
<td>4598</td>
<td>-</td>
<td>150</td>
<td>9549</td>
<td>-</td>
<td>1112</td>
<td>17165</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>1445</td>
<td>127</td>
<td>1596</td>
<td>1266</td>
<td>175</td>
<td>8011</td>
<td>-</td>
<td>1611</td>
<td>14231</td>
<td></td>
</tr>
</tbody>
</table>
Table 3.5  
Summary of Employment and Revenue Generated from Industrial Fishing by Foreign Firms 2000-2009

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>Employment Generated</th>
<th>Revenue Generated ($)</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
</tr>
<tr>
<td>1.</td>
<td>2000</td>
<td>3,200</td>
<td>9,000,000</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>4,300</td>
<td>14,600,000</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>3,000</td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td></td>
<td>1,600,000</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>9,000</td>
<td>12,300,000</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>10,700</td>
<td>13,900,000</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>2006</td>
<td>16,000</td>
<td>14,700,000</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>2007</td>
<td>12,000</td>
<td>16,000,000</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>2008</td>
<td>10,000</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>2009</td>
<td>15,000</td>
<td>19,900,000</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Total</td>
<td>101,200</td>
<td>112,800,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Fisheries and Marine Resources.
A graphic representation of the above tables is given below:

![Graph showing contribution of foreign firms to Sierra Leone's fishery sector 2000-2009](image)

From the data, foreign fishing companies have made tremendous contribution to Sierra Leone’s fishery sector and the overall economic development of the country. Within the period 2000 to 2009, the total fishery production was boosted to the tune of 159,213 metric tonnes and an estimated 101,200 jobs were equally created. This development brought USD112.8 million as revenue within the period under review. However, foreign investors in the sector under-declare total fishery production as well as engaged in poaching and high-sea transshipment of fishery stock due to the fact that Sierra Leone lack an effective surveillance system for the protection of its EEZ. Such activities affects government revenue base necessary for economic development. Thus, FDI contributed substantially towards Sierra Leone’s economic development within the period under review in this sector.

3.3 Comparative Analysis of Sectoral Contributions of Foreign Direct Investment to the Economic Development of Sierra Leone

The overall economic development of any nation demand proportionate input of all sectors so as to entrench stable growth. However, in Sierra Leone, out of the total inward FDI
stock of USD391,400,000 from the year 2000 to 2009, the mining sector took the largest proportion of FDI with an estimated value of USD210,000,000 (SLIEPA). This is followed consecutively by the banking sector USD87,400,000, fishery sector USD42,000,000, tourism sector USD12,000,000 and others USD40,000,000. A graphical representation of this figure is as shown at Figure 3.5 on the Pie Chart showing the summary of Aggregate FDI Sectoral Distribution in Sierra Leone for 2000 to 2009.

![SUMMARY OF AGGREGATE FDI SECTORAL DISTRIBUTION IN SIERRA LEONE (200-2009)](image)

Source: SLIEPA.

The chart clearly shows that FDI is mostly concentrated in the mining sector of Sierra Leone neglecting much needed investment into other sectors like agriculture and manufacturing among others. Pessima lamented that such a situation could be very dangerous for the economic development of Sierra Leone as minerals diminish with time. He stressed that the country has enough arable land, climatic conditions are favourable and there is an available manpower in the high youth population for agriculture to be invested in. FDI concentration in certain sectors of
the economy would affect the even spread of development and thus have serious consequences for economic development.

3.4 Challenges Militating Against Government Effort at Attracting Foreign Direct Investment for the Economic Development of Sierra Leone

There are several challenges militating against government efforts at attracting FDI for the economic development of Sierra Leone. Amongst the challenges are poor technological base, inadequate skilled manpower, macroeconomic instability, lack of infrastructure and lack of value chain economic development policy. This section therefore discusses the identified challenges in the subsequent paragraphs.

