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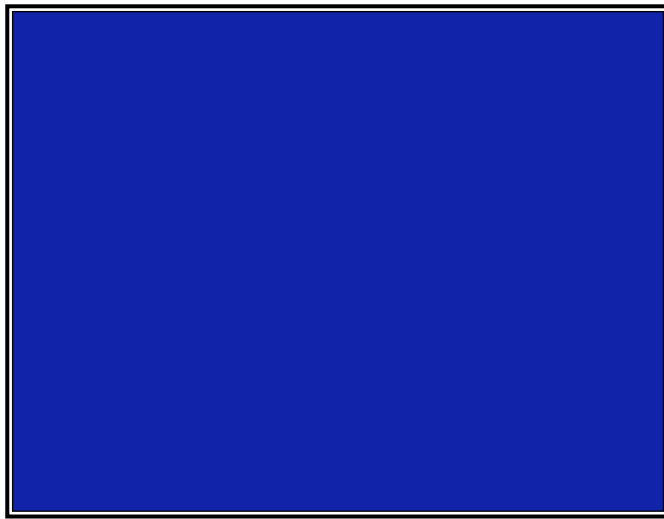
POST-CONFLICT ACTION
& MICROFINANCE



IN SIERRA LEONE



SPANDA



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A Post-conflict Analysis

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Microfinance as a Means of Conflict-prevention/resolution



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CONTENTS



ACRONYMS iv

1 ~ A POST-CONFLICT ANALYSIS	1
1.1 ~ INTRODUCTION	1
1.2 ~ BACKGROUND: THE CIVIL WAR	1
1.3 ~ THE CAUSE OF WAR	2
1.4 ~ LIGHTS AND SHADOWS IN THE PROCESS OF RECONSTRUCTION	4
1.5 ~ THE CURRENT SITUATION	5
1.6 ~ THE ROLE OF NGOS AND INTERNATIONAL AID: EXPERIENCES AND SUGGESTIONS	7
1.7 ~ CONCLUSION	1
2 ~ MICROFINANCE AS A MEANS OF CONFLICT PREVENION/RESOLUTION	11
1 ~ REFERENCES	15

ACRONYMS



AFRC	Armed Forces Revolutionary Council.
ACC	Anti Corruption Commission.
ARD	Association for Rural Development.
BRAC	Bangladesh Rural Advancement Committe.
CEDA	Community Empowerment and Development Agency.
DACDF	Diamond Area Community Development Fund.
DDR	Disarmament, Demobilization and Reintegration.
DFID	British Department For International Development.
ECOMOG	Economic Community of West African States Monitoring Group.
GGEM	Grassroot Gender Empowerment Movement.
HRD	Belgian High Diamond Council.
IFAD	International Fund for Agriculture Development.
ILO	International Labour Organization.
KfW	Kreditanstalt für Wiederaufbau, a German government-owned development bank.
LAPO	Lift Above Poverty Organization.
MFI	Microfinance Institution.
MITAF	Microfinance Investment and Technical Assistance Facility.
NGO	Non-Governmental Organization.
NPRC	Nation Provisional Ruling Council.
RUF	Revolutionary United Front.
SMT	Salone Microfinance Trust.
UNAMISIL	United Nations Mission in Sierra Leone.
UNDP	United Nations Development Programme.
UNHCR	United Nation High Commission on Refugees.
USAID	United States Agency for International Development.





T

1.1 - INTRODUCTION

HIS RESEARCH PAPER AIMS TO POSTULATE A BRIEF YET COMPREHENSIVE ASSESSMENT OF THE CURRENT SITUATION IN SIERRA LEONE, SHEDDING LIGHT on the causes of the civil war that ravaged the country from 1991 to 2002 and providing a concise summary of the role of international aid in rebuilding the country. In particular, the focus is on the process of reconstruction and recovery of the country, and on the role that international aid, such as Non-Governmental Organizations (NGOs), microfinance institutions (MFIs) and international organizations and donors in general, have been playing in the aftermath of the war in addressing such issues. The final aim is to learn, from their successes or failures, precious lessons to improve the efficiency of international aid and sustainable development in a country facing many of the very same socio-economic problems that contributed to the outbreak of civil war.

The current situation in Sierra Leone is generally defined, by most of the international observers and organizations, as relatively stable and secure. At end of 2004 the largest UN peace-building mission ever deployed ended its major operations and by the end of 2008 most of the United Nations military forces had been withdrawn. The current Sierra Leone government, chaired by Ernest Bai Koroma and constituted, following democratic, fair and impartial elections (according to international monitors) in August 2007 enjoys a widespread popular support. Unusually for an African country, Sierra Leone has not to face serious ethnic or religion divisions, which have often been the catalysts of violence throughout the rest of the continent. The most pressing issues today affecting Sierra Leone are, unfortunately, mostly the same that led to the eleventh-year civil war that devastated the country. Although international community has made efforts to rebuild a stable and democratic state, to curb corruption, and to improve the almost desperate employment situation for the youth, an honest and impartial assessment of the present situation has to find that these attempts have not been very successful.

Nevertheless, the country is still the recipient of a tremendous amount of resources, concerns, and efforts by the international community. Development is obviously perceived as a vital factor in preventing and combating violent instability. But it is also extremely important to keep in mind that in post-conflict situations, goals such as development, sustainable growth, social stability and political accountability may take some time to be implemented, and the professionalism, commitment and quality of the work of NGOs' staff becomes a key element in the path to rebuilding the nation and guaranteeing its future stability.

1.2 - BACKGROUND: THE CIVIL WAR

Civil war in Sierra Leone officially began on 23 March 1991, when the Revolutionary United Front (RUF) led by Foday Sankoh attacked villages in eastern Sierra Leone, on the border with Liberia. Initially, the RUF coalesced around a small group of young Sierra Leoneans longing to replicate the successful revolutionary movement that toppled the government of Liberia (National Patriotic Front of Liberia). The civil war ongoing in the neighbouring Liberia played a key role, especially in the earliest phase of the conflict, in triggering the outbreak of violence in Sierra Leone. Charles Taylor, then a faction leader in Liberia's civil war (subsequently President of the country), sponsored the RUF as a means to destabilise Sierra Leone. Sierra Leone then was a rear base for the Economic Community of West African States Monitoring Group force (ECOMOG) that was preventing Taylor from seizing the Liberian capital Monrovia. Taylor helped broker a deal with the government in Burkina Faso on behalf of the RUF for the supply of Burkinabe mercenaries, with payment to be made in Sierra Leone diamonds. In 2000, the UN accused Liberian president Charles G. Taylor of supporting RUF insurgency in neighbouring Sierra Leone with weapons and training in exchange for diamonds.

