DISSERTAION

THE RELATIONSHIP BETWEEN LAW, FOREIGN INVESTMENT AND ECONOMIC DEVELOPMENT IN SIERRA LEONE

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**ABSTRACT**

THE RELATIONSHIP BETWEEN LAW, FOREIGN INVESTMENT AND ECONOMIC DEVELOPMENT IN SIERRA LEONE

Foreign direct investment is one of the mechanisms used to provide capital inflows and to stimulate a country’s economic growth. Besides being a driver for stimulating economic growth, FDI is believed to inter alia, increase employment, enhance managerial skills amongst local workforces in the host country, and promote technology spillovers and technical knowhow. Sierra Leone has reformed some of its FDI policy initiatives in an attempt to attract foreign investors. This paper investigates the effects of FDI on economic growth with reference to the economy of Sierra Leone’s post-conflict environment.

This paper begins by reviewing FDI in Sierra Leone and also examining the current FDI regime adopted by the government. There is also a review of the literature on foreign direct investment and economic growth. The results from my research show that even though FDI in flow can bring about positive impacts on the economy, it does not necessarily bring about sustainable economic growth.

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**ABBREVIATIONS**

BIT Bilateral investment treaty

DFID Department for International Development, United Kingdom

ECOWAS Economic Community of West African States EIA Environment impact assessment

EPA Environment Protection Agency

EU European Union

FIAS Foreign Investment Advisory Service (World Bank)

FDI Foreign direct investment

GATT General Agreement on Tariffs and Trade

GDP Gross domestic product

GoSL Government of Sierra Leone

GVC Global Value Chains

ICSID International Centre for Settlement of Investment Disputes

IMF International Monetary Fund

IPA Investment Promotion Act

ITC International Trade Centre

KPCS Kimberly Process Certificate Scheme

LDC Less Developed Countries

MDG Millennium Development Goals

MNC Multinational Corporation

MRU Mano River Union

NGO Non-governmental organization

OECD Organization for Economic Cooperation and Development

SLEITI Sierra Leone Extractive Industries Transparency Initiative

SLIEPA Sierra Leone Investment and Export Promotion Agency

TNC Transnational Corporation

UNCITRAL United National Commission on International Trade Laws

UNCTAD United Nations Conference on Trade and Development

UNDP United Nations Development Programme

WTO World Trade Organization

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**Chapter 1**

1. **Introduction**

The overall theme of this research can be summarised as the relationship between law, foreign investment and economic development with Sierra Leone’s extractive industry being a case study. In a report done by the World Bank, FDI has fast become a catalyst for trade and output in the developing countries as a result of an active and ever expanding scope of Global Value Chains (GVCs).[[1]](#footnote-1) When it comes to economic development, foreign exchange, employment, transfer of technology potential and employment, FDI is a major contributor.[[2]](#footnote-2) The realisation of the likely benefits of FDI has resulted in countries softening their attitudes towards foreign investments and FDI in the West African region where economic growth has increased in recent years. Sierra Leone is no exception to this trend as it reformed its policies following the end of the decade long civil war in a bid to boost economic growth. Sierra Leone, rich in natural resource wealth has been seeking ways to diversify its economy with the recognition that foreign investment inflow is a driving force in achieving its development needs. Countries that are not as endowed with natural resource wealth as Sierra Leone are forced to seek investments abroad to support employment and currency stability.

The economy of Sierra Leone grew 20 per cent in the last decade as a result of FDI in the mining sector, however, this boom has not led to great wealth for its citizens and neither has it significantly reduced the poverty rate. The factors hindering potential economic growth will be discussed further on in the text.

**Definition of key terms**

This research consists of several key terms which form the basis of the dissertation and will be defined from the outset. These are namely Foreign Direct Investment and economic growth and development. Other terms will be defined in the relevant sections as necessary.

*Foreign Direct Investment*

International bodies like the UNCTAD (United Nations Conference on Trade and Development), the IMF (International Monetary Fund), OECD (Organisation for Economic Co-operation and Development) have all defined FDI:

‘Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.’[[3]](#footnote-3)

Simply put, the act of FDI involves the cross border flow of financial capital from the Multinational Enterprise parent company to their foreign subsidiary and the flow of funds from the foreign subsidiary to its parent company at any given time. FDI has been distinguished from portfolio investment in the aforementioned definition as it states that the flow of capital are to those affiliates where the holding company exerts a significant degree of influence.

According to the International Monetary Fund (IMF), the flow of FDI comprises of three key components namely: equity investment, reinvested earnings and intra company loans between the foreign affiliate in the host country and the parent company. As previously mentioned the foremost distinction between that of FDI and cross border investment is the management of the affiliate company by the parent company through its lasting interest and control, thus, there should be no confusion between portfolio[[4]](#footnote-4) management and foreign direct investment. The intentions of portfolio investors are neither to manage nor to influence the direction of the company, and it is usually short term with an easily divested investment. Contrary to portfolio investment, investors involved in FDI are highly interested in the welfare of the affiliate company and as such, the parent companies seek to control the management of the affiliate company in order to increase the level of productivity.[[5]](#footnote-5) When considering the growth prospect of the company, FDI is more stable and long term.[[6]](#footnote-6)

FDI can be categorised into two key distinguished investment types, namely, Brownfield investment and Greenfield investment.[[7]](#footnote-7) Greenfield investment refers to direct investment by Multinational Corporations (MNC) through the funding of a brand new facility in the host country. The benefit of this type of investment to the host country is that it can optimise its connection with the rest of the global economy, benefit from the transfer of technology and knowledge, and also take advantage of the job opportunities created by the MNC’s operating activities in the host country.[[8]](#footnote-8) With Brownfield investments, this is more often concerned with mergers and acquisitions. Unlike the characteristics of Greenfield investment, Brownfield investment does not associate itself with the long-term economic benefits in the host country[[9]](#footnote-9)

**1.1 Dissertation outline**

Subsequent to this chapter, the paper will continue by giving a general background on FDI in Sierra Leone. The current FDI legal framework will also be reviewed with emphasis on the country’s open regime post-conflict in a bid to attract investment in the private sector. The chapter also discusses some of the potential impediments to FDI in Sierra Leone. The third chapter review some of the many literature that have discussed the relevance of FDI and whether it does lead to economic growth in the host countries, and also the role of rules of law in attracting foreign investors. The third chapter also covers FDI in Angola, its policy reforms and whether the country has witnessed economic growth through FDI in its public sector. Chapter four discuss the findings of the various chapters and the conclusion thereafter.

**1.2 Objective and research question**

The objectives of the dissertation were determined on the basis of the efforts made by the government of Sierra Leone to reform its FDI legal framework after the end of the civil war over a decade ago, and whether these reforms have led to any significant economic development. The relevance of this research is that it would provide a useful insight into the foreign investment environment in Sierra Leone. Also the findings could contribute to future academic research with regards to FDI in Sierra Leone and as well as a term of reference to further researchers on this topic.

**1.3 Methodology of the Study**

The study methodology sources relevant information with tailored internet search on search engines and academic journals (access was permissible through the IALS library and the British Library). Other repositories used in this research are reports from international institutions that support development like the IMF, World Bank, WTO and the likes, and a number of NGO reports. In order to source other relevant materials, the bibliographies and list of references from academic journals and papers are checked.

**Chapter 2**

1. **Introduction**

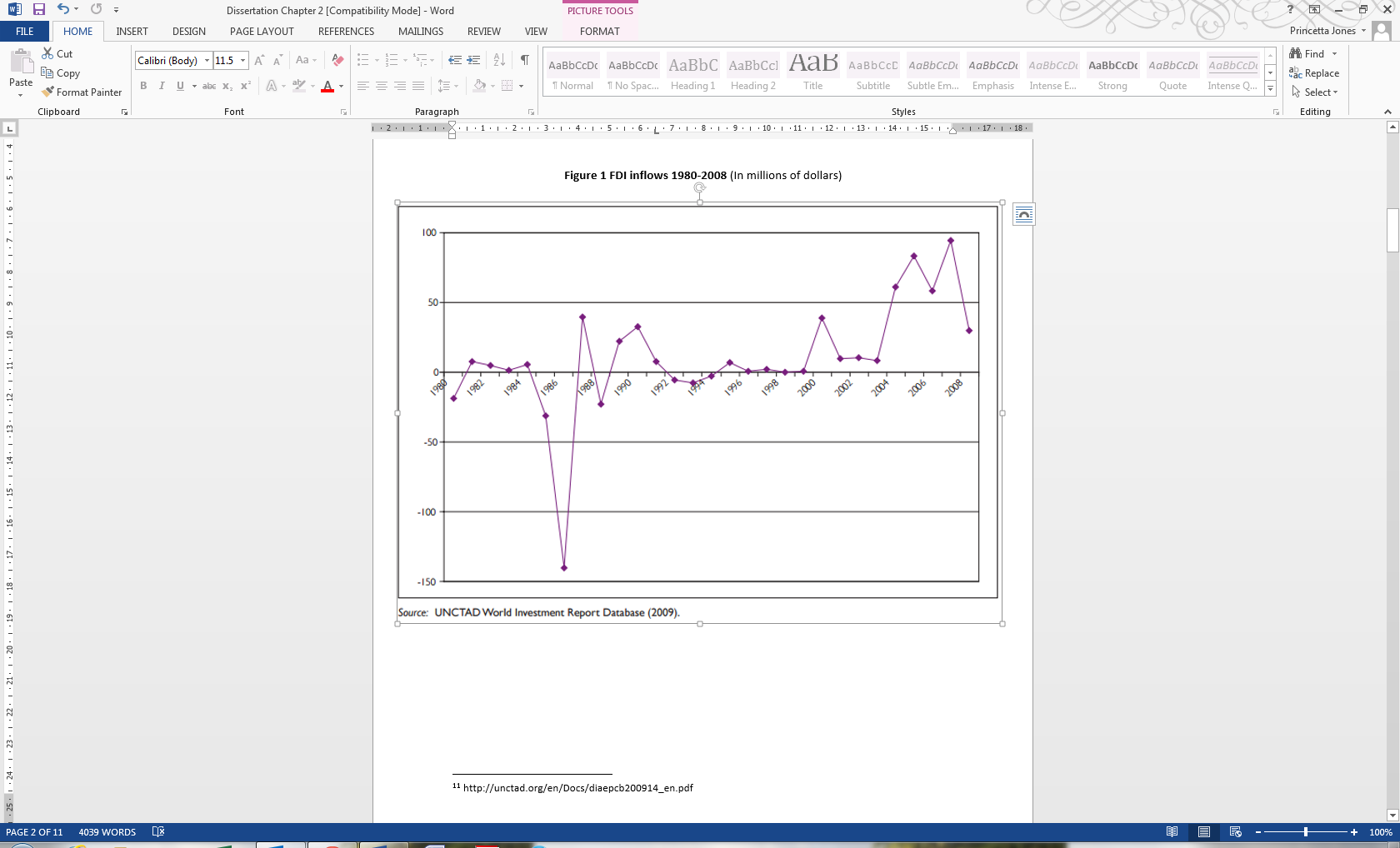
Chapter two reviews the current FDI legal framework in Sierra Leone, and is divided into four sections. The first section provides a general background on FDI in Sierra Leone. The following section of this chapter provides the current FDI legal framework and some potential impediments to FDI flow into the country. The third section discusses FDI in the extractive industry. The final section concludes the chapter.

* 1. **Brief historical overview of FDI in Sierra Leone**

Sierra Leone is a country with rich and diverse natural resources comprising of iron ore, rutile, diamond, bauxite, gold, and other minerals; ample rainfall and land (with a variety of agro-ecological conditions); good tourism potential and maritime fishery.[[10]](#footnote-10) Agriculture and mining are the main drivers of the economy[[11]](#footnote-11) with iron ore mining[[12]](#footnote-12) being the main driver of the country’s economic growth in recent years.[[13]](#footnote-13) In addition to iron ore, the other main principal exports are rutile and diamonds.[[14]](#footnote-14)

Sierra Leone emerged from a decade of civil war in 2002. The conflict inflicted vast amount of damage on the country’s investment outlook and potential for growth, and also had devastating effect on social and economic conditions.[[15]](#footnote-15) With its ranking of 183[[16]](#footnote-16) out of 187 in the latest UNDP Human Development Index[[17]](#footnote-17) which measures infant mortality, literacy and life expectancy, this demonstrates the severity the country’s poverty conditions.

Prior to the violent civil conflict which occurred between 1991 and 2001, there were no significant flows of FDI into the country. The primary foreign investor was De Beers (diamond miners) who was the first and only mining company during the early 1930s and remained the primary investor through to the mid-1980s.[[18]](#footnote-18) There was a significant decline in FDI in the mid-1980s which was attributed to the exit of De Beers from Sierra Leone (figure 1) and by the 1990s the conflict had halted FDI inflow with the formal economy shrinking by 40 per cent between 1990 and 1999.[[19]](#footnote-19) The mining industry still remains a non-industrial sector in present day operations and alluvial mining still remains the common method of mining.