3.4.1 Poor Technological Base

The technological capacity of most African nations continues to pose serious challenges to investments. In Sierra Leone, according to Gbekie, “the domestic environment cannot support sustainable investment as foreign investors operating in the economy rely on importation of basic technological consumables” (Raymond, 2009). This was corroborated by Mamie when he stated that “the poor technological base of Sierra Leone was frustrating the smooth operation of foreign firms”. He lamented that there are no dry docking facilities in the country, as a result, investors operating in the fishery sector would have to go all the way to Senegal for ship spares, maintenance and repairs. Also, in the mining sector, Timbo stated that “there is a seeming lack of equipment and good laboratories to perform tests on samples for mineral availability in the country” (Alusine, 2009). It is clear that several investment activities depend on a strong technological base which is lacking in Sierra Leone. Therefore, necessary measures need to be
taken to boost the technological base of the country to sustain FDI and economic development in Sierra Leone.

3.4.2 Inadequate Skilled Manpower

According to the International Labour Organisation (ILO, 2007:19), the development of relevant skills is an important instrument for improving productivity and working conditions, as well as the pivot for attracting investment in this globalised world. Regrettably, in Sierra Leone, there are acute shortages of specialised skills in Information and Communication Technology (ICT), engineering, medicine and laboratory scientist which foreign investors need (SLIEPA). Most of the country’s skilled workers were either killed or had migrated during the civil war. Kargbo (2009) revealed that, “there is a dearth of key skills in the banking industry especially on Information Technology (IT) and this increases operation costs of these institutions since specialists or consultants outside the country are in most cases employed at expatriate costs”.

Timbo lamented that this situation compels mining companies to seek for the services of foreign expatriate workers which is very costly. Consequently, this increases the running costs of investment as well as effort at attracting FDI for economic development in Sierra Leone.

3.4.3 Macroeconomic Instability

Macroeconomic instability is construed to be a condition of volatility in economic indicators such as income, employment, balance of payment, rate of inflation, budget and exchange rate, which makes economic predictions and planning difficult (Encyclopedia, 1985:78). In Sierra Leone, this situation borders on the fluctuation of the country’s local
currency. Official exchange rate figures in January of 2009 was Le3078.14 but depreciated to

An unstable exchange rate regime of this kind affects the ability of investors to plan
adequately, since the economy of Sierra Leone is import dependent. Bendu posited that “the
chronic exchange rate regime in the country affects the confidence of existing and potential
investors” (Ministry of Ministry of Finance, 2009). He stressed that in the past, such
macroeconomic instability has been responsible in part for discouraging potential investors from
Sierra Leone, as stable macroeconomic indicators are major yardsticks for ascertaining the
fitness of a nation for FDI. Therefore, appropriate measures need to be taken to stabilise the
currency so as to attract FDI for adequate economic development in Sierra Leone.

3.4.4 Lack of Infrastructure

One of the prerequisites to any country’s investment drive is a stable and indeed adequate
infrastructure. However, the problems of infrastructure remain one of the greatest challenges to
the Government of Sierra Leone’s effort in attracting FDI. For example, out of the 7,025 miles of
roads in the country, only about 557 miles are paved (SLIEPA, 2009). The country also has only
one major sea port, the Queen Elizabeth II Sea Port in eastern Freetown and only one major
airport, the Lungi International Airport located in Lungi, both of which suffered damages during
the civil war.

In addition, the country’s energy generation capacity stands at 126MW out of 1,200MW
potential. Equally of concern is the absence of a Free Trade or Economic Zone facilities in the
country. Thulla lamented that “inadequate infrastructure constrain the ability of foreign investors
to run their investments at ease”. According to him, “foreign vessels operating in the fishery
sector do not have harbour complex at the country’s port where vessels could safely berth, get fresh water, food, fuel and lubricants that are necessary for enhanced fishing activities”. Rather, during discharge or transshipment, crews have to resort to high risk measures with the use of wooden boats which are not seaworthy to discharge products and this sometimes results in loss of lives. Therefore, there is need to improve the infrastructural base of the country so as to attract FDI for the economic development of the country.

3.4.5 Lack of Value Chain Economic Development Policy

The Republic of Sierra Leone has abundant mineral resources, yet there are no policy thrusts to transform these huge resources into finished and semi-finished goods through value chain economic development. Value chain refers to all the activities and services that bring a product or service from conception to end use in a particular industry (Agence Cannadiene De Development, 2010). For example, in the Namibia Trade and Investment Directory, 2009, there is no adequate policy direction to transform the diamond industry from mere extractive industry into cutting and polishing as obtained in other diamond exporting countries.