However, apart from these external elements contributing to the outbreak of the civil war, domestic factors inside the country also played a crucial and determinant role in prompting the conflict.

First of all, the RUF was able to appeal and consequently to enrol a great number of young Sierra Leoneans disheartened and thwarted by their constant marginalisation, their exclusion and, above all, the evident government corruption, flaunted by its representatives with their luxurious lifestyle while most of the country lived in misery. The RUF was able to move, at least at first, a large number of the Sierra Leonean youth to its side with the promise of a more fair

and equitable share of the diamonds trade revenue. In any case, RUF turned out very soon to reveal itself as uncommitted to any political project or ideology, apart from the clear goal of overthrowing the government of Joseph Momoh. It is widely known that while the RUF began its campaign as a reaction to government abuses, it was almost immediately taken over by criminals with no political or social aims and whose only motives were personal interest and greed.

The RUF was also very quick to demonstrate its brutality, through their well-known habit of mutilating their victims, cutting off their legs or hands. The message they intended to spread with this barbaric practice was “You don’t hold a weapon against your brother.” They are also infamous for enrolling child soldiers, using horrific methods to numb them to barbarity, often forcing them to attack their own villages and families.

In April 1992, the government of Momoh was toppled by a military coup led by Valentine Strasser, who established the Nation Provisional Ruling Council (NPRC). Nevertheless, the RUF kept ravaging the country, and by 1994 they held much of the countryside and were on the doorstep of Freetown. Fighting went on the following months, with Sierra Leone’s army, with help from a remarkable number of hired mercenaries from private companies, restraining the offence of the RUF. The army pushed the RUF back towards the borders of the country, where the RUF continued their campaign of atrocities destroying entire villages and spreading terror among the communities.

As a result of popular demand and mounting international pressure, the NPRC agreed to hand over power to a civilian government via presidential and parliamentary elections, held in April 1996. Ahmad Tejan Kabbah won the presidential seat, only to be overthrown a year later by Johnny Paul Koroma, head of the Armed Forces Revolutionary Council (AFRC), who immediately asked the RUF to join the government. A unanimously adopted United Nations Security Council resolution imposed oil and arms embargo on the country in late 1997. The resolution demanded the junta to relinquish power, cease the attacks in the country, and allow the delivery of international aid to the suffering population. In March 1998, the junta was ousted by the Economic Community of West African States Monitoring Group (ECOMOG), and the elected government of Kabbah was restored.

The relation between the RUF and the AFRC broke down after ECOMOG intervention, and the country suffered a year of continued fighting between the factions. In January 1999 AFRC forces laid siege to Freetown, in another attempt to overthrow the government. On 7 July 1999, the RUF leader Sankoh and President Kabbah finally signed, with the assistance of the international community, the Lomé Peace Accord. RUF members were assigned to places in the government, and Sankoh became vice president. The UN established the peace-keeping mission United Nations Mission in Sierra Leone (UNAMISIL). Nevertheless, the RUF immediately halted the peace-building process by capturing 300 members of the UN mission and killing 20 people demonstrating against RUF violations outside Sankoh’s house. This led to Sankoh’s arrest and to the ousting of RUF members from the government. In the first months of 2000, the situation again came to a head so the British government decided to develop troops in order to safely evacuate foreign nationals and stabilize the situation. The intervention of the British troops turned out to be decisive for the ending of the fighting and on November 2000 a Disarmament, Demobilization and Reintegration (DDR) cease-fire was agreed upon. However, it was almost immediately undermined by an attack of the Guinean army on RUF bases, a retaliation for a previous strike by RUF against Liberian dissidents in Guinea.

It was only in May 2001, after a new agreement was signed in Abuja, that hostilities seemed to come to a permanent end, mostly because of the gradually increasing effectiveness of the disarmament process carried on by the peace keeping forces. The government began to reassert control over the country and on the areas formerly held by the RUF forces, and on 18 January 2002 the President Kabbah officially declared the war over. In May the same year, new elections confirmed Kabbah as the democratically elected leader of Sierra Leone (some allegations of fraud and irregularities have been reported, but not to a degree sufficient to affect the outcome).

1.3 - THE CAUSES OF WAR

Several studies have been published on the causes of the civil war in Sierra Leone, and a heated debate has been developing in the years following the cessation of hostilities. The role Liberia played is undeniable, not only regarding the spill-over effect of the conflict in the neighbouring country, but considering the active support given to the RUF by the then Liberian President Charles G. Taylor in exchange for diamonds, as well.

There are also several domestic issues to take into account when trying to understand the dynamics that ignited the war. It is vitally important to deeply inquire and try to explain the root causes of the conflict, in order to prevent the process of reconstruction from simply recreating the very same conditions that led to the outbreak of violence. War that ravaged Sierra Leone for almost eleven years was a civil conflict, triggered by endemic factors and issues that are mostly still unresolved.

The main concern in this regard is related to the alienation of the young segment of the society. Since the independence of the country, a feeling of mistrust in the government, frustration and wish of revenge among the youth can help understand the unprecedented levels of violence reached by the conflict. This “crisis of youth” is widely acknowledged as the main domestic factor that prompted the conflict. It is noteworthy to mention that this sentiment of aversion towards the government could also explain the systematic (and apparently useless, in any tactical or strategic warfare consideration) attack of government buildings and symbols. In the same manner, the collusion between adversarial forces as RUF and national army (Civil Defence Force) in looting properties and terrorising civilians is symptomatic of the unease of a “youth cohort modernized by education and exposure to mass consumption, yet thwarted in its projects of self-realization by poverty and political exclusion¹.” As the final report of the Truth and Reconciliation Commission of Sierra Leone underlines: “The majority of the fighting forces were composed of the young, the disgruntled, the unemployed and the poor. The Commission has identified an astonishing ‘*factional fluidity*’ among the different militias and armed groups that prosecuted the war [...] Theirs was not so much a switching of sides as the identification of a new vehicle on which to purvey their notions of empowerment as civil militiamen²”.

The causes of this sense of alienation and exclusion from the society experienced by the young segment of the society are to be traced back, according to the same report, to the mismanagement of the regimes and elites who have run the country since its independence:

Successive political elites plundered the nation’s assets, including its mineral riches, at the expense of the national good. Government accountability was non-existent. Institutions meant to uphold human rights, such as the courts and civil society, were thoroughly co-opted by the executive. This context provided ripe breeding grounds for opportunists who unleashed a wave of violence and mayhem that was to sweep through the country. Many Sierra Leoneans, particularly the youth, lost all sense of hope in the future. Youths became easy prey for unscrupulous forces that exploited their disenchantment to wreak vengeance against the ruling elite³.