**Figure 1: Sierra Leone FDI inflow between the year 1980-2008**

Sierra Leone has made significant progress in its recovery process and has seen a threefold increase in the private sector FDI inflows.[[20]](#footnote-20) One contributing factor to the boost in economic activities was the FDI activity in the iron ore mining sector.[[21]](#footnote-21) According to an IMF report, the production of iron ore caused GDP growth to jump from an average of 5.7 per cent pa annum between 2010 and 2011 to an average of 15.2 per cent and 20.1 per cent between 2012 and 2013.[[22]](#footnote-22) The country is rated as one of the world’s top ten business reformers, moving from 176/185 countries to 140/185 within a five-year period.[[23]](#footnote-23)

Sierra Leone was on track to continue its economic ascent as a result of its active extractive sector before it was halted in its track by the drop in iron ore prices on the commodities market and the Ebola outbreak in early 2014. This brought the country to a standstill and caused the economic activity to contract in several areas inter alia transportation, industrial production, and healthcare. The Ebola outbreak has deterred private investments, increased government spending on health care and restricted other public investment projects.[[24]](#footnote-24)

Sierra Leone is one of the three badly hit countries, along with its only two neighbouring countries, Guinea and Liberia and according to estimates carried out by the World Bank on the impact of the outbreak, Sierra Leone has suffered the greatest economic loss (table. 1) [[25]](#footnote-25) with drastic decline in GDP growth from a high of 20.1 per cent in 2013 to around 6 per cent in 2014 according to the IMF. A combination of the effects of the outbreak on production and the collapse of the iron ore price by 50 per cent in 2014 has seen the country’s two major foreign owned iron ore producers; London Mining and Africa Minerals Limited encounter great financial difficulties.[[26]](#footnote-26) Both companies have consequently gone into administration.[[27]](#footnote-27)

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| **Table 1: Expected Forgone GDP in 2015 due to Ebola and Global Economic Conditions**  **(in US dollars)** | | |
| Country | Forgone GDP | |
| Sierra Leone | USD $ 920 million | |
| Guinea | USD $ 540 million | |
| Liberia | USD $ 180 million | |
| Core Three Countries | USD $ 1.6 billion | |
|  | With Current Spread | With Significant Additional Spread |
| Sub-Saharan Africa | USD $ 550 million | USD $ 6.2 billion |
| Sources: World Bank | | |

With the end of the outbreak in sight, the government of Sierra Leone together with development partners have started crafting a post-Ebola recovery strategy with the aim of identifying the necessary measures to revive the economic activity with focus on health, agriculture and education.[[28]](#footnote-28) Both London Mining and African Minerals supported thousands of jobs and contributed about 20 per cent of GDP and therefore a long term shutdown of the industry would have a devastating effect on the economy.[[29]](#footnote-29)

**2.2 FDI legal framework in Sierra Leone**

During the transformative period from the civil war to post-conflict stabilisation and growth, one of the main priorities was to increase investment into the country (including FDI). Through support from various international donors, the Sierra Leone Law Reform Commission was charged in 2003 with the responsibility of overseeing the reforms to the legal framework for FDI with the World Bank and DFID playing a significant role in helping the government to focus on reducing the procedural barriers and the fiscal and sector reforms.[[30]](#footnote-30) With the exception of the services sector[[31]](#footnote-31) (table 2), the legal regime for foreign investment entry and establishment is open.

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| **Table 2: FDI entry restrictions in services** | |
| **Sector** | **Current restrictions** |
| Professional services | The commercial presence of foreign professional services in Sierra Leone requires a partnership with Sierra Leoneans. |
| Other business services | To establish a business service enterprise, a foreign firm has to establish joint ventures with Sierra Leonean partners. |
| Insurance and insurance-related services | For establishing a foreign insurance firm (commercial presence), a firm must (i) have over 10 year’s practice and (ii) hold a minimum assigned capital twice that of local firms. A “letter of comfort” from the parent supervising authority may be requested to provide funds in cases of shortfalls in solvency or liquidity. |
| Banking and other financial services (excluding insurance) | For the right to establish commercial presence in Sierra Leone, it is required that reciprocity treatment be given to a Sierra Leonean firm to establish a commercial presence in a foreign country (e.g. assurance from the parent supervisory authority). Branches of foreign incorporated banks are required to hold a minimum assigned capital twice that of minimum paid-up capital prescribed for locally-incorporated banks. |
| Health and social services | For commercial presence, foreign services providers must be registered practitioners in the appropriate disciplines with qualifications recognised by the Ministry of Health. |
| Internal waterway transport | The commercial presence has to take the form of a joint venture with Sierra Leoneans. |
| Rail transport services | The commercial presence has to take the form of a joint venture |
| Transport auxiliary services (e.g. customs house brokers) | The commercial presence has to take the form of a joint venture with Sierra Leoneans |
| Source: UNCTAD | |

The rudimentary legal framework governing investment in Sierra Leone is set out in the Investment Promotion Act (IPA) which was passed in 2004. The IPA is inspired by best international practices and provides a permissible FDI framework giving investors a number of guarantees. The act seeks to promote and attract domestic and foreign private investment to develop production and value adding activities, provide employment opportunities, improve exports and create a conducive environment for private investment.[[32]](#footnote-32) Article 4 of the act states that any investor whether domestic or foreign may invest in any legitimate form of business enterprise. In relation to other investment laws, article 3 states that there are other enactments to promote investment in mines and minerals, banks, tourism, fisheries and other business activities.[[33]](#footnote-33)

Following the enactment of the Investment and Export Promotion Act of 2007, the institution now responsible for the promotion of FDI in Sierra Leone is the Sierra Leone Investment and Export Promotion Agency (SLIEPA) with main duties of promoting investment and export development.[[34]](#footnote-34) SLIEPA is supported by international organisations; DFID, the International Trade Centre (ITC), the World Bank and FIAS for its general operations, work programme and structure, and personnel cost.[[35]](#footnote-35)

*Treatment and protection*

The Sierra Leone legal regime on FDI addresses some of the key elements of protection sought by foreign investors. These include dispute resolution, transfer of funds and the protection of expropriation. However, the fair and equitable treatment of investors which is normally found in international standards such as treaties does not form part of the IPA of 2004. When compared to most countries in the region like Nigeria and Ghana, Sierra Leone has signed only three bilateral investment treaties[[36]](#footnote-36) (table 3).

Sierra Leone is a member of the Economic Community of West African States (**ECOWAS**), the Mano River Union and the African Union (AU) and in 2006, it joined the Extractive Industries Transparency Initiative.[[37]](#footnote-37) Sierra Leone is also a contracting party to the GATT, and became a WTO Member on 23 July 1995. [[38]](#footnote-38) As a member of the WTO, Sierra Leone can use its membership to advantage in the development of its trade policy.

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| **Table 3: Sierra Leone Bilateral Investment Treaty Partners** | | | | |
| No. | Partners | Status | Date of signature |  |
| 1 | Germany | In force | 08/04/1965 |  |
| 2 | United Kingdom | In force | 08/12/1981 | Revised in 2000 |
| 3 | China | Signed | 16/05/2001 |  |
| Source: UNCTAD Investment Policy Hub | | | | |

*Guarantee against expropriation*

The IPA 2004 makes provision for the protection of investors against expropriation under article 11 which states that “no private investment, whether domestic or foreign, shall be expropriated or nationalised in a direct or indirect manner, except in the special cases specified by section 21 of the Constitution”. [[39]](#footnote-39) Chapter III, article 21(1) of the constitution states that “no property of any description shall be compulsorily taken possession of, and no interest in or right over property of any description shall be compulsorily acquired”, except for public order, public health, public security, defence, public safety, public welfare, public benefit, town and country planning or the promotion of public benefit. Furthermore, article 21 (1) (c) requires the prompt payment of compensation.

*Free transfer of funds*

Under Part III (Investment Incentives and Guarantees) of the IPA 2004, investors are guaranteed the free transfer of their funds with no restrictions on the repatriation of profits, earnings, and capital and loan payments. In addition to part III of this Act, other incentives on tax depreciation are provided for through Acts such as the Income Tax Act 2004, Mines and Minerals Act and the Development of Tourism Act for their respective industries (table 4)

*Dispute settlement*

Sierra Leone is a party to the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States.[[40]](#footnote-40) According to the latest data available, there have been no international disputes brought to the ICSID involving the Government of Sierra Leone, and no submission by a foreign investor for international arbitration has been made.[[41]](#footnote-41) Article 16 of the IPA 2004 makes provision for a dispute to be resolved amicably where a dispute arises between the parties (investor and the government) with respect to an investment in a business enterprise. Article 16(2) goes further by establishing that in the event where a dispute cannot be resolved amicably, the aggrieved party may:

1. In accordance with the rules or procedure for arbitration submit the dispute to the United National Commission on International Trade Laws (UNCITRAL)
2. In the case of a foreign investor within the framework of any bilateral or multilateral agreement on investment protection to which the Government and the country of which the investor is a national are parties; or
3. Submit dispute to any other national or international machinery for the settlement of investment disputes as the parties may agree.

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| **Table 4. Incentives and special industry regimes** | |
| Sector | Incentives |
| Agriculture | * Ten-year exemption from income tax for rice and tree crops production (cocoa, coffee, palm oil). Dividends paid in the exemption period are free of tax for individual farmers and taxed at 50 per cent of the applicable rate for companies engaged in farming: * Custom duty exemption on agriculture inputs (fertilisers, seeds, pesticides, tractors/parts, machinery). |
| Tourism | * Fifteen per cent corporate income tax, limited to a maximum of 150 per cent of eligible expenditures of the original capital invested, for the first five years of a new investment; * Investment allowance of 5 per cent of the cost of the relevant asset in acquiring new assets of plant, machinery and equipment, including automobiles and trucks, and commercial buildings; * Exemption from payroll taxes during three years for up to six non-citizen employees with skills not available; * Duty free for new construction, extension or renovation of existing facilities, applicable to building materials, machinery or equipment that is not easily available in Sierra Leone; * The Tourism Act (1990) article 37 gives discretionary powers to the Tourism Minister to grant further tax relief. |
| Mining | * Royalties of 5 per cent on precious stones, 4 per cent on precious metals and 3 per cent on other minerals; * 35 per cent corporate income tax; * Immediate amortisation of pre-production exploration and prospecting expenditure; 20 per cent of cost for each of next three years (straight line basis); * Write-offs against profits on funds put aside for future expenses for mine closure and rehabilitation; * Importation free of customs duty, charges and levies on machinery, plant and other equipment used “exclusively for the conduct of prospecting and exploration operations”; * Election to have accounts denominated in United States dollars; * Each project under common ownership in ring fenced for tax purposes; * The fiscal terms set out in the law can form part of a mine development agreement with the government and hence be stabilised. |
| Sources: UNCTAD (Income Tax Act; Mines and Minerals Act; the Development of tourism Act of Sierra Leone) | |

*Other Relevant Reforms*

In addition to the IPA 2004, there have been other key reforms to the legal framework to attract foreign investors and promote a conducive business environment. The new Companies Act 2009 which repealed the Companies Act of 1938 oversees the process of registering and incorporating a business.[[42]](#footnote-42) This act has reduced the process time in which a business can be registered and licensed compared to the 1938 version of the Act.

The economy of Sierra Leone experienced considerable amount of growth leading to an estimated growth of over 20 percent by the World Bank due to the inflow of FDI in the mining sector and the export of iron ore in particular. The government is facing major challenges to ensure fair and equitable distribution of the wealth derived from the activities of the extractive sector. In an effort to ensure that the derived benefit from the activities of the mining sector reaches the local people and in keeping with the goal of reducing poverty through the Poverty Reduction Strategy Paper (PRSP), the first Local Content Policy was approved in May 2012 by the Government of Sierra Leone. This move mirrored a regional effort to focus on the development of local content, promote local producers of goods with the aim of improving rate of local ownership, generate jobs and promote the transfer of skills to Sierra Leoneans.