Value chain economic development policy thrusts of this nature have the capacity of attracting more FDI into the mining sector of Sierra Leone. Moreover, the huge marine and fishery potential of the country have not been transformed into canning industries for the economic development of the country. This transforming could attract more FDI into the sector. Therefore, Government would need to formulate appropriate value chain policy directions that would attract FDI for the economic development of Sierra Leone.
3.4.6 Post-War Situation

One of the major problem that is affecting the inflow of FDI is the post-war situation of Sierra Leone. Political instability is one major characteristics of African nations. According to Acs, Desai, & Hessels (2008) in their investigation about how susceptible the region is to the occurrence of war within the year 1960 - 2001 is based on the fact that the regional susceptibility to war index is 26.3% for Africa compared to 19.4% and 9.9% for Asia and the Western Hemisphere, respectively. The study also made it known that there is a statistically significant negative correlation between FDI and conflicts in Africa. Potential investors have the fear that the Sierra Leone could slide to war path at any time thus afraid to invest. There is therefore the need to promote reconciliation so that durable peace could be maintained so as to allay the fears of potential investors to attract FDI for economic development of the country.

3.4.7 Lack of Indigenous Entrepreneurial Capacity

Entrepreneurship is one of the main vehicle for economic development (Anokhin et al., 2008). Anokhin noted that the more entrepreneurs are available in an economy, the faster that economy would grow. This principle is not followed in Sierra Leone. Indigenous entrepreneurship is lacking in the country. Foreigners, mostly Lebanese are engaged in entrepreneurship. There are no policies to support Sierra Leoneans to develop their entrepreneurial capacity, rural development and incentive schemes to support the development of indigenous entrepreneurship. Also, lacking is cultural and entrepreneurial education to change the mind set of Sierra Leoneans. Government should therefore capacitate Sierra Leoneans to attract FDI. Therefore, Government would need to formulate appropriate entrepreneurial capacity policy that would FDS for the economic growth of Sierra Leone.
3.5 Prospects for the Contribution of Foreign Direct Investment to the Economic Development of Sierra Leone

There are prospects for the contribution of FDI to the economic development of Sierra Leone. There are prospects for the prospects for the investors as well as the country.

(a) Prospects for Investors

Furthermore, foreign investors operating in the country now enjoy the right to 100 percent foreign ownership, overseas arbitration dispute, freedom to repatriate profits and capital proceeds, freedom to use foreign managerial, technical and unskilled workers, long term lease of land for large scale projects and no exchange restrictions. Most importantly, infrastructural development is being boosted up with the current completion of Phase I of the Bumbuna Hydro-Electric Power Project and work is ongoing on the Phases II and III (Sillinger, 2009:6).

(b) Prospects for the Country

Thus, it is expected that if the enumerated efforts of Government are persistent, then FDI will increase and will impact greatly on the economic development of Sierra Leone with a consequent increase in employment opportunities and gradual industrialisation of the country. Other benefits would include infrastructural developmental support by foreign firms through PPP, skill transfer to local manpower, improved source of revenue as well as enhanced production capacity of the country. Sustainable national development through FDI could as well be improved upon and thus access to international markets and poverty reduction would be enhanced. In addition, the overall outcome of the role of FDI on economic development would assist Sierra Leone to attain the Millennium Development Goals (MDGs).
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University of Ghana http://ugspace.ug.edu.gh
CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 Summary

The world has become a global village where interdependence in economic relations is promoting cross-border investment among nations. Although economic ties among nations predate the medieval age, it took a new dimension in the form of FDI after the Industrial Revolution of the Eighteenth Century. In Sierra Leone, the potential for attracting FDI is enormous. Nevertheless, FDI is still concentrated in the mining sector which affects the growth of other sectors. The sector attracts more than half of the total FDI flow into the country from the year 2000 to 2009. However, other sectors like banking, fishery and tourism have the potential to attract FDI.

