Risk Analysis in Post-Conflict African Countries: Sierra Leone as a Case Study

by

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Declaration

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Abstract

Political risk analysis is considered one of the essential ingredients in decision making processes when investing abroad. The Iranian Revolution and the oil crisis in the 1970s accentuated this need as investors increasingly felt the need for a proper assessment of the risks involved in establishing a business in other countries.

Negative images of African countries combined with conventional risk models which are not able to accurately assess the political risk realities of post-conflict African countries, may be one of the reasons for why African countries struggle to attract a substantial amount of FDI. This study suggests that alternative risk models which are more African-orientated may aid in improving this situation.

This study has analysed the political risk of Sierra Leone using a conventional risk model, and an African-orientated political risk model. The aim of this study was to assess whether conventional political risk models need to be adjusted to be able to more accurately assess the political risk of post-conflict African countries. The main research question guiding this study was:

- Are conventional risk models able to objectively rate the political risk of post-conflict countries in Africa?

The conclusion of this research was that African-orientated political risk models are able to more accurately assess the political risk of a post-conflict African country such as Sierra Leone. This is mainly due to the soft variables used in a political risk model and also the relationship between the variables included in the models. The African-orientated political risk model needs to be analysed further, but this research has made clear the need for a re-evaluation of existing political risk models to be better equipped when analysing post-conflict African countries. This will not only benefit African post-conflict countries in improving their risk ratings, but also provide foreign investors with a more accurate identification of the potential political risks facing an investment in post-conflict African countries. It was acknowledged in this study that the political risk analyses of Sierra Leone were not conducted by someone who has inside information of the political risk models used which is a limitation

for the results of this study. It is, however, possible to detect potential weaknesses with each political risk model and possible areas of improvements.

Opsomming

Politieke Risiko Analise word as een van die belangrikste bestandele in die besluitnemings-proses geag wanneer daar oorsee belê word. Die Iranese Rewolusie en die Olie krisis in die 1970's het hierdie nood beklemtoon, aangesien beleggers toenemend die belang van deur-dagte assesering van die risikos in verband met die oprigting en instandhouding van besighede in ander lande erken het.

Negatiewe opvattings van Afrika lande, tesame met konventionele risiko modelle wat nie geskik is on akkurate asseserings van politike risiko realiteite op te lewer, is dalk van die redes waarom Afrika lande sukkel om groot Direkte Buitelandse Beleggings te lok. Hierdie studie stel voor dat alternatiewe risiko modelle wat meer Afrika-gesind van aard is die situasie kan help oorbrug.

Hierdie studie het die politieke risiko situasie van die Sierra Leone analiseer aangaande'n konvensionele riskio model en met behulp van'n Afrika-georienteerde politieke risiko model. Die studie het gepoog om te assesseer of die konvensionele modelle van politieke risiko gewysig moet word om in staat te wees om meer akkuraat te oordeel in verband met politieke risiko in post-konflik Afrika lande. Die hoof navorsingsvraag wat die studie gedryf het is die volgende: Is die konvensionele risiko modelle in staat om objektief te werk te gaan om die politieke risiko van post-konflik lande in Afrika te meet?

Die gevolgtrekking van hierdie navorsing is dat die Afrika-georienteerde politieke risiko modelle meer gepas is om die politike risiko van post-konflik lande soos Sierra Leone te meet. Dit is hoofsaaklik die geval weens die sagte veranderlikes wat gebruik word in'n politieke risiko model asook die verband tussen die veranderlikes wat in die model ingesluit word. Die Afrika-georienteerde politieke risiko model moet verder uitgebrei word, alhoewel hierdie navorsing dit duidelik maak dat die belang bestaan vir'n herevaluering van die bestaande politieke risiko modelle om beter toegerus te wees om analise van post-konflik Afrika lande uit te voer. Dit word erken dat hierdie studie van die politieke risiko van Sierra Leone nie uitgevoer was deur iemand wat'n intieme kennis van politieke risiko modelle het nie. Dit is uiteindelik wel moontlik on potensiele swak plekke in die mondering van elke politieke risiko model uit te sonder, en moontlike areas van verbetering voor te stel.