**2.3 Impediments to FDI in Sierra Leone**

*Governance issue*

It has been recognised that fighting corruption is key to successfully create favourable conditions for economic growth and for attracting high levels of FDI in Sierra Leone. In the Transparency International Corruption Perspective Index of 2014, Sierra Leone was ranked 119 (table.5) out of 175 countries compared to a ranking of 150 in the year of 2007.[[43]](#footnote-43) There have been tremendous efforts in promoting good governance and fighting corruption since the end of the war, inter alia, the appointing of an independent Anti-Corruption Commission and the revision of the Anti-Corruption Act in 2008.[[44]](#footnote-44) That said, significant challenges still remain, especially the widespread corruption through the judicial process, throughout the government with allegations against government officials, bankers, police officers, and long-standing accounting irregularities which led to a one-year suspension from the Extractive Industries Transparency Initiative in 2013.[[45]](#footnote-45)

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| **Table 5: Regional Comparative Table** | | | | | |
| **Transparency International Corruption Perspective Index** | | | | | |
| **Country** | **2014 Rank** | **2013 Rank** | **2012 Rank** | **2011 Rank** | **2007 Rank** |
| Sierra Leone | 119 | 119 | 123 | 134 | 150 |
| Liberia | 94 | 83 | 75 | 91 | 150 |
| Nigeria | 136 | 114 | 139 | 143 | 147 |
| Guinea | 145 | 150 | 154 | 164 | 168 |
| Angola | 161 | 153 | 157 | 168 | 147 |
| Ghana | 61 | 63 | 64 | 69 | 69 |

*Infrastructure*

The terrific deficit in infrastructure constitutes a key constraint which significantly limits the country’s capacity to exploit its abundant natural resources. This contributes to high operating costs that, in addition to the small domestic market and the absence of industrial and services sectors, limit the capacity to attract investment from major transnational corporations (TNCs). The lack of electricity has been a significant hindrance to the development of this sector.

*Land*

Sierra Leone has a complex dual system of land tenure that imposes restrictions on land-related investment. The granting of state land by the State Land Committee under the Ministry of Lands is a bureaucratic process which can take anything between 65 to 70 working days.[[46]](#footnote-46) Through the Non-Citizens (Interests in Land) Act 1966, foreigners can acquire land on a 21 years lease period but the state land must first be leased by a citizen of Sierra Leone before the lease can be transferred to a foreigner.[[47]](#footnote-47)

*Electricity*

When it comes to attracting foreign investors, the importance of electricity cannot be understated as this has been a significant hindrance in Sierra Leone’s potential economic growth.[[48]](#footnote-48) The lack of sufficient electricity poses grave constraints in doing business in the country (box 1). The costs of maintaining a generator or building a dedicated power source often mean that domestic goods simply cannot compete with more competitive imports.

*Ebola outbreak*

In light of the great uncertainty about the Ebola virus’ future trajectory, Ebola-induced barriers to domestic and foreign trade may persist in the medium to long term period with the fear of facing financial difficulties,[[49]](#footnote-49) boarder closure, flight cancellation and the slowing down of economic activity which subsequently affects output. Investors trust need to be re-established to facilitate international investment and trade.

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| **Box 1: The cost of power shortages for investors**  Approximately 70 per cent of power consumption in Sierra Leone is industrial or commercial, yet the lack and cost of electricity is one of the most frequently cited challenges facing investors. Typically investors have chosen to operate their own generators rather than face frequent power interruptions. One example is Sierra Rutile, one of the big mining companies, which built its own 7.5 MV caterpillar generators at a staggering cost of $29 million. Companies also have to pay for security guards to protect against the theft of the fuel in the generators. Implementing these measures has made Sierra Leone a very expensive place to do business.  Source: UNCTAD fact finding mission |

**2.4 FDI in the extractive Sector in Sierra Leone**

The mineral endowment in Sierra Leone represents a potential for economic growth and development [[50]](#footnote-50) and in the recent past, it has benefited from the global price rise of commodities which led to strong interest by international companies. This led to a surge of new mining licences and explorations (Appendix 1). According to a 2013 SLEITI reconciliation report for the year 2011,[[51]](#footnote-51) mining account for over 60 per cent of export revenues in 2010 including $132 million for diamond export, $33 million for rutile and $31 million for bauxite.[[52]](#footnote-52) The mining sector is the second largest employer providing employment to more than 300,000 people.[[53]](#footnote-53) This has also been the driver for foreign exchange earnings and government resources.[[54]](#footnote-54) Since the end of the civil war, the political stability revived economic activity such as the restoration of bauxite and rutile mining. [[55]](#footnote-55) Between the years of 2009 and 2010, the discoveries of several offshore oil blocks was announced, however, the development on these oil reserves could still be years away. In September 2012, one of the leading energy companies in the world, Chevron Corporation declared its subsidiary company Chevron (SL) Limited has been granted participation in the exploration of oil in two deepwater blocks located approximately 75 and 110 miles southwest of Freetown with an area of about 2,100 square miles.[[56]](#footnote-56)

To provide investors with a clear and certain applicable legal framework in the extractive industry, there has been extensive volume of laws and regulations adopted over the past few years. In 2008, the Environment Protection Agency (EPA) Act was adopted to provide for the effective protection of the environment.[[57]](#footnote-57) In summary, the Act provides that prior to the start of any mining project, preparation and assessment of any environmental impact must be approved and an environmental impact licence must be issued.[[58]](#footnote-58)

In order to address and balance the issues between the interests of the sector and those of the communities in which the exploration occur, the Mineral and Mines Act of 1994 was repealed and replaced with the 2009 version which brought about numerous changes.

In 2003, Sierra Leone signed the Kimberly Process Certificate Scheme and became an active participant of the scheme. The main purpose of the scheme is to impose far-reaching conditions in the diamond mining industry to stop the shipment of conflict diamonds (rough diamonds) used by rebel movements to facilitate war against legitimate governments.[[59]](#footnote-59)

**2.5 Conclusion**

Sierra Leone is a developing country which depends on investment for its economic growth. The inflow of funds through FDI from foreign companies is imperative to facilitate the growth of the economy. Since the end of the civil war, the country has become politically stable. The investment climate changed over the years and there have been ongoing policy and legal reforms all in aid of promoting investment in the private sector, removing administrative barriers and having an open outwardly oriented economy. The starting of the production phase in the mining of iron ore has contributed immensely to the economic growth and GDP of the country, however, the sharp decline in price of commodities in the global market had a domino effect on Sierra Leone’s economy. Considering the facts that Sierra Leone was on a trajectory of sustainable economic growth with promising real GDP growth, the Ebola epidemic has brought the economy of the country and that of the Mano River Union (MRU)[[60]](#footnote-60) region to a standstill with devastating socio-economic effect. In a bid to re-build the economy, the government has started to implement the post-Ebola recovery plan with aims of eradicating Ebola, restoring basic socio-economic services across the country, and accelerating economic growth rates.

**Chapter 3**

1. **Introduction**

The aim of this chapter is to provide a brief review of the literature on economic growth and foreign direct investment, and to discuss how FDI has impacted economic growth in Sierra Leone. The chapter is divided into four sections. The first section discuss some of the large amount of literature that has been written on the subject of FDI and economic growth. This is followed by a review of FDI and its impact on the economy of Sierra Leone. The third section reviews FDI in Angola in comparison to Sierra Leone. The fourth section concludes the chapter.

**3.1 Does FDI lead to growth?**

Although the latest World Investment Report indicated a decline in global FDI of about 16 per cent to $1.23 trillion in 2014,[[61]](#footnote-61) the past decade saw many developing countries experiencing substantial economic growth, with fast growth in international transactions through FDI.[[62]](#footnote-62) From the view point of the host countries, the effects of FDI have been examined thoroughly with contradictory empirical evidence to substantiate the arguments. FDI through multinational corporations brings with it some welfare implications, both positive and negative. One of such implication is the prospect of economic growth for the host country.

There have been many scholars and makers of investment policies who have contended that FDI is an important catalyst for the transformation of an economy and that it plays an important role in encouraging positive effect on the host country’s development. [[63]](#footnote-63) At the same time, there have been several literature that have examined the issues surrounding FDI and those motivations behind certain investment decision. The efforts made by developing countries such as Sierra Leone through its various legal reforms in a bid to attract FDI are all in aid of seeking economic development. [[64]](#footnote-64) Through FDI, there can be inter alia the transfer of technology from the investor to the host country, reduction in unemployment rate, access to external markets, and increase in productivity.[[65]](#footnote-65) The idea that FDI is a mechanism in achieving technology spillovers, and that it contributes to the economic growth of a country on a greater scale than investment on a national level has also been argued in one of the most cited literature in relation to the link between FDI and economic growth.[[66]](#footnote-66) Another argument is that local firms in the host country benefits from advanced technology transfer through FDI. [[67]](#footnote-67) If FDI is deemed to have such positive effects on economic growth, then it should be encouraged by the targeted host country.

On the other side of the spectrum, there have been extensive literature on whether FDI does in fact lead to economic growth and that it bears a negative impact on the economic development of the host country. There are arguments that the positive effects of FDI are in fact few and far between,[[68]](#footnote-68) and that in most cases the effects are negative. The effects of FDI on the host country’s economy may also depend on the sector through which investment flows into the host country, which according to literature by Hirschman[[69]](#footnote-69) states that when it comes to the mining and agriculture sector, positive effect are quite limited. In the literature by Spatz and Nunnenkamp (2003),[[70]](#footnote-70) some objectives of why multinational corporations seek investment outside their own countries were outlines; resource-seeking objectives,[[71]](#footnote-71) efficiency-seeking objectives,[[72]](#footnote-72) and market-seeking objectives.[[73]](#footnote-73) The effect of FDI might vary because of the different intentions behind FDI decision by MNCs.

From a legal stance the role of law, sound legal institutions and judicial system as a determinant in FDI inflow to the host country have gained momentum in recent years.[[74]](#footnote-74) The theoretical reasoning behind this is that a strong rule of law in a host country suggests that the government is committed to enforce contracts and protect property.[[75]](#footnote-75) However, there are a number of countries with relatively weak rule of law but still manage to attract FDI, making the question on the link between FDI and law even more complex with multiple definitions.[[76]](#footnote-76)

Scholars have argued that the role of political institutions play an important part in attracting FDI. Some argue that it has a negative effect[[77]](#footnote-77) while other argue its positive effect with the view that a dictatorial regime improves investments because such regimes can handle labour unrest and protect properties.[[78]](#footnote-78)

Other arguments relating to FDI and growth is that of corruption and its likely impact. In theory, corruption can have a negative effect on FDI by reducing efficiency, productivity and raise cost.[[79]](#footnote-79) Contrary to this, other empirical studies have concluded that high levels of corruption have positive impact on FDI,[[80]](#footnote-80) as MNCs use bribes as a tool to gain access to projects funded by government bodies and to facilitate business where the bureaucracy in the host country is inefficient. [[81]](#footnote-81)

The conclusion reached after reviewing the various literature based on FDI and its related economic growth prospects is that the effects are wide and complex. However, for a developing economy, FDI can be a source of generating employment, creating opportunities for technology spillovers and competitiveness, facilitating high export and gaining access to international currencies.

**3.2 FDI and economic growth in Sierra Leone**

Efforts to foster economic growth in Sierra Leone have been hampered by the plummeting of the global iron ore prices, and the Ebola outbreak which hit the Mano River Union region in 2014. As a result of these aforementioned factors, the real GDP for 2015 has been forecasted to contract. The surge in FDI flow in iron ore production led to growth in real GDP growth for two consecutive years, reaching 20 per cent in 2013. As at 2014, the GDP growth dropped drastically to around 6 per cent.[[82]](#footnote-82)

Like in the case of Angola, Sierra Leone’s economy is strongly reliant on one sector which is the agricultural sector (figure 2). This sector contributed about 48 per cent to GDP in 2014 which was as a result of donor support and government investment in improving transport infrastructure to facilitate the movement of goods, as part of the government’s ‘Agenda for Prosperity’.[[83]](#footnote-83) Since the end of the war, the mobile telecoms sector has seen strong growth partially as a result of the deteriorating fixed telephone services. The sector has seen considerably FDI flow in the past few years from the likes of the Dutch-headquartered Kuwaiti company called Zain which was taken over by Bharti Airtel in 2010.[[84]](#footnote-84) In 2015, Airtel announced it was in talks with French-based Company Orange to sell some of its subsidiaries in the African continent, including its subsidiary company in Sierra Leone.[[85]](#footnote-85) It is estimated that the growth in the service sector will increase its contribution to GDP.[[86]](#footnote-86)

The mining sector has also contributed to GDP as a result of the significant growth in iron ore production. This changed FDI and real growth considerably as the country started exporting iron. Iron ore is the country’s principal export which accounted for about 45 per cent of the main exports in 2014 (table 6). Real GDP growth accelerated to 15.2 per cent and 20.1 percent in 2012 and 2013, respectively.[[87]](#footnote-87) However, due to the Ebola outbreak and drop in commodity prices globally, real GDP is estimated to drop to around 12.8 per cent in 2015 and subsequently to 8.4 per cent in 2016. This saw two of the major iron ore mining companies[[88]](#footnote-88) operating in Sierra Leone suspend their production and export, and subsequently entered into administration. The low export base resulted in low foreign exchange earnings. Debt-plagued London Mining filed for bankruptcy protection, and was later taken over by Timis Corporation. On the 20th November, 2014 Africa Minerals Limited was temporarily suspended from trading on AIM listings[[89]](#footnote-89) and was subsequently taken over by Shandong Iron and Steel Group (SISG) a leading Chinese company specialised in iron and steel who was a 25 per cent shareholder of Africa Minerals Limited.