4.2 Conclusion

The research set out to examine Foreign Direct Investment and Economic Development in Sierra Leone: Challenges and Prospects. The study observed that there are some challenges to FDI and economic development in Sierra Leone. These challenges are inadequate skilled manpower which was identified as one of the factors increasing the cost of production as foreign firms employ expatriate workers outside the country. Macroeconomic instability also affects the ability of investors to plan and make business forecasts adequately due to unstable exchange rate regime. The lack of infrastructure which makes investment unsustainable and difficult to manage as well as absence of value chain economic development policy thrust which restricts the expansion of some sectors. Other challenges are Post-war situation and the lack of indigenous
entrepreneurial capacity that mitigate government efforts at attracting FDI for the economic growth of the country.

Despite these challenges, FDI still has some prospects to the economic development of Sierra Leone. The Government of Sierra Leone has shown interest and commitment in creating the enabling environment for FDI to flow by enacting a new Companies Act, Bankruptcy Protection Act, Payment Systems Act, Securities Act, as well as developing a Venture Capital Scheme. In addition, the government has established SLIEPA as a central organ to assist investors and support export-oriented businesses.

Equally, foreign investors operating in the country enjoy the right to 100 percent foreign ownership, overseas arbitration dispute, freedom to repatriate profits and capital proceeds, freedom to use foreign managerial, technical and unskilled workers, long term lease of land for large scale projects and no exchange restrictions. Thus, increased FDI inflow into the country will impact greatly on the economic development of Sierra Leone with a consequent increase in employment opportunities and gradual industrialisation among others.

In order to ameliorate the challenges identified, some strategies could be put in place by the government. Amongst such strategies are TT partnerships through SLDTTP and SLTEDA with the necessary Parliamentary support, could strengthen the technological base of Sierra Leone. In this regard, the government would need to establish a SLITF subject to parliamentary approval to enter into bilateral agreement with the German Technical Cooperation as well as recruit more teaching staffs to boost skilled manpower development. Furthermore, the Government of Sierra Leone, through the Central Bank, would need to use a re-denomination policy to strengthen the Leone against major international currencies. In addition, Government could establish a SLPPPB passed as an Act of Parliament to develop the infrastructural base of
the country through PPP. Finally, the Government could take a bold policy step at formulating a value chain economic development policy thrust to transform the economy from a mere extractive one to a more productive one.

4.3 Recommendations

It is recommended that the Government of Sierra Leone should:

- Establish through an Act of Parliament an SLDTTP to improve the technological base of the country by the end of 2016.
- Establish a SLITF through an Act of Parliament so as to develop skilled manpower necessary for FDI and economic development by 2016.
- Go into bilateral educational development agreement with the German Technical Cooperation to transform one out of its 5 colleges into a university of science and technology by 2016.
- Boost scholarship schemes and recruit more technical teaching staffs to encourage science and engineering education in the country by 2016.
- Through its Central Bank, stabilise the current exchange rate regime with a Leone re-denomination policy by 2016.
- Develop the infrastructural base of the country through SLPPPB by 2016.
- Formulate a value chain economic development policy thrust to transform the mining and fishery sectors by 2016.
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FOREIGN DIRECT INVESTMENT AND PERCENTAGE CONTRIBUTION TO GROSS DOMESTIC PRODUCT

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>FDI Inflow ($mil)</th>
<th>GDP ($bil)</th>
<th>FDI % Contribution to GDP</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2000</td>
<td>38.9</td>
<td>1.5</td>
<td>6.15</td>
<td>Decline due to conflict</td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>9.8</td>
<td>1.9</td>
<td>1.22</td>
<td>Decline due to conflict</td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>1.6</td>
<td>2.4</td>
<td>1.11</td>
<td>Decline due to conflict</td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>3.1</td>
<td>2.7</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>61</td>
<td>3.0</td>
<td>5.71</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>83</td>
<td>3.3</td>
<td>4.91</td>
<td>Fear of conflict resurgence</td>
</tr>
<tr>
<td>7.</td>
<td>2006</td>
<td>59</td>
<td>3.6</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>2007</td>
<td>81</td>
<td>4.0</td>
<td>14.0</td>
<td>Rising investors confidence</td>
</tr>
<tr>
<td>9.</td>
<td>2008</td>
<td>30</td>
<td>4.3</td>
<td>5.1</td>
<td>Global meltdown</td>
</tr>
<tr>
<td>10.</td>
<td>2009</td>
<td>24</td>
<td>4.6</td>
<td>4.2</td>
<td>Global meltdown</td>
</tr>
</tbody>
</table>