It seems no exaggeration to claim that many of the youths who joined the rebel armies were driven by frustration and by the desire to obtain revenge for all the bad governance that had been targeting them for years. This feeling winding among the youths, along with the promises of more wealth and justice for all, made the recruitment of combatants by the RUF enormously more simple and effective.

Corruption among government officials was obviously the main responsible for this situation. The Sierra Leoneans were deprived of the most basic services because of the redirection of funding and revenues, including foreign aid flows, by government officials.

Another debated key element relating to the causes of the civil war is represented by the abundant diamond resources of the country. The argument here is about the existence of a direct relationship between an abundant and easy-to-loom, and smuggle, resource as diamonds and the likelihood of the outbreak of a domestic conflict. Some commentators argue there is a strong direct connection between these two variables, but statistical and empirical evidence is not clear, and there is not unanimity on this point.

In the specific case of Sierra Leone, the most accredited theory is that large-scale diamonds smuggling was possible only within the chaos and the absence of law provided by the civil war, with the consequence that diamonds profits came to represent a powerful incentive for all the combatants to continue the fighting.

A report from Partnership Africa Canada suggests that the very point of the war may have not been to win it, but to exploit the cover of warfare to engage in profitable crime⁴. In this regard, diamonds played a crucial role in financing and fuelling the conflict, and in destabilizing the country. The RUF drew its main funds out of the illegal smuggling of diamonds out of the country, especially through Liberia. In 1998, the government recorded exports of only 8,500 carats, but Belgium’s High Diamond Council (HRD) – the world’s trading centre for rough diamonds – registered imports of 777,000 carats from Sierra Leone. Annual mining capacity in neighbouring Liberia is estimated at between 100,000 and 150,000 carats, but the HRD received an annual average of more than six million carats from the country. These few data are sufficient to realize the actual dimension of the illegal diamonds trade in Sierra Leone, and the revenues that it implied for those who had the control over it.

On July 2000 the UN put an embargo on Sierra Leone, asking all States to prohibit the direct or indirect import of diamonds from the country. The embargo was also urged by Sierra Leone’s government, and welcomed by the country ambassador to the UN as the first concrete move by the international community to address one of the root causes of the conflict.

However, the relationship between abundant natural resources and a propensity for conflict is not clear nor empirically proven, even if the general argument sustaining that natural wealth provides a pool in which rebels’ forces can withdraw their sustaining seems to fit the Sierra Leone case. The Minister of Finance of the country declared in

2000 that “The war in Sierra Leone is simply about diamonds.” By sharp contrast, a World Bank Study in 2005 that tries to shed light on the causes of the conflict reports that “Everyone we spoke to talked of the collapse of institutions as the root cause of the civil war, not diamonds⁵.”

In summary, when trying to individuate the causes of the civil war in Sierra Leone, it is not sufficient, nor accurate, to refer to a single or even to a predominant factor or event. It goes without questioning that the role played by the neighbouring conflict in Liberia had its bearing, and probably a heavy one. Yet, the discontent, the frustration and the perception of the government’s corruption among the impoverished and alienated Sierra Leoneans had already created the ideal climate for the outbreak of violence. Citing again the report by the Truth and Reconciliation Commission of Sierra Leone: “It was years of bad governance, endemic corruption and the denial of basic human rights that created the deplorable conditions that made conflict inevitable”⁶.

1.4 ~ LIGHTS AND SHADOWS IN THE PROCESS OF RECONSTRUCTION

The statistics of the conflict’s toll on the country give an idea of the devastating legacy of eleven years of civil war: 500,000 living outside the country and hundreds of thousands had been internally displaced, more than 215,000 women and girls had been subjected to sexual violence and 72,000 ex-combatants needed reinsertion into civilian life. Three hundred towns and villages and 340,000 houses had been destroyed. Eighty-five per cent of livestock had been lost. The country had the lowest UNDP Human Development Index in the world.

There have been no signs of a return of violence since the formal declaration of peace in January 2002, and at the end of the first decade of the Millennium the situation may be defined, limited to the field of security, as relatively stable (excluding banditry and crime-related violence, still a rather pressing issue in the countryside and in the outskirts of Freetown).

President Ahmad Tejan Kabbah’s term expired in 2007, and following the presidential election held on September that year Ernest Bai Koroma, leader of the All People’s Congress party, is now the President. International observers reported this voting round as fair, free and credible.

Since the end of the hostilities, international concern regarding the future of the Sierra Leoneans and the reconstruction of the country has driven a remarkable number of NGOs, donors, and in general, aid and relief organization to invest their energies for the cause of Sierra Leone. Prominent among them, just to mention the most famous, the British Department For International Development (DFID), USAID, and several UN agencies as UNDP, UNHCR, UNASMIL. The sum of their efforts came to be named as the 4Rs, meaning the repatriation, rehabilitation, reintegration and reconstruction (Baker and May 2004).

It is widespread and commonly accepted, among the international donors’ community, that in the effective management of the rural areas and its population lies the key issue for a real and concrete reconstruction of Sierra Leone as a stable and permanently pacified country. The issue is related to the Paramount Chiefs system, almost entirely destroyed during the war, and now at the centre of a heated argument among observers and commentators on the attempt at reforming, replacing or simply dismissing it. Chieftaincy is an integral part of the Sierra Leone’s governance and society; it is often the only visible element of government in the rural areas, and the only source of authority. The chiefs in the country are not paid by the government; they are basically forced to sustain themselves on the fines they impose. Chiefs themselves then feel victimised by the government. Several commentators agree that to restore a chieftom-based administration system in the rural areas of the country would recreate the very same conditions that led to the civil war. On the other side, the replacement of the chieftaincy with elected local government, as suggested by the UN Development Program for example, could turn out to be both difficult to implement, as well as self-defeating. The actual government is now aware that chieftoms mismanagements in the rural areas is an urgent and relevant issue to be addressed, but it doesn’t seem willing to take concrete measures so far.

A decentralization programme is now under way in Sierra Leone trying to reconstruct the whole of the local government structure that disappeared long before the outbreak of the conflict. The process of devolving the central government functions to local elected functionaries is likely to be extremely slow. The aim of this process is to include the previously marginalized groups, by creating democratically elected local councils to replace the existing Management Committees (appointed by the President), and to establish a participatory local governance structure where people can actively participate in the decision-making process at the local level.