Source: NKC Research

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 6: Sierra Leone’s Main Exports: % share total** | | | |
|  | 2014 | 2015F | 2016F |
| Iron ore | 45.14 | 23.96 | 27.11 |
| Diamonds | 12.00 | 15.95 | 15.37 |
| Cocoa and cocoa preparations | 2.51 | 3.46 | 2.27 |
| Wood and articles of wood, wood charcoal | 1.56 | 1.94 | 1.70 |

Source: NKC Research

*Growing inequality*

Although Sierra Leone has made positive economic recovery over the past decade, poverty remains prevalent with over 60 per cent of the population surviving on less than US$ 1.25 a day.[[90]](#footnote-90) The value of the country’s resource wealth has still not effectively influenced the lives of all its citizens. It is still positioned quite low on the 2015 human development index with a score of 183 out of 187 countries and territories, with high illiteracy and unemployment rate among the youth. The country still depends on international donor aid[[91]](#footnote-91) and the wealth created by its natural resources fails to trickle down to the poor and needy. There have been contrasting views on what the impacts of abundant resources are in the African continent. This is commonly known as the ‘resource curse’.[[92]](#footnote-92) This curse point out that the abundant resources in African has led to negative effects which has brought about increased levels of corruption, political instability and a decline in economic growth. This seems to resonate with countries such as Sierra Leone, Liberia and Angola who have all experienced civil war as a result of their natural resources wealth. The two main causes of negative impact on natural resources have been linked to outdated policies and the mismanagement of foreign funds.[[93]](#footnote-93) As a result of this, only a small percentage of the population realise financial gain from the natural wealth while the majority of the population survive below the national poverty line. An analysis of the economic benefit of the local contents policy was conducted in 2012 and the results demonstrated that the full benefits of this policy has not yet materialised. For example, 50 per cent of intermediary positions across all industries and 20 per cent of managerial posts have still not reached its modest target.[[94]](#footnote-94)

*Diversification*

It is no secret that Sierra Leone is endowed with valuable natural resources, however, these cannot be used as the sole source of wealth, as resource can be finite. As stated in earlier text, the global price of iron ore which is the principal export and main contributor to GDP, fell significantly which had a knock-on effect on the country’s economic growth. Commodity prices are susceptible to volatile global economy and as such, a sound approach to hedge this risk is diversity within sectors.

*Economic exploitation*

In order to achieve its development goals, one of the many ways[[95]](#footnote-95) Sierra Leone has been promoting the country as an attractive location for foreign direct investment is by offering tax incentives to foreign investors. Tax incentives can play a major part in making FDI location decisions for investors in export oriented sectors.[[96]](#footnote-96) Taxes raised from companies are normally used to fund public services such as education, healthcare and the overall welfare of the population. In the case of Sierra Leone, the impact of such incentives to the extractive industry has been highlighted as quite pronounced. The government through various legislations has provided tax incentives such as customs duties and payment of Goods and Services Tax, and reduction in rate of income tax payable by corporations to investors in the extractive industry. In a report by the charity Christian Aid UK, tax incentives granted to mining companies by government have played a major part in Sierra Leone’s low tax revenue and resulting in massive revenue losses for the country’s economic development.[[97]](#footnote-97) It is estimated that the lost revenue from these incentives; customs duty and Goods and services Tax exemptions, was worth around US$224 million in 2012 which amounted to a whopping 8.3 percent of GDP.[[98]](#footnote-98) It is estimated that because of the decision to grant corporate income tax incentive to several companies in the mining sector, Sierra Leone will lose about USD$131m between 2014 and 2016 with major losses resulting from African Minerals and London Mining’s[[99]](#footnote-99) mining agreement (table 7 and table 8)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 7: Current income tax payments from five Mining Companies (US $m)** | | | | |
|  | **2014** | **2015** | **2016** | **Total** |
| African Minerals | 20 | 76 | 60 | 156 |
| London Mining |  |  | 14 | 14 |
| Koidu Holdings |  |  | 3 | 3 |
| Vimetco | 3 | 5 | 5 | 13 |
| Sierra Rutile | 6 | 25 | 27 | 58 |
| Total | 29 | 106 | 109 | 244 |
| Source: The Ministry Of Finance and Economic Development SL/IMF Mining Revenue Model | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 8: Corporate income tax payments at 30 per cent (US $m)** | | | | |
|  | **2014** | **2015** | **2016** | **Total** |
| African Minerals | 28 | 106 | 84 | 218 |
| London Mining |  | 1 | 82 | 83 |
| Koidu Holdings |  |  | 3 | 3 |
| Vimetco | 3 | 5 | 5 | 13 |
| Sierra Rutile | 6 | 25 | 27 | 58 |
| Total | 37 | 137 | 201 | 375 |
| Source: The Ministry Of Finance and Economic Development SL/IMF Mining Revenue Model | | | | |

One of the objectives of the ‘Agenda for Prosperity’ is to implement the poverty reduction strategy where over 80 per cent of the population would be living above the poverty line. With these loss in tax revenue, it would be difficult for the government to achieve its objective without increasing its revenue. It would also be difficult for Sierra Leone to tackle its widening fiscal deficit.[[100]](#footnote-100) Developing countries like Sierra Leone are faced with the dilemma of being sustainable over time and at the same time develop policies that would help the government increase its revenue that would promote growth and improve the welfare of the country.

**Section 3: Comparative review of FDI in Angola**

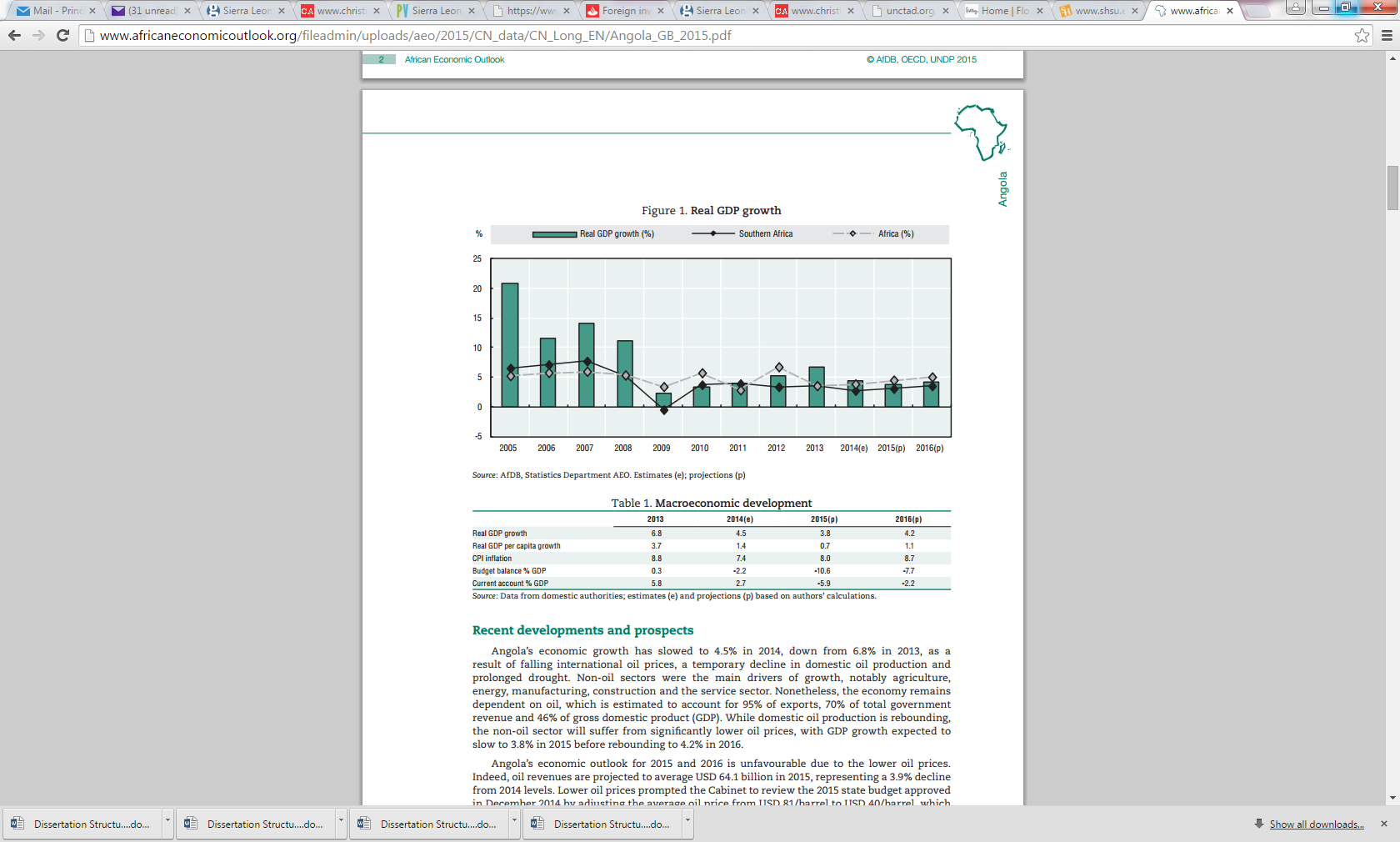
The purpose of this section is to do a comparative study between actions taken by both Sierra Leone and Angola in a bid to enhance economic development in their respective economies. Both countries took the initiative to be more practical in bringing economic reform and liberalising their investment environment by opening up to foreign direct investment at around about the same time. Prima facie, Angola has made great progress[[101]](#footnote-101) in its quest for a developed economy, and in the process has achieved an upper middle income level status by the World Bank with GDP of $131.4 billion in 2014.[[102]](#footnote-102) Notwithstanding the differences in population[[103]](#footnote-103) and geographical land mass, Angola was chosen as a subject because of the similarities in the two countries past political instability, endowment of natural resource and attempts to achieve economic development post-civil war (Appendix 2).

Like Sierra Leone, Angola went through a gruesome civil war which ended in 2002 with devastating socio-economic effect. The country’s economy stalled[[104]](#footnote-104) and went through severe crisis with weak and unstable institutions, high unemployment and poverty rate. Following the end of the war, political stability and investment were needed to foster business. New laws were adopted in order to encourage the flow of foreign investment into the country. Among these were fiscal incentives, tax exemptions for industrial and customs in a bid to facilitate foreign investment in the private sector. On the 4th of July 2003, the National Agency for Private Investment[[105]](#footnote-105) (ANIP = Agência Nacional para o Investimento Privado) was established by Decree no. 44/03.[[106]](#footnote-106) It is responsible for the promotion of private investment activities in Angola[[107]](#footnote-107) in accordance with the Private Investment Law (PIL –Law 11/03, 13 May 2003, the Tax and Customs Incentives Law (Law 17/03, 25 July 2003), and the Company Law (Law 1/04, 13 February 2004).