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List of Acronyms

ACC	Anti-Corruption Commission
ADB	African Development Bank
APC	All People's Congress
ACRM	Anti-Corruption Revolutionary Movement
APRM	African Peer Review Mechanism
AU	African Union
BERI	Business Environment
BRS	Business Risk Service
CIA	Central Intelligence Agency
ECOMOG	Economic Community of West African States Monitoring Group
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
GST	Goods and Services Tax
HDI	Human Development Index
ICG	International Crisis Group
ICRG	International Country Risk Guide
LURD	Liberians United for Reconciliation and Democracy
MACP	Military Aid to Civil Power

MEND	Movement for Emancipation of Niger Delta
NAM	Non Alignment Movement
NaSCA	National Commission for Social Action
NASSIT	National Social Security and Insurance Trust
NEPAD	New Partnership for Africa's Development
NRA	National Revenue Authority
NRC	National Reformation Council
NSAP	National Social Action Project
OIC	Organisation of Islam
ORI	Operations Risk Index
OSAC	Overseas Security Advisory Council
OSD	Operational Support Division of the Sierra Leonean Police
PMDC	People's Movement for Democratic Change
POR	Profit Opportunity Recommendation
PRI	Political Risk Index
R Factor	Remittance and Repatriation Factor
RUF	Revolutionary United Front
SAP	Structural Adjustment Programme
SLP	Sierra Leone Police
SLPP	Sierra Leone People's Party
TICI	Transparency International Corruption Index
UK	The United Kingdom of Great Britain and Northern Ireland

UN	United Nations
UNCTAD	United Nations
UNIPSIL	United Nations Integrated Peacebuilding Office in Sierra Leone
US	United States of America

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Chapter One

Introduction

1.1 Introduction

Kofi Annan, former Secretary-General of the United Nations (UN), stated: 'For many people in other parts of the world, the mention of Africa evokes images of civil unrest, war, poverty, disease, and mounting social problems' (UNCTAD 1999 quoted in Ejidike 2008:70). This points towards the main reasons as to why African countries are unable to attract a substantial amount of Foreign Direct Investment (FDI). These negative images of Africa, combined with conventional risk models (which are too Western in that they make use of variables such as democracy), may not be accurate for assessing the risk realities of post-conflict African countries. This may give investors an impression that African countries are high risk destinations. It is therefore the aim of this study to extract and analyse some of the major risk variables used in selected conventional risk models in order to find whether a political risk analysis model, specifically designed for African post-conflict countries, would give a more accurate analysis of the risks attributed to a specific country and as a result encourage more FDI in African post-conflict countries.

This research focuses on post-conflict African countries, but does not imply that African countries in general would not benefit from a similar approach. This research assumes that post-conflict African countries struggle more to attract FDI as the countries not only suffer from conflict but are also on the African continent which already has the least amount of FDI compared to other continents. Countries that experience acute conflict, regardless of location, will usually struggle to attract FDI, but this study has chosen to investigate post-conflict African countries, and generalisations should thus not be made for other countries. This study builds on the hypothesis that one of the main reasons for the low amount of FDI in certain post-conflict African countries is the perceived image of African countries as high risk destinations. An African-orientated political risk model will not necessarily change the perception of African countries as high risk destinations, but will help to provide more accurate political risk realities of the countries in question. It is not the purpose of this research to change the perceptions of African countries, but to provide both the investor with a more accurate and informed political risk assessment and the host country with a more realistic assessment of the investment potential in the country. It is important to note that there may be several reasons for the low amount of FDI in post-conflict African countries. The purpose of this study, however, is to establish whether conventional risk models are able to objectively rate political risk in post-conflict African countries or if there is a need for an alternative model. This alternative model may provide a more accurate political risk analysis capturing the unique political, economic and social characteristics of post-conflict African countries.