UNDP, in particular, has been focusing, to enhance sustainable development and promote security and social stability. The main concern of these coordinate efforts is to avoid the reconstruction of the very same conditions that

led to that social unease and hostility towards the government and the authority that helped trigger the outbreak of one of the most brutal civil wars history has recorded. The top priorities, according to UNDP, are the followings:

- The decentralisation of the government and the enhancement of local government structures (officially adopted by the government of the country in 2004 with the Local Government Act and the support of UN and World Bank among others) addressing the disparities between rural and urban areas and trying to fuel the local development process by introducing a local development fund and wider initiatives on development planning and public expenditure management for local government. The goal is to strengthen local economic activity through the efficient delivery of social services;
- The improvement of the environment for the youth through policy and strategy development, institutional capacity building, expanding youth empowerment and employment opportunities, as well as youth engagement in decision-making;
- The support of natural disaster and environmental management, assisting the government's efforts to adopt environmental policies consistent with international conventions as well as supporting a comprehensive disaster management strategy and building national capacity in sustainable waste management, deforestation and climate change.

Foreign aid is expected to play a major role in the achievement of these goals, and there is also a certain extent of concern on the topic that the country would be developing a reputation of “donor dependence”: according to World Food Programme, foreign aid accounts for about 60% of the country's GNP. However, it must be underlined that since its independence, especially in the first decade, the country received only a modest amount of foreign aid. Including the final year of British colonial rule (1960), Sierra Leone received a total of USD 125.3 million from 1960 to 1969. Under the corrupted and often incompetent regimes of Stevens and Momoh, substantial foreign aid inflows became a regular occurrence in the 1970s and 1980s. By 1991, hundreds of millions of dollars in foreign aid were entering the country each year. From 1971 to 2002, Sierra Leone received a total of USD 3.48 billion in various forms of foreign aid, which in much part funded the country's ruling elites indirectly through dubious development schemes or patronage rents. Donors have been trying, in Sierra Leone as well as in other developing states, to eradicate the bad recipients of aid by linking the allocation of funds to achievements in good governance and democracy. But this is not a clear relationship and it has been the subject of widespread criticism, due to the fact that withholding foreign aid very often means hurting the most in need. There is also a notable concern regarding the gradual and unavoidable reduction of foreign aid flows, as the country makes its way into the path of stability.

Internally, the combination of local NGO efforts, a feisty media and a small yet vibrant business sector has driven political and economic aspects of reconstruction. The internal resources of diamonds represent a considerable potential to spur economic growth and reconstruction. As underlined before though, the country still lacks adequate domestic and international regulatory schemes on diamonds trade, and an effective policy to counter illegal smuggling.

According to several commentators, the international community has been focusing on short-term aims, such as disarmament and the establishment of a barely functioning government, overlooking the problems related to the youth and the impoverished population. UNDP Governance Program in Sierra Leone clearly declared: “It is the task of development to prevent the recurrence of war by addressing its causes. Sierra Leoneans affirm that two fundamental causes of the war are bad governance and marginalisation of youth. Good governance is a fundamental prerequisite for building lasting peace”.

Donors concentrated on disarmament and reintegration as a strategy for preventing future violence among youth. At the same time, their strategies for macroeconomic growth and spending caps undermined economic and educational opportunities for those same youth. A higher priority should have been given to the education and health sectors, as well as rebuilding infrastructure that connects rural areas. According to International Crisis Group, a World Bank study recommends less emphasis be placed on macroeconomic balances. Instead, rapid spending on reconstruction in rural areas and the provision of jobs for impoverished and alienated youth should occur.

1.5 ~ THE CURRENT SITUATION

Recovery from a civil war is a long and demanding path, often scattered by unforeseeable events and factors to keep in account with. Peace is now present in Sierra Leone, but the factors and the root causes that led to war are still far to be completely eradicated. The most notable result of the international effort to bring stability to the country is the disarmament of former combatants. Through the DDR programme, the UN peacekeeping operators were able to achieve the disarmament of 70,000 former combatants and the return of over 300,000 internally displaced persons. However, concerns about long-term ability of the country to sustain a peaceful process toward development and stability are still dominant in the international community.

Unemployment is still a plague for the country's youth. Although important steps have been made in the direction of integrating the young segment of the society in the economical and political life of the country, the 2010 UNDP Development Index ranked Sierra Leone as 156th out of 158 countries, clearly showing that the main failures of the reconstruction have been on the economic front. Three-fourths of the population between 18 and 35 years old are unemployed, and 70% of the population still live in poverty. Even though the DDR programme succeeded in disarming the former combatants, in the long term it appears to have underestimated the issue of their reintegration. The agricultural sector provides three-fourths of the jobs in Sierra Leone, yet DDR programmes trained former combatants as plumbers, carpenters, or mechanics. Donors and NGOs did hope that ex-combatants would settle as farmers, but the reintegration programmes they provided did not meet the requirements that would have made this possible (Freeman 2004). Moreover, agriculture is not so appealing to many of the Sierra Leone youths, and they overlooked agricultural training hoping for something else (Freeman 2004). Education lies in dire conditions, with the average number of years of education received by people ages 25 and older at 2.9. Only 36% of the surveyed former combatants had never attended school.

The only economic sector in which youths have been successfully reintegrated is the diamond mining industry, which represents 20% of Sierra Leone GDP. Yet, this sector is still suffering from widespread corruption, illegal smuggling and a general lack of efficient governmental regulation. The Kimberly Process Certification Scheme, approved in 2003, represented a further attempt to prevent diamond sales from financing rebellious movements. The certification scheme aims at preventing so-called "blood diamonds" from entering the mainstream rough diamond market. Unfortunately, this process seems not to be effective enough in Sierra Leone, where illegal smuggling continues. Government officials have attributed a decline in official diamond exports from USD 140 million in 2005 to USD 120 million in 2006 to smuggling. A major challenge for the reconstruction process has been using diamond revenues to promote development, a task that is unfeasible without government regulation. A positive step in this direction was the creation of the Diamond Area Community Development Fund (DACDF), whose aim is to invest diamond revenues in the respective diamond-producing areas. This effort has been undermined by lack of regulation in the mining companies and in their relationships with Paramount Chiefs. Disaffection with the government and mining companies has only been enhanced by the number of youth who have been attracted to the mines in search of employment. In Kono district, one of the most important mining districts in Sierra Leone, thousands of youth aged seven to 16 are involved in mining, often in exceptionally exploitative conditions.