In a brief summary, the responsibilities of the ANIP are:

“Promote favourable conditions and provide the necessary support for investments in the country, whether they are of domestic or foreign origin, in accordance with the provisions of the Private Investment Law and complementary legislation; to ensure the reception and monitoring of all investment projects, according to the legislation; register and monitor, in coordination with the National Bank of Angola, under the exchange legislation and other complementary legislation and that may be approved, investors from investments abroad, as part of the Angolan internationalization; contribute to the implementation of government policies that are intended to support the growth of a diverse and stable economy that will allow Angola to participate more fully in the global economy”.[[108]](#footnote-108)

Angola has seen rapid growth in its economy since 2005 (see figure 3). This growth has been strongly attributed to the increase in oil production from the booming oil prices and new oilfields, and also to strong growth in the manufacturing and construction industries (see figure 4). In 2013, oil and gas accounted for nearly 65 per cent of GDP with diamonds bringing in two per cent according to the African Economic outlook[[109]](#footnote-109) (2013) report.[[110]](#footnote-110) Other contributors are services (17.5 per cent), agriculture, forestry & fishing (5.4 per cent), manufacturing (17.5 per cent) and construction (10.4 per cent)

**Figure 3: Angola’s Real GDP Growth**

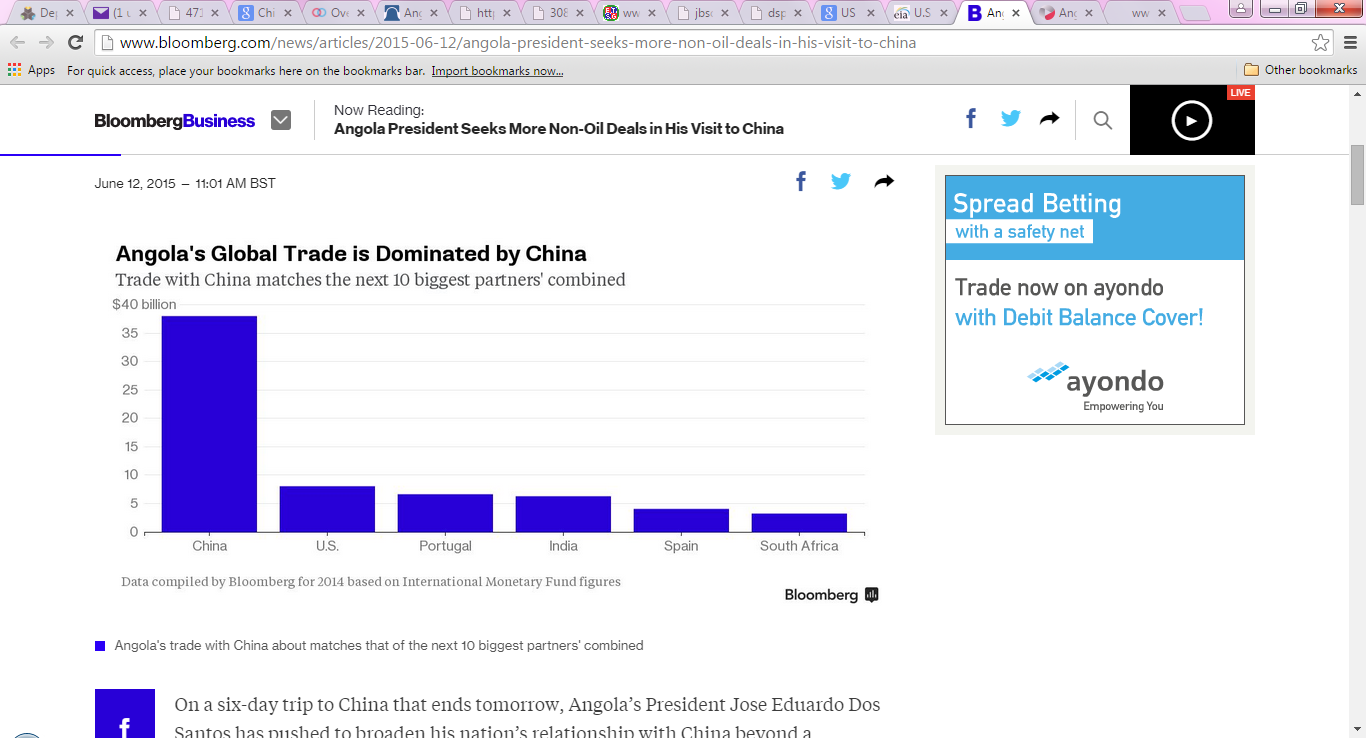
Source Africa Economic Outlook Angola

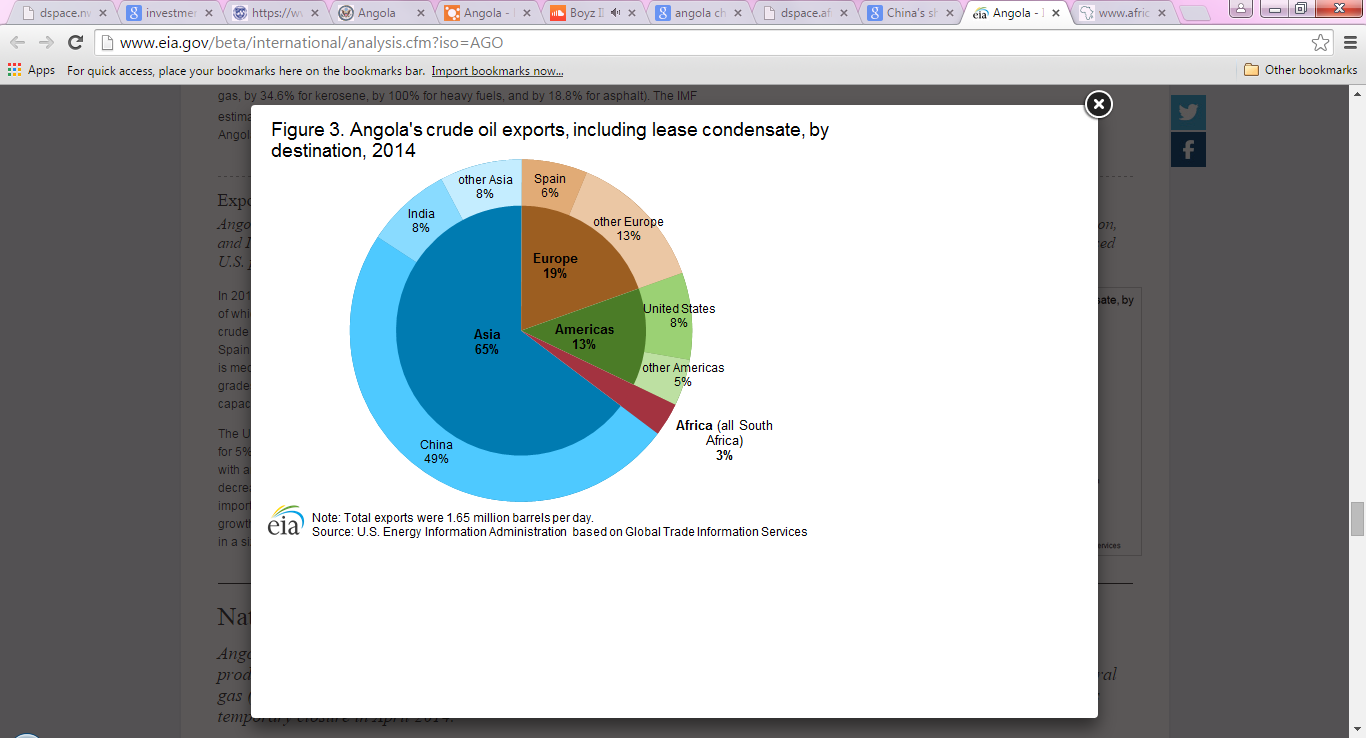
During my research and while reviewing the successes and shortfalls of the Angolan economy since the war came to an end in 2002, and in trying to pinpoint the reasons behind the growth in GDP and FDI inflow, it became apparent that this growth is attributed to two main factors; its oil reserves and the global demand for oil, and China’s resource-for-infrastructure approach.

*The global demand for oil*

A considerable value of natural resources is exported from Africa every year and Angola is no exception to this. It is ranked amongst the top 20 oil reserves in the world,[[111]](#footnote-111) and as such the production of oil has dominated the country’s global export[[112]](#footnote-112). Angola is the second largest[[113]](#footnote-113) oil producer in Africa, after Nigeria, and its natural-resource sector is the driving force of its economy.[[114]](#footnote-114) Oil production together with its associated activities plays a major part in its economy as it contributes over 95 per cent of exports and 45 per cent of the nation’s gross domestic product.[[115]](#footnote-115) The production of oil started back in 1950s and since then the country heavily depends on the sector. [[116]](#footnote-116) However, the sharp decline in global oil prices and unscheduled maintenance of oilfields hit the economy.[[117]](#footnote-117) It is estimated that the economy will suffer with GDP growth decelerating to 3.8 per cent in 2015 and 4.2 per cent in 2016, down from the 4.5 per cent registered in 2014. This underlines the need for a diverse export economy to hedge against risk in any one sector as diversification policy has been largely absent from the agenda of the government.

The inflow of FDI to the oil rich African countries such as Angola and Nigeria saw continuous growth in recent years[[118]](#footnote-118) and during the oil price boom, interest from the developed world rose in African oil.[[119]](#footnote-119) One of the reasons Africa saw high investments in its oil industry was as a result of the rapid economic growth in Asia. The growth triggered high demand for African oil from China and is now one of the biggest sources of FDI received by the African oil sector. Angola’s oil industry is hugely dependant on trades with China (figure 5). Between 45-50 per cent of crude export from Angola heads to China every month (figure 6) and it remains the second largest source of imported crude oil for China (figure 7). It is estimated that about 72 per cent of Angola’s tax revenue was derived from oil in 2014.[[120]](#footnote-120)

**Figure 5: Angola’s Global Trade is dominated by China**

**Figure 6: Angola’s crude oil exports, including lease condensate, by destination 2014**

Source: U.S Energy Information Administration based on Global Trade Information Services

***Relationship with China (Chinese resource-for-infrastructure)***

The relationship between Angola and China denotes a period when economies in Africa have access to alternative options in seeking much needed debt financing and for development projects.[[121]](#footnote-121) Back in the 1980’s and 1990’s the IMF, the World Bank and their subsidiaries were the main sources for development projects and debt financing for most African economies. With offers from the likes of the IMF and the World Bank came stringent conditions that were perceived as counterproductive to the cause.[[122]](#footnote-122) During this process, a number of African countries struck deals with financial institutions based in Beijing which are resourced-based, and came with fewer obstacles such as political and diplomatic entanglement juxtapose to western offers.[[123]](#footnote-123) Angola was able to start the process of rebuilding its damaged infrastructure after Beijing extended loans to the country in a series of oil-for-infrastructure deals between 2004 and 2007[[124]](#footnote-124). It also happened that during this period, Angola was faced with difficulties in securing capital from the IMF and the Paris Club.[[125]](#footnote-125) The oil-for-infrastructure model between the two countries offered Angola an allied when the likes of the IMF and World Bank were more concerned with conditionality.[[126]](#footnote-126) The question being asked by many is whether this path is prudent and what is the likely downside for Angola. The answer many say is yes, due to the lack of conditionality that may take the pressure off the government of Angola to make improvements in its governance, transparency and reduction of poverty which China have stated are internal domestic issues pertaining to the host country.[[127]](#footnote-127) One can say that these doubts of the lack of conditionality is evident statistically with Angola still being classed as one of the poorest and most corrupt countries in the world with a ranking of 161 (out of 175) on the 2014 Transparency International Corruption Perception Index[[128]](#footnote-128) and 149 (out of 187) on the 2013 UNDP Human Development Index.[[129]](#footnote-129) Inequality remains a problem despite the impressive growth in recent years.

To summarise data reviewed, there are salient features that emerged from the analysis. Firstly, Angola is heavily dependent on its oil exported to trading partners, China especially, with just a minor contribution from other sectors such as diamonds and fish. The second is that during the oil price boom oil exports increased dramatically because of high demands. Angola and Sierra Leone are both countries richly endowed with natural resources and the problem facing the vast majority of the African region is how to grow and improve their economies through developing and extracting these resources. The continent lacks the investment funding, skills and technical knowledge to develop the sector in extracting these resources and therefore it needs FDI to develop this sector. Data has shown that there has been a shift away from investment from the extractive industries even though investors have traditionally favoured assets in the natural resource. The continent has seen a rise in investment in other sectors such as telecoms, media, and technology which accounted for over 50 percent FDI projects in 2013 (figure 6).[[130]](#footnote-130)

Source: FDI Intelligence

**Conclusion**

The literature review underlined that FDI can lead to growth based on different scenarios and conditions on both the host country’s side and the investor’s side. Most of the literature found a positive effect on grow in the developing countries such as employment, technology spillovers and in the case of Sierra Leone and Angola, real GDP growth. However, other literature are not in agreement with this and as empirical evidence came to light during the cause of this research, FDI does not automatically guarantee economic growth.

Sierra Leone’s economic development was stopped in its tracks by the outbreak of the Ebola virus and also as a result of the drop in commodity prices. From the data analysed, it is evident that there is regress forecasted for the next few years. As the virus begins to subside, the government is faced with post-Ebola recovery efforts to get the economy back on track while in the meantime dependant on foreign aid to sustain the economy and facilitate government spending. What also became apparent was that negative impact the tax incentives granted to several mining companies was having on the government’s tax revenue and the general economic growth. On a global level, the main finding from this comparative review is that within the past decade, foreign investment in both Sierra Leone and Angola is driven by a similar factor, natural resources. FDI inflow in Angola is driven by its production of oil, while in Sierra Leone the FDI inflow in recent years is driven by the production of iron ore. It also became apparent that the two countries heavy reliance on the production and export of these commodities was affected by the global volatility in commodity prices which had a knock-on on the growth of the respective economies. This presents the risk faced by both countries and the need for a diverse investment policy to focus FDI inflows on other potentially viable sectors. Angola’s relationship with China through the oil-for-infrastructure arrangement has also contributed to its economic growth although there has been literature on the likely downside to China’s lack of conditionality approach.