*Source: Sierra Leone Investment and Export Promotion Agency (SLIEPA), 2010 Report.*
LIST OF FOREIGN BANKS OPERATING IN SIERRA LEONE

<table>
<thead>
<tr>
<th>Serial</th>
<th>Name of Bank</th>
<th>No of Branches</th>
<th>Home Country Destination</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Standard Chartered Bank</td>
<td>3</td>
<td>United Kingdom</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>First International Bank</td>
<td>14</td>
<td>USA</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Guarantee Trust Bank</td>
<td>7</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Access Bank</td>
<td>3</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>United Bank for Africa</td>
<td>3</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Skye Bank</td>
<td>1</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Zenith Bank</td>
<td>1</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Bank PHB</td>
<td>1</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>ECO Bank</td>
<td>7</td>
<td>Ivory Coast</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Procredit Bank</td>
<td>4</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>International Commercial Bank</td>
<td>2</td>
<td>Switzerland</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Bank of Sierra Leone.
## Contributions of Foreign Banks to the Economic Development of Sierra Leone

<table>
<thead>
<tr>
<th>Serial</th>
<th>Name of Bank</th>
<th>Capital Base ($Mil)</th>
<th>No. of Depositors</th>
<th>Total Depositors Funds ($)</th>
<th>No. of Staff</th>
<th>Total Shareholders Funds ($)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
<td>(g)</td>
<td>(h)</td>
</tr>
<tr>
<td>1.</td>
<td>SCB</td>
<td>37,476,344</td>
<td>14,484</td>
<td>245,295,931</td>
<td>116</td>
<td>37,114,244</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>GTB</td>
<td>33,036,487</td>
<td>26,589</td>
<td>142,930,063</td>
<td>173</td>
<td>27,275,855</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>FIB</td>
<td>24,657,391</td>
<td>22,874</td>
<td>72,191,021</td>
<td>266</td>
<td>15,703,315</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>ICB</td>
<td>12,703,274</td>
<td>5,413</td>
<td>20,866,744</td>
<td>35</td>
<td>12,634,214</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>ECO</td>
<td>22,210,701</td>
<td>39,944</td>
<td>121,964,522</td>
<td>132</td>
<td>17,145,614</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>PRC</td>
<td>11,370,856</td>
<td>27,492</td>
<td>30,931,330</td>
<td>235</td>
<td>7,793,431</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>AB</td>
<td>16,151,102</td>
<td>3,950</td>
<td>35,422,725</td>
<td>75</td>
<td>10,625,966</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>UBA</td>
<td>7,255,882</td>
<td>5,934</td>
<td>9,829,872</td>
<td>119</td>
<td>7,248,670</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>SKYE</td>
<td>12,333,741</td>
<td>1,789</td>
<td>8,980,987</td>
<td>36</td>
<td>12,189,571</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>ZENITH</td>
<td>6,931,321</td>
<td>1,468</td>
<td>10,152,262</td>
<td>53</td>
<td>6,928,893</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>PHB</td>
<td>18,289,320</td>
<td>3,162</td>
<td>1,490,020</td>
<td>31</td>
<td>18,289,320</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Total</td>
<td>202,416,419</td>
<td>153,099</td>
<td>700,055,377</td>
<td>1,271</td>
<td>172,949,093</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Bank of Sierra Leone.
CONTRIBUTION OF FOREIGN BANKS TO THE ECONOMIC DEVELOPMENT OF SIERRA LEONE