Corruption is still afflicting the country, even if relevant improvements have been made in this regard. According to the 2010 Corruption Perception Index by Transparency International, Sierra Leone made a giant leap from the 146th position in 2009 to the 132nd this year. The rating of the country is still far from an acceptable standard, but nonetheless it is obvious that significant improvements are taking place. Most of the merit for this important achievement has to be assigned to the activity of the Anti Corruption Commission. Established in 2000 (mostly thanks to the help and funding of British experts) as an independent commission to investigate government corruption, the ACC proved to be fairly effective, especially under the current chairmanship of human rights lawyer Abdul Tejan-Cole. Its establishment has been the most remarkable and successful effort to hold the government accountable, and its greatest challenge now is (not surprisingly) a lack of cooperation from governmental and judicial officials. Nonetheless, corruption is still present, visible and directly affecting every aspect of the economic life of the country: for the Sierra Leoneans, the luxurious lifestyles of government officials are evidence enough that corruption still remains embedded in the government and in the criminal justice system.

Even though the current government seems to enjoy a rather widespread backing, this feeling of resentment against the authority is still present especially in the countryside, where it has a motivated ground; cases of local chiefs and administrators running a very 'personal' judicial system, handing down arbitrary fines, are still rather common.

Obviously, poor people are suffering the worst consequences from this situation; local officials continue to ask extra payments for basic services as health and education, bribes are required to get access to the judicial system, and corruption is visible at the very local level. Disillusion is now prevailing in the Sierra Leoneans, who hoped that international concern and the involvement of such a massive number of international donors and agencies would have helped them to finally resolve these issues.

The decentralizing reform that is under way also aims to create a more efficient and accountable system of government through a progressive devolution of powers and functions from the central government to the 13 District Councils, including authority over public health, roads, education, water and sanitation, electricity, and agriculture. Moreover, in each District, community-based Ward Committees were instituted to mobilize community involvement in governance. The first local government elections in 32 years were successfully held in 2004 and another round of local elections followed in 2008.

As USAID – that has been specifically focusing on providing the communities with the information and the skills needed to be involved in decision-making processes and to monitor govern performance – points out, remarkable progress has been accomplished through this decentralizing reform, whose main goal is the eradication of corruption.

The most notable success of the current Presidency of Ernest Bai Koroma seems to be the transformation of the national security forces, traditionally a source of corruption and human rights abuse, into a professional unit. Most notably, the transfer of power from the previous government to Koroma in the aftermath of the elections occurred without tensions or violence.

Nevertheless, it is unavoidable to conclude that the country is still hampered by a legacy of poor governance, mismanagement, systemic corruption, over-centralization of power and decision-making in Freetown, and citizens' lack of confidence in their government's ability to deliver basic services. With youth unemployment around 80%, the main domestic cause of the conflict has clearly not been properly addressed. The comment by a diplomat interviewed by International Crisis Group still seems to be sadly legitimate: "The war [...] started because some people felt they would never have access to resources. They still don't⁷."

1.6 – THE ROLE OF NGOS AND INTERNATIONAL AID: EXPERIENCES AND SUGGESTIONS

Since the end of the conflict the country has been the recipient of a massive amount of foreign aid, and since its independence, international efforts by donors and NGOs have been focusing on the reconstruction and on the economical, social and political recovery. Microfinance and MFIs represent one of the main means through which the international community is trying to rebuild the devastated Sierra Leoneans' social and economic structure. Obviously, microfinance's actors and entrepreneurs have to reckon with the legacy of an eleven-year civil war. It is therefore extremely important to assess and estimate the main factors related to the recent war and current situation of the country.

First of all, in post-conflict environments, especially in the immediate aftermath of war, human capital suffers from the loss of life, damaged or destroyed property, and the loss of the people who had to feed the country. In Sierra Leone this problem is even sharper due to the barbaric practice of mutilations used by the RUF militants; an estimated 20,000 civilians suffered from amputation of hands or legs. For the survivors, trauma may be an equally dramatic and destabilizing problem. The direct experience of violence and murder, often inside their own community, leaves people in post-conflict situations not only insecure, angry, terrified and even poorer than before, but also very prone to use violence to resolve their own disputes or problems. Moreover, another extremely disrupting effect on the society derives from the fact that during the war, people were often forced to choose a side between the fighting factions, dividing families and communities. We have already underlined that another common practice of the RUF was to force child soldiers to attack the same villages they had been taken from. Women especially suffer in conflict and post-conflict situations as they often have to run families alone.

A post-conflict society suffers therefore from low levels of social capital, trust, intra-community bond, in addition to the obvious lack of financial and economical capital and infrastructures.

The role of microfinance in a post-conflict society could then be largely more relevant than in other developing areas, due to its ability to simultaneously address economic, financial and social issues. MFIs can provide people with the resources, and perhaps even more notably, the trust and the willingness needed to get back to their small business, or simply to leave their home to take their goods to the market. In this regard, microfinance contribution can be as simple as providing a space for a rekindling of social interaction, and boosting reintegration and trust among communities before actually prompting the economic recovery of the country. Other well-proven social effects of microfinance in post-conflict situations include the empowerment of women and refugees, the re-entry and reintegration of internally displaced people and former combatants into communities, and reconciliation between ethnic or religious groups.

It is interesting to underline that addressing social goals may be necessary to the long-term survival of the same MFIs. The social capital is necessary to ensure the payback of the loans, and members of a society have to trust each other in order for a village bank to work as a credit institution. MFIs have to invest in community building just to gain the trust of the areas they are working in. Again, in post-conflict situations, MFIs should provide people with a safe place to store savings, and only in a second phase begin offering loans.

The potential benefits of microfinance in post-conflict societies are evident and widely acknowledged, yet several problems peculiar to countries recovering from a conflict have been reported by MFIs. For example, in Kosovo, an MFI

had to stop offering group loans due to very low demand; it is not easy to encourage people to work together, especially when they have to borrow and manage money. People may be concerned only with themselves and their families, making social capital and trust among the community too low to prompt cooperation. Another problem that MFIs working in a post-conflict environment often face is related to the difficulty of attracting conflict-affected people, like women and refugees. Microfinance best practice warns against targeting conflict-affected populations, as it may foment jealousy or aggravate existing tensions. Instead, well-designed and all-inclusive initiatives will attract conflict-affected populations and people from different ethnic groups. Obviously, the immediate aftermath of the conflict is the most critical phase for an establishing MFI. A minimum of stability is required before an MFI can hope to rebuild social capital. This is especially true in Sierra Leone, where the nature of the conflict and the violence and brutality that it brought into the communities are very likely to affect the social tissue of the country for a longer time than in other similar cases.