**Chapter 4**

The findings during the course of this research have posed some doubts on the FDI effect on growth. It is the belief of many developing countries that FDI would bring about economic growth through the transfer of skills, technology spillover, job creation and export growth, however, this is not always the case. It must be emphasised that MNEs choose to operate in other countries not because they want to transfer skills, knowledge or create technology spillover but with the aim of establishing a subsidiary in the host country with the aim of exploiting the conditions prevailing in the target country.[[131]](#footnote-131) This could be inter alia, fewer or skewed regulations, cheap labour cost, access to abundant natural resources, and favourable tax incentives. The research gathered that in the case of Sierra Leone, FDI was not the major catalyst for the GDP growth it experienced post-conflict and before the Ebola outbreak. It was due to the export of the iron ore to the international commodity market

When considering the policy implications to FDI, policy makers should be placing more focus on stimulating economic growth through alternative measures other than attracting FDI. Merely removing certain restrictions will not guarantee economic growth as demonstrated in the case of Sierra Leone. Better policy alternatives in fostering economic growth should be directed at stimulating technology and exports and domestic infrastructure investment. It is only after a country has achieved development to a certain level that the positive growth associated with FDI will benefit the host country.

In most cases, FDI is usually concentrated in a sector of the economy. For example, the growth benefited from the FDI inflow in Sierra Leone was restricted to the mining sector. As identified in chapter 3, the trend in FDI flows into Africa in the past few years has steered away from the mining sector and now focused on the telecommunications, media and technology sector, more research should be conducted to determine the likely impact on growth.

The most important questions faced by foreign investment policy makers in countries such as Sierra Leone, Angola and all other developing countries endowed with abundant natural resources is how to convert this resource wealth into economic growth outside the extractive industry and to ensure the foundation for the country’s continued growth is well established as the reserves are gradually depleted. The ‘Natural Resource Management Value Chain’[[132]](#footnote-132) is a framework that seeks to address this crucial question. In this value chain, the steps that governments can adopt to convert resource wealth into productive capital is outlined (figure 9). The value chain also draws attention to the challenges that countries are likely to face when it comes to governance and technical obstacles in achieving its development goals. As the export concentration in both Sierra Leone and Angola are focused on iron ore and oil respectively, the challenges of addressing natural resources management is more heightened because of their less diverse exports.

**Figure 9: The Natural Resource Management Value Chain**

Sustainable Development

Non-Renewable Resources

Implementation of Sustainable Development Policies and Projects

Revenue Management and Allocation

Collection of Taxes and Royalties

Regulation and Monitoring of Operations

Award of contracts and licenses

**Overarching Imperatives:** Ensure Transparency and Accountability across the Entire Value Chain, as well as Sound Macroeconomic Management of Fiscal Flows

Source: World Bank

The value chain contains components which covers the extraction and awarding of licences with the all important role of regulating and monitoring of operations. It is imperative to maintain the legal and regulatory framework to make sure the maximum value is attained. Tax collection is the other important component to the value chain. This needs to be efficient to attain maximum value from natural wealth. This is currently an issue in Sierra Leone with the tax incentives granted to several mining companies resulting in the loss of tax revenue for the government. This also means transparency in the governance and management of the revenue from the extractive industry. The final component to the value chain is the investment of income generated from the resource wealth. This will ensure the revenue generated will be invested in meaningful public projects that would promote economic growth and reduce the high poverty rate in the country.

**Chapter 5**

**Conclusion**

The principal implication of this research is that there is a correlation between FDI, economic growth and law. To an extent, it is justifiable that initiatives were taken by the governments to enact laws that would attract FDI flow to their economies. In the case of Sierra Leone, the reforms to the investment laws were necessary as the country embarked on a journey to recovery after the end of the civil war in 2002. Post conflict, Sierra Leone began the process of transforming its inward looking system to a liberalised economy and introduced an open market, under the supervision of the World Bank and other development bodies, and brought about the relaxing of the various regulations relating to foreign investment policies.

Because many African nations are dependent on primary commodities, it is crucial to estimate the impact of FDI on growth by sector. As they aim to meet the Millennium Development Goals (MDG) and pull their populations out of poverty, African countries need to be able to attract the kind of FDI that augments economic growth. Research that estimates FDI’s effectiveness by sector will equip governments with the information necessary to establish policies that channel FDI to the appropriate sectors of their economies.

Sierra Leone has an economy that is still perceived to be fragile and also one that is still dependant on donor support to meet its fiscal budget. The task of growing an economy that still relies on donor funding so as to encourage more medium and long term foreign investors is still paramount. With the recent outbreak gradually receding and imposed restrictions being eased, the country faces the task of rebuilding the economy.

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**Appendix 1 (List of Companies in the Extractive Industry)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Companies** | **Sector** | **TPIN** | **Licence Number** | **Activity (Exploration/Exploitation)** | **Minerals Extracted/Exported** | **Production** | **Equity Ownership** |
| 1 | London Mining Company | Mining | 1001359-0 | ML 02/09 | NP | Iron-ore | NP | NP |
| 2 | Koidu Holdings S A | Mining | 1001358-5 | ML 06/95 | NP | NP | NP | NP |
| 3 | H.M Diamonds | Mining | 1000351-9 | DEL 12/2011 | Exportation | Diamond | N/A | Hisham Mackie 90% and Ouusama Mattar 10% |
| 4 | Africa Mineral Limited (Consolidated) | Mining | 1001883-8 | 1AML01A/10 | Exploitation | Ore | 190,932 mtpa | TIO(75% AML and 25% SISG) ARPS (65% AML Group, 25% SISG & 10 GoSL) |
| 5 | Sierra Minerals Holdings No. 1 Limited | Mining | 1000672-9 | ML 01/05  EL 59/2011  EL 60/2011  EL 01/2012 | Exploitation | Bauxite | 1,320,751 | ALUM SA holds 100% of Global Aluminium Global Aluminium Holds 100% of Sierra Minerals Holdings 1 Limited |
| 6 | Kassim K. Basma | Mining | Company: 1025212-6  NRA: 1000351-9 | DEL/10/2011 | Exportation | Diamond | N/A | Sole Proprietor |
| 7 | Sierra Rutile Limited | Mining | 1000306-2 | ML 2134 | NP | Heavy Minerals Sand | NP | NP |
| 8 | Shawke B. Shour | Mining | 1020041-5 | 14/2011 | Exportation | Diamond | N/A | Sole Proprietor |
| 9 | Cluff Golds (SL) Limited | Mining | 1005704-8 | ML02/08/  Expl 30/04 | NP | Gold | NP | NP |
| 10 | Metal Exploration (SL) Limited | Mining | 1011695-8 | NP | NP | NP | NP | NP |
| 11 | Murray Investment Company Limited | Mining | 1026512-3 | DEL 01/2011 | Exportation | Diamond | N/A | Sole Proprietor |
| 12 | Marampa Iron Ore (SL) limited | Mining | 1001887-0 | EL 06/09 | NP | NP | NP | NP |
| 13 | Kinho Investment Company Limited | Mining | 1013683-0 | El 21/2010 | Exploration | Iron ore | N/A | The Chairman (Qinghua Huo) is 100% shares owner |
| **No** | **Companies** | **Sector** | **TPIN** | **Licence Number** | **Activity (Exploration/Exploitation)** | **Minerals Extracted/Exported** | **Production** | **Equity Ownership** |
| 14 | AMR Gold (SL) Limited | Mining | 1022760-6 | EL 47/2011 | Exploration | N/A | N/A | AMR Gold is Joint Venture Company between Bedrock Group and Israel Holding Group |
| 15 | West Africa Zircon Mining (SL) Limited | Mining | 1016411-2 | EL 08/2010 | Exploration | Zircon | N/A | Mr Taklam Wong  Mr Alphonso Yarjah |
| 16 | Lion Stones (SL) Limited | Mining | NP | NP | NP | NP | NP | NP |
| 17 | West Africa Group for Mining Gold and Diamond (SL) Limited | Mining | 1022766-9 | EL 37/2011 | NP | NP | NP | NP |
| 18 | Diam Investment (SL) Limited | Mining | NP | NP | NP | NP | NP | NP |
| 19 | Danasha Gem (SL)Limited | Mining | NP | NP | NP | NP | NP | NP |
| 20 | Akar, Hasanein Ibrahim | Mining | NP | NP | NP | NP | NP | NP |
| 21 | Shanti Sierra Limited | Mining | 1027764-9 | NP | NP | NP | NP | NP |
| 22 | Lukoil Oversea Sierra Leone | Oil & Gas | NP | NP | NP | NP | NP | NP |
| 23 | Anadarko (SL) Company | Oil & Gas | 1105488-2 | SL-078-11 | NP | NP | NP | NP |
| 24 | European Hydrocarbon limited UK | Oil & Gas | NP | SL-03 | NP | NP | NP | NP |
| 25 | Tallisman Sierra Leone BV/Prontinal Limited | Oil & Gas | NP | NP | NP | NP | NP | NP |

Source: Moore Stephens LLP

**Appendix 2: Comparative Data (Sierra Leone and Angola)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Measures** | **Year** | **Sierra Leone**  **Index/Rating** | **Angola**  **Index/Rating** |
| TI Corruption Perception Index | 2014 | 119 of 175 | 161 of 175 |
| Heritage Foundation’s Economic Freedom Index | 2014 | 147 of 178 | 158 of 178 |
| World Bank’s Doing Business in 2014 Report | 2015 | 140 of 189 | 181 of 189 |
| Real GDP Growth | 2015 | -12.8 | 4.2 |
| Signed BIT Agreements | 2014 | 3 | 7 |
| Of which enforced |  | 2 | 4 |
| International Investment Disputes | 2015 | 0 | 0 |
| HDI Ranking | 2014 | 183 | 149 |

Source: Compiled by author based on information from international organisations

1. Please refer to: Thomas Farole and Deborah, ‘Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness in Global Value Chain’ (World Bank Report) <https://openknowledge.worldbank.org/bitstream/handle/10986/16390/9781464801266.pdf?sequence=1> last accessed 1 August 2015 [↑](#footnote-ref-1)
2. Ibid [↑](#footnote-ref-2)
3. United Nations Conference on Trade and Development, ‘World Investment Report 2007: Transnational Corporations, Extractive Industries and Development Definitions and Sources’ < http://unctad.org/en/Docs/wir2007p4\_en.pdf> last accessed 20 August 2015 [↑](#footnote-ref-3)
4. Portfolio management involves the buying of securities on the stock market. Please see: Thomas F. Rutherford, ‘Extension of GAMS for complementarity problems arising in applied economic analysis’ Journal of economic dynamics and control, (1995), pp 1299 – 1324. [↑](#footnote-ref-4)
5. For a summary of the contrasting differences between FDI and portfolio investment please see: Itay Goldstein and Assaf Razin, ‘Foreign Direct Investment vs Foreign Portfolio Investment’ (January 2005) < http://www.nber.org/papers/w11047.pdf> last accessed 19 August 2015 [↑](#footnote-ref-5)
6. Supra note 5, Goldstein and Razin [↑](#footnote-ref-6)
7. Evans Paull, ‘The environmental and economic impacts of Brownfields Redevelopment’ (July 2008), < http://www.nemw.org/wp-content/uploads/2015/06/2008-Environ-Econ-Impacts-Brownfield-Redev.pdf> last accessed 27 August 2015 [↑](#footnote-ref-7)
8. Larry D. Qiu and Shengzu Wang, ‘FDI Policy, Greenfield Investment and Cross-Border Mergers. Review of International Economics (November 2011), pp 836–851. [↑](#footnote-ref-8)
9. Please see: Saul Estrin and Klaus Meyer, ‘Brownfield Acquisitions: A Re-conceptualisation and Extension’ (Management International Review, 2011)