<table>
<thead>
<tr>
<th>Serial</th>
<th>Name of Bank</th>
<th>Total Loans to Manufacturers ($)</th>
<th>Total Loans to SMEs ($)</th>
<th>Total Loans to Other Investment ($)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
</tr>
<tr>
<td>1.</td>
<td>SCB</td>
<td>7,288,212</td>
<td>NA</td>
<td>28,210,961</td>
<td>Other investments include export financing and PPP</td>
</tr>
<tr>
<td>2.</td>
<td>GTB</td>
<td>5,384,757</td>
<td>NA</td>
<td>66,116,015</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>FIB</td>
<td>2,003,000</td>
<td>NA</td>
<td>58,572,157</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>ICB</td>
<td>309,727</td>
<td>NA</td>
<td>7,610,916</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>ECO</td>
<td>4,479,858</td>
<td>NA</td>
<td>51,166,590</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>PRC</td>
<td>3,215,746</td>
<td>NA</td>
<td>9,471,265</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>AB</td>
<td>919,165</td>
<td>NA</td>
<td>22,388,284</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>UBA</td>
<td>-</td>
<td>NA</td>
<td>602,278</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>SKYE</td>
<td>382,600</td>
<td>NA</td>
<td>10,583,620</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>ZENITH</td>
<td>-</td>
<td>NA</td>
<td>6,957,712</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>PHB</td>
<td>18,912</td>
<td>NA</td>
<td>3,293,285</td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td><strong>Total</strong></td>
<td><strong>24,001,977</strong></td>
<td><strong>264,973,083</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank of Sierra Leone.

Note: NA – Not Available.
## APPENDIX 5 TO
### LECIAD PROJECT
#### DATED AUG 14

### CONTRIBUTIONS OF FOREIGN TOURSIM ESTABLISHMENTS TO THE ECONOMIC DEVELOPMENT OF SIERRA LEONE

<table>
<thead>
<tr>
<th>Serial</th>
<th>Year</th>
<th>Total Number of Establishment Per Year</th>
<th>Employment Generated Per Year</th>
<th>Number of Tourist Visits Per Year</th>
<th>Country of Origin of Tourist</th>
<th>Total Revenue Accrued to Govt. from the Sector/year ($)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
<td>(g)</td>
<td>(h)</td>
</tr>
<tr>
<td>1.</td>
<td>2000</td>
<td>130</td>
<td>1,522</td>
<td>15,713</td>
<td>Highest no. from Europe</td>
<td>52,452.00</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>2001</td>
<td>187</td>
<td>1,975</td>
<td>24,067</td>
<td>&quot;</td>
<td>54,476.842</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>2002</td>
<td>234</td>
<td>2,313</td>
<td>28,463</td>
<td>&quot;</td>
<td>64,983.108</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>2003</td>
<td>205</td>
<td>3,867</td>
<td>38,107</td>
<td>&quot;</td>
<td>75,976.157</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>2004</td>
<td>244</td>
<td>4,148</td>
<td>43,560</td>
<td>&quot;</td>
<td>80,939.311</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>2005</td>
<td>208</td>
<td>3,939</td>
<td>40,023</td>
<td>&quot;</td>
<td>96,508.851</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>2006</td>
<td>204</td>
<td>2,620</td>
<td>33,704</td>
<td>&quot;</td>
<td>71,076.274</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>2007</td>
<td>213</td>
<td>21,000</td>
<td>32,223</td>
<td>&quot;</td>
<td>79,806.618</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>2008</td>
<td>200</td>
<td>30,238</td>
<td>35,670</td>
<td>&quot;</td>
<td>98,487.703</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>2009</td>
<td>250</td>
<td>40,000</td>
<td>40,210</td>
<td>&quot;</td>
<td>128,000.000</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Total</td>
<td>2,075</td>
<td>111,622</td>
<td>331,740</td>
<td>-</td>
<td>802,706.864</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Sierra Leone Ministry of Tourism and Cultural Affairs.
### APPENDIX 6 TO
### LECIAD PROJECT
### DATED AUG 14