It is possible, from the previous experience of MFIs working in a post-conflict environment, to draw out some advice and suggestions on the best way for an aspiring microfinance entrepreneur to face the challenge of working within a society that has suffered from a protracted conflict:

- Set, adhere to and widely advertise an inclusive client policy, since people living in post-conflict areas may not be so easily convinced to trust newcomers. Moreover, MFIs should not target conflict-affected people only, but try to address all the population they meet in the field;
- Be consistent in message and mission, making sure that MFIs' staff and local village bankers adhere to the social mission of the institution;
- Tie staff incentives to stated goals, since staff whose pay depends solely on the number of clients they serve are not going to focus on quality of services and group dynamics;
- Keep goals realistic, making clear priorities. In post-conflict societies, it may not be simple to provide good quality financial services and rebuild social capital at the same time;
- Do not abandon best practices. In post-conflict environments, sustainability may take longer to reach, and the repayments especially in the earliest phase of the programme may be lower than usual. Nevertheless, MFIs not committed to best practices are themselves unsustainable and will have limited impact;
- Use normal loan products and methods whenever possible;
- Use other means of reconciliation, for example, providing complimentary training groups or small grant projects.
- Plan for the long term. In the aftermath of a conflict, aid and relief organizations may come and go. It is important instead to plan for an enduring project, which can really contribute to the reconstruction of the social fabric of the country rather than just its economic and political institutions.

1.7 ~ CONCLUSION

The remarkable efforts of an impressive number of NGOs and donors, and the commitment of the international community expressed through the action of top international organizations, such as UNDP, have without any doubt been decisive for the post-conflict recovery of Sierra Leone and its transition to achieving fundamental development goals. Nevertheless, as we have previously discussed, most of the observers, commentators and analysts share the concern that the international community has been focused mainly on short-term goals like disarmament and rebuilding, partially failing to address the root causes and factors that proved to be so crucial in prompting the conflict. Obviously, such factors include long-term goals as youth employment, political reform, government accountability, improvement and reform of rural areas, reduction of poverty, sustainable growth and development. The achievement of such long-term objectives is far more complex than providing first aid relief and disarmament in the immediate aftermath of a conflict, but now that the country is pacified, this the direction that the international efforts have to move.

The conflict has now been over for eight years, the media attention has been diverted from the fate of Sierra Leone, and most of the international community concerns have been diverted with it. Nevertheless, the most updated reports by international monitors and conflict prevention organizations are still warning that “a number of social and economic time bombs must still be defused if an enduring peace is to be built”, and suggesting that “the majority of the population lives in abject poverty, and an ever-growing army of unemployed, socially alienated youth is a perennial threat to security”. Meanwhile, predictably, the support from international donors is scaling down, even if the UN Peacebuilding Commission numbers Sierra Leone among its priorities, which of course means a certain degree of concern and attention by the international community.

The commitment of local and international NGOs remains rather high in the country, as well as the presence of microfinance institutions. Due to their ability to engage closely with local people and communities, and to their proximity with the real problems and needs of the areas they work in, these kind of actors are probably the most qualified to assist Sierra Leone through the process of reconstruction and reform it needs to achieve permanent peace and stability.

¹ Fanthorpe (2005).

² *The Final Report of The Truth and Reconciliation Commission of Sierra Leone.*

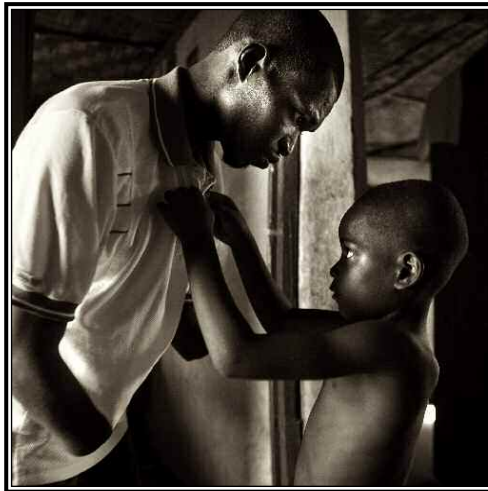
³ *Ibidem.*

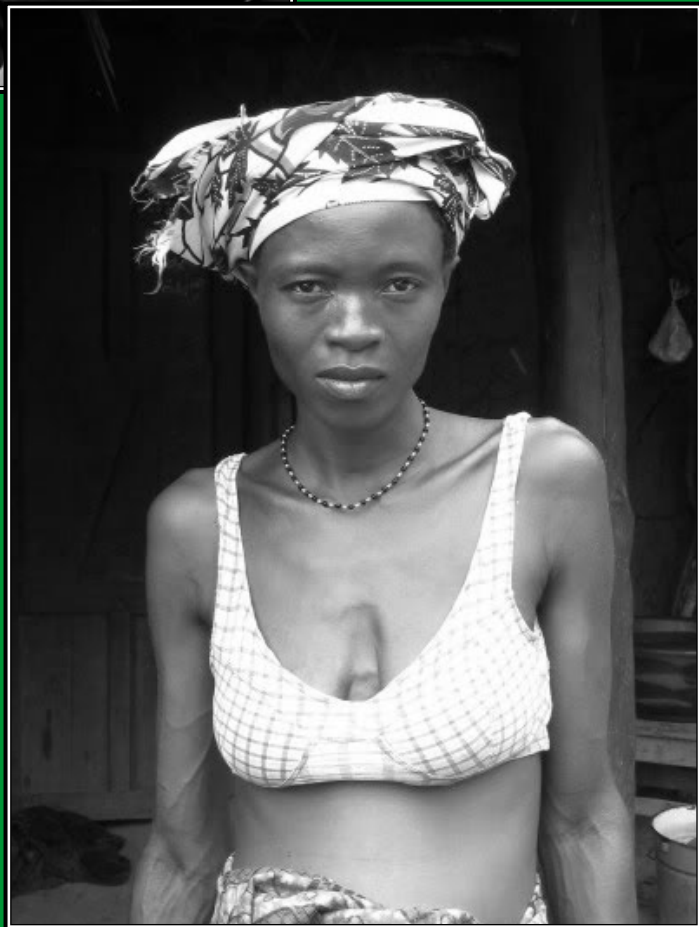
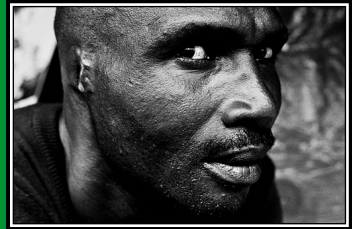
⁴ For further readings: http://www.afrol.com/News/sil007_civil_war.htm.

⁵ See Freeman (2008).