   < http://www.klausmeyer.co.uk/publications/2011\_Estrin\_Meyer\_MIR\_brownfield.pdf > last accessed 20 August 2015 [↑](#footnote-ref-9)
10. Lindani B. Ndlovu , ‘Challenges and Opportunities for LDCs: Graduation and Structural Transformation: Case study on Liberia and Sierra Leone’ February 2012 <http://unctad.org/en/Docs/aldcmisc2011d12\_en.pdf> last accessed 31 July 2015 [↑](#footnote-ref-10)
11. Supra note 10, Ndlovu [↑](#footnote-ref-11)
12. According to a report done by World’s Top Export, Sierra Leone is ranked 10th on the list of countries that exported the highest dollar value worth of iron in 2014 with a value of $1,722,403,000. Sierra Leone was the fastest growing iron ore exporter since 2010 (up 28,706,616%),See report on: Daniel Workman, ‘World Top Export: Iron Ore Exports by Country’ August 19 2015, < http://www.worldstopexports.com/iron-ore-exports-country/3226> last accessed 23 August 2015 [↑](#footnote-ref-12)
13. The Central Intelligence Unit (CIA), ‘The World Fact Book: Sierra Leone ‘ August 6 2015, <https://www.cia.gov/library/publications/the-world-factbook/geos/sl.html> last accessed 20 August 2015 [↑](#footnote-ref-13)
14. Supra note 13, CIA [↑](#footnote-ref-14)
15. More than two million people were displaced which at the time made up nearly half the population of the country. Infrastructure was badly damaged, farms abandoned and large-scale mining ceased [↑](#footnote-ref-15)
16. Sierra Leone’s ranking has always been among the bottom five countries [↑](#footnote-ref-16)
17. Please refer to: United Nations Development Programme, ‘Human Development Index and its Components’ <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components> last accessed 15 August 2015 [↑](#footnote-ref-17)
18. See policy review on: United Nations Conference on Trade and Development (UNCTAD), ‘Investment Policy Review Sierra Leone 2010’ <http://unctad.org/en/Docs/diaepcb200914\_en.pdf> last accessed 19 July 2015 [↑](#footnote-ref-18)
19. Supra note 18, UNCTAD [↑](#footnote-ref-19)
20. African Development Bank Group, ‘Sierra Leone Country Strategy Paper 2013-2017’ April 2013, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2017%20-%20Sierra%20Leone%20Country%20Strategy%20Paper\_01.pdf> last accessed July 20 2015 [↑](#footnote-ref-20)
21. Please see KPMG, ‘Monitoring African Sovereign Risk: Sierra Leone Snapshot’ <https://www.kpmg.com/Africa/en/KPMG-in-Africa/Documents/2015%20Q1%20Snapshots/KPMG\_Sierra%20Leone%202015Q1.pdf> last accessed July 19 2015 [↑](#footnote-ref-21)
22. Supra note 21 [↑](#footnote-ref-22)
23. Supra note 20, African Development Bank Group [↑](#footnote-ref-23)
24. Supra note 13, The Central Intelligence Unit [↑](#footnote-ref-24)
25. Please see: World Bank Group, ‘The Economic Impact of the 2014 Ebola Epidemic Short and Medium-Term Estimate for West Africa’ <https://openknowledge.worldbank.org/bitstream/handle/10986/20592/9781464804380.pdf> last accessed July 21 2015 [↑](#footnote-ref-25)
26. Supra note 21, KPMG [↑](#footnote-ref-26)
27. See publication on: Reuters, ‘Iron ore producer African Minerals to go into administration’ March 6, 2015, <http://www.reuters.com/article/2015/03/06/african-minerals-administration-idUSL5N0W83NH20150306> last accessed July 22 2015 [↑](#footnote-ref-27)
28. International Monetary Fund, ‘Resources to fight Ebola’ March 25 2015, <http://www.imf.org/external/pubs/ft/survey/so/2015/car030315a.htm> last accessed July 22 2015 [↑](#footnote-ref-28)
29. Supra note 13, The Central Intelligence Unit [↑](#footnote-ref-29)
30. Supra note 18, UNCTAD [↑](#footnote-ref-30)
31. The Investment Promotion Act 2004 does not contain any list of sector limitations to FDI entry. A comprehensive list of restrictions is available on WTO GATS members’ schedule. [↑](#footnote-ref-31)
32. See Act on: Sierra Leone Laws. ‘The Investment Protection Act, 2004’ <<http://www.sierra-leone.org/Laws/2004-10p.pdf>> last accessed July 27 2015 [↑](#footnote-ref-32)
33. Supra note 18, UNCTAD [↑](#footnote-ref-33)
34. This includes the facilitation of obtaining registry, permits, licenses, certificates/clearances and identifying joint venture partners. [↑](#footnote-ref-34)
35. Supra note 18, UNCTAD [↑](#footnote-ref-35)
36. Bilateral investment treaties (BITs) appear to play a limited role in FDI decisions. There is a fairly large body of work on the importance of BITs for FDI, with scholars on both sides. Theoretically, BITs can help take the place of domestic rule of law or democratic institutions by providing legal assurances directly to investors. Using these agreements, host countries can overcome deficiencies in other areas and boost their attractiveness to investors. These BIT commitments are seen as more credible than the domestic commitments because the BITs typically include an enforcement mechanism to ensure compliance. Formally stronger BITs should then lead to a greater increase in FDI than formally weak BITs. A World Bank economist (Mary Hallward-Driemeier) and a few other scholars such as Jennifer Tobin and Susan Rose-Ackerman (Foreign Direct Investment and the Business Environment in Developing Countries: The Impact of Bilateral Investment Treaties,2005), and Jason Webb Yackee (Bilateral Investment Treaties, Credible Commitment, and the Rule of (International) Law: Do BITs Promote Foreign Direct Investment?,2008) all fail to find a relationship between FDI and BITs, while other studies by Jeswald W. Salacuse and Nicholas P. Sullivan (Do BITs Really Work?: An Evaluation of Bilateral Investment Treaties and Their Grand Bargain, 2005) and Eric Neumayer and Laura Spess (Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries, 2005) find a positive relationship between the two. [↑](#footnote-ref-36)
37. Extractive Industries Transparency Initiative, ‘Sierra Leone’ <<https://eiti.org/SierraLeone>> last accessed July 29 2015 [↑](#footnote-ref-37)
38. WTO, Trade Policy Review Body, Trade policy Review Sierra Leone Report by the Secretariat, 7 January 2005 [↑](#footnote-ref-38)
39. Supra note 32, Sierra Leone Laws [↑](#footnote-ref-39)
40. Please refer to: International Centre for Settlement of Investment Disputes (ICSID), ‘ICSID Membership: Sierra Leone’ <https://icsid.worldbank.org/apps/ICSIDWEB/about/Pages/Database-of-Member-> last accessed 29 August 2015 [↑](#footnote-ref-40)
41. Supra note 40, ICSID [↑](#footnote-ref-41)
42. Sierra Leone Laws, ‘The Companies Act, 2009’ <http://www.sierra-leone.org/Laws/2009-05.pdf> last accessed July 30 2015 [↑](#footnote-ref-42)
43. Transparency International, ‘Corruption Perceptions Index’ <http://www.transparency.org/research/cpi/overview> last accessed 7 August 2015 [↑](#footnote-ref-43)
44. Sierra Leone Laws, ‘The Anti-Corruption Act, 2008’ <http://www.sierra-leone.org/Laws/2008-12.pdf> last accessed 29 July 2015

    The rescinded act of 2000 did not meet the clauses of the international treaties adopted by Sierra Leone post war neither did it give the Anti-Corruption Commission the powers to prosecute [↑](#footnote-ref-44)
45. Index of Economic Freedom 2015, ‘Sierra Leone’ <http://www.heritage.org/index/country/sierraleone> last accessed 29 July 2015 [↑](#footnote-ref-45)
46. Supra note 18, UNCTAD [↑](#footnote-ref-46)
47. Sierra Leone Laws, ‘The Non-citizens (Interest in Land) Act. 1966 <http://www.sierra-leone.org/Laws/1966-30.pdf> last accessed 29 July 2015 [↑](#footnote-ref-47)
48. Supra note 18, UNCTAD [↑](#footnote-ref-48)
49. As did the two major foreign companies (London Mining and Africa Minerals) in iron ore production industry [↑](#footnote-ref-49)
50. Which includes development of skills, revenue through tax, employment opportunities and infrastructure [↑](#footnote-ref-50)
51. On the 15th of September 2014, Sierra Leone was granted an extension to the deadline for preparing the 2012 EITI report on by the EITI Board as a result of the Ebola outbreak. The original submission date was 31st December 2014 [↑](#footnote-ref-51)
52. Please see: National Resource Governance Institute, ‘Sierra Leone Extractive Industries’ <http://www.resourcegovernance.org/countries/africa/sierra-leone/extractive-industries> last accessed 31 July 2015 [↑](#footnote-ref-52)
53. Please see: Sierra Lone Extractive Industries Transparency Initiative (SLEITI), ‘Reconciliation Report for The Year 2011’ December 2013 <https://eiti.org/files/SLEITI%20Reconciliation%20Report%202011%20-%20Final.pdf> last accessed 29 July 2015 [↑](#footnote-ref-53)
54. Please refer to: Herbert Smith Freehills LLP, ‘Mining in Sierra Leone: an overview of the current legal framework’ May 2015 <http://www.lexology.com/library/detail.aspx?g=0f68dda3-1d7a-4770-b96a-d6df219e3fd0> last accessed 31 July 2015 [↑](#footnote-ref-54)
55. Supra note 37, EITI [↑](#footnote-ref-55)
56. See press release on: Chevron, ‘Chevron Awarded Deepwater Interest Offshore Sierra Leone’ (September 2012) < http://www.chevron.com/chevron/pressreleases/article/09262012\_chevronawardeddeepwaterinterestoffshoresierraleone.news> last accessed 30 August 2015 [↑](#footnote-ref-56)
57. Sierra Leone Laws, ‘Environment Protection Agency Act, 2008’ <http://www.sierra-leone.org/Laws/2008-11.pdf> last accessed 31 July 2015 [↑](#footnote-ref-57)
58. Supra note 57, Sierra Leone Laws [↑](#footnote-ref-58)
59. The participants of the scheme are restricted to only trade with other participants who have met the minimum requirements of the KPCS. To guarantee that the rough diamonds are conflict free, all shipments of rough diamonds must be accompanied by the KP certificate. Please see more information the Kimberly Process website on: The Kimberley Process (KP) <http://www.kimberleyprocess.com/en> last accessed 1 September 2015 [↑](#footnote-ref-59)
60. The Mano River Union (MRU) was created a regional integration organisation on the 3rd of October, 1973 by the Malema Declaration. This was initially signed by the President of the Republic of Sierra Leone, Dr. Siaka Stevens and the President of the Republic of Liberia, President William Tolbert Junior. The Republic of Guinea and the Republic of Cote d'Ivoire joined the union on the 25th of October, 1980 and the 15th of May 2008 respectively. The name Mano was chosen because the River Mano is the formal boundary between the two original member states: Sierra Leone and Liberia. The mission of the Union is to sustain peace and security in the region as well as promote, support and enhance socio-economic development to improve the standard of living and wellbeing of the citizens of the Union’s member states. Please refer to: Mano River Union, ‘Welcome to the Mano River Union’ <http://manoriverunion.int/About\_Us.html> last accessed 25 August 2015 [↑](#footnote-ref-60)
61. Please refer to: United Nations Conference on Trade and Development, ‘World Investment Report 2015; Reforming International Investment Government’ <http://unctad.org/en/PublicationsLibrary/wir2015\_en.pdf> last accessed 16 August 2015 [↑](#footnote-ref-61)
62. United Nations Conference on Trade and Development, ‘World Investment Report 2011; Non-Equity Modes of International Production and Development’ <http://unctad.org/en/PublicationsLibrary/wir2011\_en.pdf> last accessed 16 August 2015 [↑](#footnote-ref-62)
63. James Markusen, ‘The Boundaries of Multinational Enterprises and the Theories of International Trade’ The Journal of Economic Perspectives, Vol. 9 No.2. (1995),pp. 169-189 [↑](#footnote-ref-63)
64. Please refer to Richard E.Caves, ‘Multinational Enterprise and Economic Analysis (1996)’, 2nd ed. Cambridge: Cambridge University Press. [↑](#footnote-ref-64)
65. Supra note 64, Caves [↑](#footnote-ref-65)
66. Borensztein, E., J. De Gregorio, and J.W. Lee (1998): “How Does Foreign Direct Investment Affect Economic Growth?” in Journal of International Economics 45, p.115–135. The work done by Borensztein also suggests that other local conditions such as educational level plays a significant role in allowing positive effects of FDI to materialise. [↑](#footnote-ref-66)
67. Ronald Findlay, ‘Relative Backwardness, Direct Foreign Investment and the Transfer of Technology: A Simple Dynamic Model 1978’ Quarterly Journal of Economics 92: 1-16. [↑](#footnote-ref-67)
68. Gordon Hanson, ‘Should Countries Promote Foreign Direct Investment?’ G-24 Discussion Papers 9, United Nations Conference on Trade and Development, February 2001 < http://unctad.org/en/Docs/pogdsmdpbg24d9.en.pdf> last accessed 24 August 2015 [↑](#footnote-ref-68)
69. Albert O. Hirschman, ‘The Strategy of Economic Development’, New Haven: Yale University Press 1958. [↑](#footnote-ref-69)
70. Peter Nunnenkamp, and Julius Spatz, ‘Foreign Direct Investment and Economic Growth in Developing Countries: How Relevant Are Host-Country and Industry Characteristics?’ (2003) Kiel Institute for World Economics 1176, pp45. [↑](#footnote-ref-70)
71. This is where firms seek investment in countries rich in natural resources such as oil, minerals, cocoa. [↑](#footnote-ref-71)
72. This is where firms seek investment in countries with comparative advantages such as lower labour cost [↑](#footnote-ref-72)
73. This is where firms seek investment in countries to gain access into the local market such as investments in banking or telecom). [↑](#footnote-ref-73)
74. Joseph L. Staats and Glen Biglaiser, ’Foreign Direct Investment in Latin America: The Importance of Judicial Strength and Rule of Law’( November 2011) International Studies Quarterly Vol. 56, pp 1–15 [↑](#footnote-ref-74)
75. Stephan Haggard, Andrew MacIntyre, and Lydia Tiede, ‘The Rule of Law and Economic Development’ (Annual Review of Political Science June 2008) pp 205–234. [↑](#footnote-ref-75)
76. Rachel Belton, ‘Competing Definitions of the Rule of Law: Implications for Practitioners (Carnegie Endowment for International Peace January 2005) < http://carnegieendowment.org/files/CP55.Belton.FINAL.pdf> last accessed 20 August 2015 [↑](#footnote-ref-76)
77. Samuel P. Huntington, ‘Political Order in Changing Societies’ (New Haven: Yale University Press. International Country Risk Guide Political Risk Services. 2011. East Syracuse, NY: Political Risk Services)