1.2 Background

Risk analysis has generally become increasingly important due to the need of international actors to look for new investment opportunities in unexplored or untapped areas. Several companies see the need to invest outside their own borders in order to find the products they need, but also to achieve higher returns on their investments in terms of reduced labour- costs and production costs. In line with the increase in investments abroad is the increase in the need for risk analysis before, during and after an investment. Political risk analysis as a tool is a necessity for any firm or organisation who is looking for a profitable investment abroad (Brink 2004:35). The Iranian Revolution and the oil crisis in the 1970s accentuated this need as investors realised and experienced to a greater extent the need for a proper assessment of the risks involved in establishing a business in other countries (Simon, 1982:63). These and other events contributed to the evolution of the field of risk analysis and led to further specialisation with fields such as political risk analysis and country risk analysis. Political risk analysis emerged as a scientific field in the Cold War era and reached its apex in the 1980’s (Hough, Du Plessis, Kruys 2008:6). Although the field underwent a declining phase following the 1980’s, mostly ascribed to the fact that the assessments were not integrated into corporate decision making, it found itself reinvigorated in the 21st century due to increased global insecurity. Acts of terrorism, organised campaigns of violence, institutionalised corruption, and global warming among other things consequently increased the awareness of the need to revaluate the usefulness of political risk analysis.

Political risk analysis is often associated with investors and the need for an assessment of the investment climate. Nonetheless, political risk analysis is also linked to post-conflict African countries as FDI is crucial for domestic savings (Todaro and Smith 2006). Political risk assessments thus become important for potential host countries and their ability to attract FDI. Several less developed countries have tried to promulgate liberal FDI policies to achieve economic development (Desta 1993:1). This study will attempt to assess the need for an alternative risk model taking into account the unique political, social and economic characteristics of post-conflict countries in Africa. It is therefore important to consider the perspective of both the investor and the host country. On the one hand, there is the perspective of the investor who sees the need for a thorough risk analysis due to a high number of conflicts, political instability and an uncertain investment climate.

This makes it important for an investor to have access to a political risk analysis which can aid the decision to invest or not, but also how to deal with the risks when investing. The management of risk is a second function of political risk, behind forecasting the level of risk attributed to a specific country or specific investment. To the extent that it is related to but distinguished from political risk analysis, risk management takes the findings of the risk assessment into account, and a decision is made on how to proceed based on the findings of the risk analyst. Accordingly, risk management is a political function of a value-laden nature that involves a risk strategy and approaches aimed at risk avoidance, risk control and risk recovery.

FDI is seen as important for economic growth, chiefly in countries where domestic savings are difficult due to internal and external problems (Todaro and Smith 2006). Research shows that risk ratings produced by influential risk companies may affect the flow of FDI to a country (Iroanya 2008:93). Political risk analysis of an African country may bring more FDI or lead to less FDI to that country. Political risk models which take into account the unique financial, political and social characteristics of a country are therefore important. Several African countries struggle with ongoing conflict or they find themselves in a post-conflict reconstruction phase. Foreign investors are less likely to invest in countries where there are high risks of conflict or eruption of conflict as it may lead to a loss in the return of the investment (Ejidike 2008:70). Ongoing conflict may affect the political risk at all levels, be it labour relations, infrastructure and the physical security of the workers and the operation itself. This may be one of the reasons for the low number of FDI in African countries compared to the rest of the world. In terms of natural resources and available labour, African countries should be very attractive for FDI. Traditional parameters for analysing political risk may therefore be biased and lead to risk ratings that are not necessarily a reflection of the investment climate in the country. In this study Sierra Leone will be used as a case study to produce two political risk analyses in order to assess the potential risks for FDI. This study will analyse Sierra Leone using both a conventional political risk analysis model and an African-orientated risk analysis model.