⁶ *The Final Report of Truth and Reconciliation Commission of Sierra Leone.*

⁷ *International Crisis Group Report, 2004.*





2 - MICROFINANCE AS A MEANS OF CONFLICT PREVENTION/RESOLUTION

IN ADDITION TO THE PHYSICAL DEVASTATION OF THE COUNTRY THAT PROLONGED AND EXTENSIVE FIGHTING INVOLVES, POST-CONFLICT societies typically suffer from huge losses in human and social capital. Rebuilding the social fabric of the community, and reconnecting the ties within it and among the communities throughout the nation are key factors for the achievement of a sustainable peace. Civil war and social conflict negatively impact economic growth, investments and the secure development of the country, very often re-creating the conditions of marginalization and exclusion that could attract more individuals into conflict.

Widespread poverty, a poor social environment and persistent wealth disparity were key precursors to the Sierra Leone civil war, yet the very poverty and unemployment that ignited the civil war is still nowadays the major hindrance to development and economic recovery. Although much of the country's formal economy was destroyed during the civil war, since its cessation a massive influx of external aid has helped the country to begin its recovery. In this post-conflict environment, the development and integration of the rural areas is one of the key issues for stability and pacification, along with the reduction of the youth unemployment rate and the alleviation of the rampant corruption at both political and judicial level.

Eleven years after the cessation of conflict, Sierra Leone still lies at the bottom of the UNDP Human Development Index (2010), with 70% of the population living below the national poverty line, and a literacy levels at 35%. Average life expectancy is forty-two years, one of the lowest in the world. As some 70% of the populace live within the rural areas, rural development is vital in addressing these indicators. Poor roads and a definitive lack of infrastructures affect the communications and transportations in the country, resulting in a chronic shortage of information and a limited market access. However, the rural abundance of water and fertile land resources represent a potential noteworthy resource, which if properly managed could allow self-sufficiency in food production with a potential to become a regional food exporter.

Giving the rural population access to the financial market is one of the major priorities of the Ministry of Agriculture. The ministry, in collaboration with the International Fund for Agriculture Development (IFAD), has assisted six existing community banks (Zimmi, Kabala, Marampa Masimera, Yoni, Matru, Segbwema Community Banks)¹ in concurrently working on expanding the financial sector and in opening more banks in the coming years. In addition, the Ministry is planning the launch of an agricultural development bank which would be funded with private capital.

One particularly promising method of allowing the underprivileged population access to capital is through the provision of irregular/minor loans dispensed to either the individual or the community via microfinance institutions (MFIs). As a result of the predicted influx of requests for institutional financial assistance, the government took a positive stance in favour of microfinance in 2003 with the approval of the National Microfinance Policy, which provides the guidelines for all microfinance operations and activities in the country. The objective is to develop and integrate the microfinance sector into the national financial services mainstream and facilitate the provision of viable and sustainable microfinance services to low-income individuals in a transparent and accountable manner for meaningful and productive activities.

One of the more ambitious projects directly linked with the use of microfinance as a tool for capacity building is the Microfinance Investment and Technical Assistance Facility (MITAF). Acting under the auspices of the UNDP, this project strives to develop a competitive, sustainable and inclusive financial sector that provides access to financial services to poor and low-income people and to micro-businesses and petty entrepreneurs. To reach this goal, the project aims to build strategic partnerships with other donors, investors and commercial banks in joint support of an accessible and pro-poor financial sector. Moreover, a professional microfinance unit has been established in the Bank of Sierra Leone with the aim of ensuring an optimal bureaucratic environment for the development of the microfinance industry. It is worth noting that a report from this programme revealed an inequitable distribution of financial services throughout the country, with a market saturation of microcredit in urban areas and a correspondent lack of it in rural areas. It is undeniable that the lack of infrastructures affecting the rural zones prevents financial institutions from addressing the needs of rural communities. However, since 2008 a limited number of microcredit services have infiltrated the rural areas, partially due to the increasing competition in Freetown, which pushed MFIs to try to find new clientele. Launched as a multi-donor microfinance funding mechanism, MITAF has supported numerous financial intermediaries such as NGO-MFIs, for-profit MFIs, community

banks and other international NGO programs through loans for loan portfolio growth, grants for technical assistance, institutional and capacity building and grants for purchasing basic equipment. Nowadays MITAF is widely acknowledged as a success, in particular, it has proven to be effective in the achievement of:

- Moving financial services from the government to independent institutions;
- Providing a joint platform for a coordinated donor approach;
- Developing the concept of microfinance from charity into sustainable services;
- Attracting the interest of commercial banks to broaden their client outreach into both rural areas and the micro-finance sector.

At present, there are at least nine independent MFIs operating in the country (ARD, BRAC, CEDA, Hope Micro, LAPO, GGEM, Luma, SMT and Finance Salone)², whilst the number of banks providing various forms of financial services is around forty. In direct competition with the MFIs, Ecobank, First International Bank and Union Trust Bank have introduced microfinance schemes during the past year. In addition, the six community banks primarily serving the rural populace were created by the Bank of Sierra Leone, which has been playing an increasingly supportive role in favour of microfinance initiatives.

One of the most significant microfinance projects dedicated to the improvement of the rural areas is carried out by the United States aid organization USAID. Its programme Promoting Agriculture, Governance and Environment (PAGE) focuses on forming marketing associations from the existing Farmer Field Schools by assisting farmers to adopt improved agricultural methods, identify new opportunities, such as tree crops and value-added processing, and gain access to financial credit. Between 2003 and 2007, PAGE was able to double the farmers' food production in terms of increasing agricultural productivity and farmer incomes through the use of a market-based approach to agriculture, while providing over 15,000 farmers with training in advanced farming methods.

Another major milestone in developing an inclusive financial sector has been accomplished by the United Nations Capital Development Fund (UNCDF), which along with UNDP, Cordaid³, and KfW⁴ invested more than USD 10 million on a specific programme. Investments were made on different financial service providers, and the institutions supported by the programme have increased their number of active clients from 13,000 to more than 35,000. At the end of 2005, more than 430,000 people were receiving financial services from providers supported by UNCDF, including commercial banks, non-bank financial institutions, credit unions, microfinance institutions, community banks. The combined clientele of UNCDF and supported financial intermediaries included almost 200,000 female clients. The first sector programme in Sierra Leone added 15,363 clients in its first year, 76% of the total clients being female⁵.

Furthermore, MFIs can provide their stakeholders with the resources, and perhaps more notably, the confidence and willingness needed to get back to their small business, or simply to empower them to leave their home and take their excess produce to the market. In this regard, microfinance contributions can be as simple as providing a space for a rekindling of social interaction, and boosting reintegration and trust among communities before actually prompting the economic recovery of the state.

Through microfinance, the individual and/or the community can rise above their subordinate position and become empowered to change the way they negotiate the norms that define their lives – those very norms that so often prevent the individual(s) from acquiring services and resources, therefore some measure of dignity. As a whole, a process more complex than simply providing capital.