#### LIST OF FOREIGN FISHING COMPANIES OPERATING IN SIERRA LEONE

<table>
<thead>
<tr>
<th>Serial</th>
<th>Company</th>
<th>Address</th>
<th>Nationalities of partners</th>
<th>Number of vessel</th>
<th>Capacities</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Afric Fishing</td>
<td>9D Jambia Ria St., Freetown</td>
<td>Chinese</td>
<td>-</td>
<td>4x40ft refrigerated containers and a 320 mt cold room</td>
<td>Fishing for demersal fish</td>
</tr>
<tr>
<td>2.</td>
<td>Ann Senkal</td>
<td>Lumley, Freetown</td>
<td>Spanish</td>
<td>7 tuna purse seiners</td>
<td>No onshore Preservation facility</td>
<td>Fishing for tuna</td>
</tr>
<tr>
<td>3.</td>
<td>Atlans Fisheries</td>
<td>22 Nelson Lane, Freetown</td>
<td>South Korean</td>
<td>-</td>
<td>-3 Shrimpers -2 demersal trawlers</td>
<td>Fishing for shrimps and demersals</td>
</tr>
<tr>
<td>4.</td>
<td>Sierra Fishing Company</td>
<td>Kissy Dockyard, Freetown</td>
<td>-</td>
<td>11 demersal and mid-water trawlers fish trawlers</td>
<td>4 large Cold-rooms: 200 t, 500 t, 500t, 300 t.</td>
<td>Fishing for demersals and semi-pelagic</td>
</tr>
<tr>
<td>5.</td>
<td>Bangso Fishing Company</td>
<td>11 Wallace Johnson St, Freetown</td>
<td>Formerly Greeks</td>
<td>-</td>
<td>300 t cold room</td>
<td>Fishing for shrimps and demersals</td>
</tr>
<tr>
<td>6.</td>
<td>Horse Fishing Company</td>
<td>Jui, Freetown</td>
<td>MOU between Sierra Leone and Egypt</td>
<td>-</td>
<td>300 t cold room; 3 blast freezers</td>
<td>Fishing for demersals</td>
</tr>
<tr>
<td>7.</td>
<td>Coastal Fishing Company</td>
<td>7 Malama-Thomas Street</td>
<td>Greece</td>
<td>1 fish trawler</td>
<td>No storage facility</td>
<td>Fishing for demersals</td>
</tr>
<tr>
<td>8.</td>
<td>Okeky Agencies</td>
<td>Banana Water, Murray Town, Freetown</td>
<td>Chinese and Koreans</td>
<td>-16 Chinese shrimpers -3 Korean shrimpers -2 Korean fish trawlers.</td>
<td>80 t</td>
<td>1. Fishing for shrimps and demersals. 2. Employs about 200 people, including casual workers</td>
</tr>
<tr>
<td>9.</td>
<td>Lam Fishing Company</td>
<td>Kanikay</td>
<td>-</td>
<td>-</td>
<td>Cold room facility</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Tima Fishing</td>
<td>116 Wilkinson Road, Freetown</td>
<td>Greek, Koreans</td>
<td>-</td>
<td>3 blast freezers</td>
<td>Fishing for shrimps and demersals</td>
</tr>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c )</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
<td>(g)</td>
</tr>
<tr>
<td>-----</td>
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<td>-----</td>
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<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>11.</td>
<td>Aljan Fishing</td>
<td>9 Bailey Street, Freetown</td>
<td>Greek and Sierra Leone</td>
<td>2 fish trawlers</td>
<td>40 ft container</td>
<td>Fishing for shrimps</td>
</tr>
<tr>
<td>12.</td>
<td>Alpha Fishing Company</td>
<td>9 Damba Road, Murray town, Freetown</td>
<td>Koreans</td>
<td>15 Artisanal boats and buys fish from over 150 artisanal fishing units.</td>
<td>3 x40ft and 2x 20ft containers</td>
<td>1. Exports from artisanal fisheries (mainly inshore demersals). 2. Employs about 78 people</td>
</tr>
<tr>
<td>13.</td>
<td>Sonit Sierra Leone Ltd</td>
<td>29 Cline Town, Freetown</td>
<td>-</td>
<td>-</td>
<td>300 t cold room</td>
<td>Fish import (small pelagic)</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Fisheries and Marine Resources.