    Guillermo O’Donnell, ‘Why the Rule of Law Matters’ (Journal of Democracy 15(4):32R46) [↑](#footnote-ref-77)
78. Douglass C. North, and Barry R.Weingast, ‘Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England’ (The Journal of Economic History Vol49 (issue 04) December 1989 pp 803–832) < http://slantchev.ucsd.edu/courses/ps143a/readings/North%20&%20Weingast%20-%20Constitutions%20and%20Commitment.pdf> last accessed 19 August 2015 [↑](#footnote-ref-78)
79. Leon Zurawick and Mohsin Habib, ‘Corruption and Foreign Direct Investment’ (Journal of International Business Studies 33 (2) June 2010) pp 291–307. [↑](#footnote-ref-79)
80. David Wheeler and Ashoka Mody, ‘International Investment Location Decisions: The Case of US Firms’ (Journal of International Economic, 1992, vol. 33 issue 1–2, pp 57–76. [↑](#footnote-ref-80)
81. Vito Tanzi and Hamid Reza Davoodi, ‘International Monetary Fund: Corruption, Growth, and Public Finances’ (Working Paper Oct 2007) < http://www.imf.org/external/pubs/ft/wp/wp97139.pdf> Accessed August 2 2015 [↑](#footnote-ref-81)
82. According to a World Bank report on the impact of the Ebola outbreak. Please refer to: The World Bank, ‘Sierra Leone Overview’ <http://www.worldbank.org/en/country/sierraleone/overview> last accessed 31 August 2015 [↑](#footnote-ref-82)
83. The agenda for prosperity was launched by Sierra Leone’s president, Dr Ernest Koroma on the 12th July 2013 and serves as the roadmap and sets the goal of becoming a middle income country and donor nation within the next 25 to 50 years. This agenda follows the ‘Agenda for Change’, which served as a roadmap from 2007 to 2012 to fight poverty as part of the post-war peace building process. Please see: State House The Republic of Sierra Leone, ‘Agenda for Prosperity Official Launch Trailer’ <http://www.statehouse.gov.sl/index.php/useful-links/695-agenda-for-prosperity-official-launch-trailer-> last accessed 20 August 2015 [↑](#footnote-ref-83)
84. Please refer to news paper article: Katy B Naidu, ‘Bharti Airtel – To Africa and Back’ (July 28 2015) <http://www.dnaindia.com/money/report-bharti-airtel-to-africa-and-back-2108809> last accessed 21 August 2015 [↑](#footnote-ref-84)
85. Please see article: [Bianca Vazquez Toness](http://www.bloomberg.com/authors/ARyzImI5tGk/bianca-vazquez-toness), ‘Bharti Climbs After Profit Beats Estimates on India Data Growth’ (August 5 2015)

    < http://www.bloomberg.com/news/articles/2015-08-05/bharti-climbs-after-profit-beats-estimates-on-india-data-growth> last accessed 6 August 2015 [↑](#footnote-ref-85)
86. Supra note 21, KPMG [↑](#footnote-ref-86)
87. Supra note 21, KPMG [↑](#footnote-ref-87)
88. Africa Minerals (owner of the Tonkolili iron ore mining project) and London Mining (owner of the Marampa Mine in Sierra Leone) [↑](#footnote-ref-88)
89. Please see announcement on: London Stock Exchange, ‘Regulatory Story: Suspension – African Minerals Limited’ (November 20 2014) <http://m.londonstockexchange.com/exchange/mobile/news/detail/12156949.html> last accessed 10 August 2015 [↑](#footnote-ref-89)
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91. See refer to report: Action Aid, ‘Real Aid: Ending Aid Dependency’ < http://www.actionaid.org/sites/files/actionaid/real\_aid\_3.pdf> last accessed 17 August 2015 [↑](#footnote-ref-91)
92. Please see : Duncan Clarke, ‘Africa - Crude Continent: The Struggle for Africa’s Oil Prize’ Profile Books, London (July 2010), p 210 [↑](#footnote-ref-92)
93. Please see: Ernst & Young, ‘Africa attractiveness survey 2011’ < http://www.ey.com/ZA/en/Issues/Business-environment/2011-Africa-attractiveness-survey> last accessed 27 August 2015 [↑](#footnote-ref-93)
94. Adam Smith International, ‘Assessing local content in Sierra Leone’ < http://www.adamsmithinternational.com/explore-our-work/west-africa/sierra-leone/an-assessment-of-local-content-in-sierra-leone> last accessed 17 August 2015 [↑](#footnote-ref-94)
95. These includes liberalising the laws and regulations regarding admission of FDI projects, guarantees for repatriation of investment and profits; provision for the settlement of investment disputes [↑](#footnote-ref-95)
96. Please see: United Nations Conference on trade and Development ‘Tax incentives and Foreign Direct Investment’ (ASIT Advisory Studies) <http://unctad.org/en/Docs/iteipcmisc3\_en.pdf> last accessed 20 August 2015 [↑](#footnote-ref-96)
97. Please see: Christian Aid, ‘Losing Out: Sierra Leone’s Massive Revenue Losses from Tax Incentives (April 2014) <http://www.christianaid.org.uk/images/Sierra-Leone-Report-tax-incentives-080414.pdf> last accessed 18 August 2015 [↑](#footnote-ref-97)
98. Supra note 97,Christian Aid [↑](#footnote-ref-98)
99. These are the two major producers and exporters of iron ore in Sierra Leone [↑](#footnote-ref-99)
100. Supra note 82, The World Bank. According to a World Bank report, the fiscal deficit as a percentage of GDP is estimated to widen from 2.1 per cent in 2015 to 3.2 per cent in 2016 [↑](#footnote-ref-100)
101. Like Sierra Leone, the war in Angola severely damaged infrastructure and the reconstruction process is still in progress. [↑](#footnote-ref-101)
102. Please see: The World Bank, ‘Angola Country Overview’ <http://data.worldbank.org/country/angola> last accessed 15 August 2015 [↑](#footnote-ref-102)
103. According to World Bank statistics the total population of Angola as at 2014 was 22.14 million and that of Sierra Leone was 6.205 million in 2014. Please refer to: The World Bank, ‘Sierra Leone Data’ < http://data.worldbank.org/country/sierra-leone> last accessed 24 August 2015; and The World Bank, ‘Angola Data’ <http://data.worldbank.org/country/angola> last accessed 24 August 2015 [↑](#footnote-ref-103)
104. However, even before the war ended, the economic state of the country was improved due to foreign interest offshore oil reserves (Food and Agriculture Organisation (FAO), 2011). [↑](#footnote-ref-104)
105. The equivalent to the Sierra Leone Investment and Export Promotion Agency (SLIEPA) [↑](#footnote-ref-105)
106. Please see: ANIP - National Agency for Private Investment < http://www.anip.co.ao/> last accessed 1 September 2015 [↑](#footnote-ref-106)
107. Both national and international and international [↑](#footnote-ref-107)
108. Supra note 106, ANIP [↑](#footnote-ref-108)
109. Please see report on: African Economic Outlook, ‘Angola Economic Report 2015’ <http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN\_data/CN\_Long\_EN/Angola\_GB\_2015.pdf> last accessed 12 August 2015 [↑](#footnote-ref-109)
110. Please see: Dr Ron Sandrey, The Impact of China-Africa Trade Relations: The Case of Angola (The African Economic Research Consortium Nairobi, Kenya November 2009) <http://dspace.africaportal.org/jspui/bitstream/123456789/32375/1/Angola-TradeStudy.pdf?1> last accessed 30 August 2015 [↑](#footnote-ref-110)
111. The Central Intelligence Unit, ‘The World Fact Book: Country Comparison Crude Oil Proved Reserves‘ <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2244rank.html> last accessed 29 August 2015 [↑](#footnote-ref-111)
112. Research has shown that after Iraq, Angola is the second most concentrated economy in the world in terms of exports. Please refer to: CHR Michesen Institute, ‘Angola Programme’ <http://www.cmi.no/angola/?economic-diversification> last accessed 24 August 2015 [↑](#footnote-ref-112)
113. Angola is currently one of Sub Sahara’s largest FDI recipients and the majority of FDI inflows are attributed to the oil sector. [↑](#footnote-ref-113)
114. Please see: Organisation of the Petroleum Exporting Countries (OPEC), ‘Angola Facts and Figures’ (2015) <http://www.opec.org/opec\_web/en/about\_us/147.htm> last accessed 31 August 2015 [↑](#footnote-ref-114)
115. Ibid [↑](#footnote-ref-115)
116. Supra note 112, OPEC [↑](#footnote-ref-116)
117. African Economic Outlook, supra note 108 [↑](#footnote-ref-117)
118. Supra note 93, Ernst & Young [↑](#footnote-ref-118)
119. (Supra note 93, Ernst & Young [↑](#footnote-ref-119)
120. Please see news feed on: Bloomberg, ‘Angola President Seeks More Non-Oil Deals in His Visit to China’ (June 2015) <http://www.bloomberg.com/news/articles/2015-06-12/angola-president-seeks-more-non-oil-deals-in-his-visit-to-china> last accessed 21 August 2015 [↑](#footnote-ref-120)
121. Please refer to: Richard Aidoo, ‘China and Angola: The ‘True Dynamic Duo’ in Sino-Afrcan Relations’ (Foreign Policy Journal June 2013) <http://www.foreignpolicyjournal.com/2013/06/20/china-and-angola-the-true-dynamic-duo-in-sino-africa-relations/> last accessed 28 August 2015 [↑](#footnote-ref-121)
122. Shelly Zhao, ‘The China-Angola Partnership: A Case Study of China’s Oil Relations in Africa’ (China Briefing May 2011) <http://www.china-briefing.com/news/2011/05/25/the-china-angola-partnership-a-case-study-of-chinas-oil-relationships-with-african-nations.html> last accessed 23 August 2015 [↑](#footnote-ref-122)
123. Supra note 119, Aidoo [↑](#footnote-ref-123)
124. This new oil-for-infrastructure deals definitely challenged the conventional way of doing business where resources are used as antidote for the much needed infrastructural development [↑](#footnote-ref-124)
125. Supra note 119, Aidoo [↑](#footnote-ref-125)
126. Although the fight for dominance between the Western IOC giants and China over the resources of African falls outside the scope of this dissertation, it is worth mentioning the various arguments on the West not being happy because their policies of dominance has been greatly curtailed by the emergence of the Chinese and that doing business with the Chinese is on an equal basis with no stringent conditions attached which equates to a win-win opportunity for both China and the host countries in Africa. [↑](#footnote-ref-126)
127. Please see: Dr Ron Sandrey, The Impact of China-Africa Trade Relations: The Case of Angola (The African Economic Research Consortium Nairobi, Kenya November 2009) <http://dspace.africaportal.org/jspui/bitstream/123456789/32375/1/Angola-TradeStudy.pdf?1> last accessed 30 August 2015 [↑](#footnote-ref-127)
128. See Transparency International, ‘Corruption Perceptions Index 2014 Report’ <https://www.transparency.org/cpi2014/results> last accessed 15 August 2015 [↑](#footnote-ref-128)
129. United Nations Development Programme, ‘Human Development Index (HDI)’ <http://hdr.undp.org/en/content/human-development-index-hdi-table> last accessed 19 August 2015 [↑](#footnote-ref-129)
130. David Parkes, Barri Mendelsohn and Ofei Kwafo-Akoto, ‘Overview of Foreign Direct Investment in Africa’ (October 2014) <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014> last accessed 24 August 2015 [↑](#footnote-ref-130)
131. Matthew Tyler Lund, ‘Foreign Direct Investment: Catalyst of Economic Growth?’ <http://content.lib.utah.edu/utils/getfile/collection/etd2/id/1969/filename/image> last accessed 23 August 2015 [↑](#footnote-ref-131)
132. For a comprehensive description of the value chain approach please see: Naazeen H. Barma, Tuan Minh and Lorena Vinuela, ‘Rent to Riches et: The Political Economy of Natural Resource-Led Development’ The World Bank (2011) <http://www.imf.org/external/np/seminars/eng/2013/fiscalpolicy/pdf/rajaram.pdf> last accessed August 20 2015 [↑](#footnote-ref-132)