MFIs, due to their ability to establish a direct relation with the communities within which they work, can play a significant role by contributing to the restoration of mutual trust between members of different communities, or between members of the same community, an essential task to the social and economical recovery of the country. Providing the community with access to capital markets means that the otherwise excluded are provided with the opportunity to start and or resume their small businesses, with the immediate effect to take them back to the street markets or to the common 'business areas'.

Without questions the proper use of microfinance as a tool for development is playing a relevant role in healing the wounds left by eleven years of war. In particular, it is proving to be effective in the integration of the rural areas and the rural populace and the improvement of their overall livelihood, one of the key areas for the development and the stabilisation of the country.

There must be a holistic effort to build the 'capacity to aspire and believe' and this can be achieved through the MFIs ability to foster empowerment, both through the provision of loans and via the frequent group repayment forums in which group solidarity is often strengthened through common goals and mutual reinforcement. This facilitates a certain degree of socio-economic equitability and allows the community to circumvent, and eventually challenge, the

suppressive village caste system by weakening the elite's ability to dominate decision-making in both formal and informal capacity. Additionally, group forums can foster greater community cohesion through interaction between person(s) still harbouring animosity towards each other from the physical and emotional scars of the civil war.

The main catalyst for empowerment within the country, be it socio-economic or otherwise, is the continuation of peace and the prevention of the re-emergence of war. It is only with this pre-condition that empowerment can occur through a multifaceted approach involving developmental and emergency aid in conjunction with a sustainable and pro-active capacity building. Economic empowerment includes issues such as property rights, changes in intra-household relations and transformation within the context of macro-economics. The population can use the resources available through microfinance to initiate or expand economic activities, improve the management of their resources and the quality of life, create new jobs, increase incomes and reduce the catalysts of conflict.

Microfinance plays an important role on women empowerment in developing countries where business and financial activities are generally dominated by men. In society, women usually play both productive and reproductive roles and, in many instances, the burdensome reproductive role – for instance, taking care of children – limits their access to income-generating activities and financial resources. The provision of microfinance can help to reduce time for women in accumulating financial resources for their petty trading. In addition, since many women are responsible for fetching water and cleaning for the family, they tend to invest their income in the family rather than in business. Therefore providing them with small amounts of money can help to improve living standards of an entire family, on the other hand, economic independence provides women higher social status in the family as they become less dependent on their husbands' income.

Through microfinance, women can potentially gain access to financial services and 'relevant' training enabling them to mobilize their productive and management capacities towards positive economic development. This potentially facilitates more than self-employment, also contributing to the overall amelioration of the family living conditions and a positive influence on the social interactions of the poor by enabling self-confidence and active participation in society. This social impact is particularly important for women and is a major impetus for their empowerment.

There are a number of problems that microfinance organizations need to be aware of. First of all, small businesses that are financed through microfinance organizations might prevent women from meeting each other as often as they do when collecting water, wood, etc. Secondly, it can create social limitations and barriers, and might also generate inequalities in the distribution of incomes or lead to the monopolizing of women's incomes by men.

A report by the International Labour Organization (ILO) recommends that MFIs design a place where women can work together and encourage meetings; it also recommends limiting the access of men to women's savings accounts. The ILO report highlights an example from Pakistan, where ILO found that women are keen savers, whereas men tend to be careless about saving money. The women are more concerned about raising children and save money for the sake of their family members' future well being. Fundamentally there are differences in innate preferences of risks between genders. Due to the differences, ILO suggests that women are an important market and MFIs should take account of this when designing products.

Many organizations go further than interventions at the industry level to include gender-specific strategies for social and political empowerment. Various programmes have developed effective means for integrating gender awareness into programmes and for organizing both women and men to promote gender equality.

Acting within Sierra Leone is not without its challenges, it is a society characterized by a centralization of power, violence and patriarchal attitudes that generally exclude women from the parliament and the public policy process. Subsequently, women have formed informal non-political voluntary groups that focus on the advancement of their status/welfare by working at the community level to provide material benefits and democratic opportunities, that are not otherwise available.

Political participation is by no means equitable between genders, with women predominantly playing a secondary role in the overall political process. The centralized political institutions lack a sustained consideration for women's needs and interests, generally political delegates are not trained in gender equality, and outside of limited exemptions, Sierra Leonean women suffer from an inequitable share in the decision-making process, in both formal and informal political institutions.

While women are generally excluded from spheres of power and policy development throughout West Africa, they dominate petty-trading within their community and are responsible for a number of localized economic regulations, such as setting the localized rules of the marketplace, setting the taxes/tariffs of trade and organizing and managing the market system itself.

Credit programs lead to a greater value for women in household decision-making, facilitating access to financial and economic resources, social networks, greater bargaining power within the household and freedom of mobility.

Additionally, it can lead to greater investments in education, housing and nutrition for the children.

To conclude, the provision of microfinance can help women to generate income, and let them gain higher social status, micro-saving, as an empowerment instrument, may help women improve the living conditions of the entire family with positive long term effects on the local community.

Sierra Leone consequently represents a specifically relevant example for examining the role of microfinance and its effectiveness as a tool for rebuilding human capital and social cohesion.

In a post-conflict state, a key factor in the rebuilding process involves the state's ability to facilitate increased female participation in politics and governance, both directly and indirectly. And it is an additional imperative that the change in gender roles occurring as a result of the conflict is not lost in the peace process and reformation period⁶.

In terms of the conflict response, lessons learnt from the peace-building process can also be applied towards 'non-warring' developing countries as preventive measures against exacerbating tensions and cleavages, usually related to inequitable distribution and access to resources, which may be decisive in triggering conflict when combined with external factors and 'catalytic events'

Based on the examples of several successful microfinance schemes, which achieved extensive outreach and sustainability, it can be concluded that there is considerable potential for their use as an intervention mechanism in post-conflict situations to reactivate the damaged economy. Simultaneously, micro-credit or credit-led microfinance can be initiated with very few circumstantial requirements, although it has to be considered as only one tool among many that contribute to economic development, as it cannot by itself end conflicts nor can it become a primary mechanism for peace building.

¹ http://www.bankofsierraleone-centralbank.org/community_banks.html.

² MITAF Final Evaluation Report (2009). *Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone*.

³ Cordaid is a Dutch based NGO, one of the largest international development organizations in the country.

⁴ KfW is a German bank group which provides financial assistance for sustainable developmental projects.

⁵ http://www.uncdf.org/english/countries/sierra_leone/index.php.

⁶ Minna Lyytikäinen (2009). *Building Inclusive Post-Conflict Governance*.



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MICROFINANCE AS A MEANS OF CONFLICT PREVENTION / RESOLUTION

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