If the potential risks are rated as low or medium in the African-orientated political risk assessment, questions are raised as to why there is so little FDI in the country at present. Conventional risk models are often not able to identify the unique social, political and financial/economic characteristics of post-conflict African countries. This may lead to a risk rating that may not reflect the risk realities. Several conventional risk models and their ratings are currently based on Western pluralist democracy which do not take into account the socio-political structures and the stage of democracy found in several African countries (Sichei 2008:117). Several African countries are characterised by hybrid democracies, meaning government systems ranging from semi-democratic to semi-authoritarian (Sichei 2008:117). In other words, they will achieve a high political risk rating. Although this study does not look at economic risk, current conventional risk models tend to neglect the role of structural adjustment programmes when analysing the economic risk in most African countries (Sichei 2008:117). Risk analysis is often used as a decision making tool for FDI by multinational companies (Tarzi 1992:433).

This makes it essential for political risk models to be able to assess post-conflict African countries accurately, as FDI, as mentioned earlier, is often vital for economic growth. Analysing Sierra Leone using a conventional political risk analysis model and an African-orientated political risk analysis model may aid in answering the question of whether conventional risk models are able to objectively rate post-conflict African countries.

Sierra Leone was chosen as a case study for three reasons. Firstly it is a post-conflict country, secondly it has several natural resources, and thirdly the level of FDI in the country is limited. The purpose was to choose a country which had experienced conflict, thus a post-conflict country. The rationale for this is the assumption that political stability and lack of conflict leads to a better risk rating than the opposite as several investors view this as one of the main reasons not to invest in a country (Robock 1971:15). The country has a coastline which should be positive in terms of access to and from the country. Sierra Leone has natural resources including diamonds and rutile. When looking at this broadly, one would think that

Sierra Leone would be a lucrative investment opportunity. The reality, however, is different as there is currently little FDI in Sierra Leone. It is therefore the main aim of this study to assess if an alternative model of political risk analysis would reflect the investment climate in Sierra Leone more accurate than the conventional risk model.

1.3 Purpose and Significance of Study

The aim of this study is to assess whether conventional political risk models need to be adjusted to be more relevant for a political risk analysis of post-conflict African countries using Sierra Leone as a case study. It is not the aim to develop a new model, but rather to assess conventional models by referring to alternative ways of analysing political risk. Some literature exist in the field of Africa-oriented risk analysis models, but this is still considered a relatively new field of study. When considering how the choice of risk model and the system of analysis may greatly affect the decision to invest (Howell 1998:6), it is important to make sure that the risk models used are adjusted to provide a more accurate analysis of post-conflict African countries. Robock (1971:15) argues that there is evidence of political differences that would be seen as acceptable in a home country, but would be viewed as 'disturbing imbalances' in a distant country.

There is often an ethnocentric bias towards certain factors and indicators, for example the criteria for political stability differ in each political system (Robock 1971:16). Frequent changes of leadership may pose a higher risk for an investment in terms of political instability than the same leadership over a longer period of time regardless of political ideology. As a point of clarification *political instability* refers to unexpected or unforeseen changes in leadership succession, government policy, or in a government's implementation of power (Brink 2004:19). It is thus but one criterion that points toward the probability of risk occurring. Alon and Martin (1998:4) argue that several of the conventional risk models are erroneous as they focus on different variables, and history rather than future. It is thus the aim of this study to contribute and improve on the existing literature and current risk models which exist on post-conflict African countries today. This will be done by assessing the political risk of Sierra Leone using the political risk model taken from a conventional risk model (PRI from Business Environment Risk Intelligence (BERI[1]) and an African-orientated political risk model created by Iroanya (2008). The main reason for choosing to focus on post-conflict African countries is the need for these countries to rebuild their society and in doing so their need for economic growth. Economic growth in post-conflict countries will mainly be achieved through FDI (Lall 2000:5). Another important reason for choosing post-conflict African countries is the assumption that some of the reasons for not investing in a country are political instability, conflict and war, (Robock 1971:15). Risk models from companies such as Economist Intelligence Unit (EIU) and BERI have a 'strong influence on the international business community (Iroanya 2008:94). As these risk models and their analysis advise the international business community on where to invest, the models used are decisive for a country's possibility of attracting FDI. Positive or negative perceptions created by risk assessments are able to affect the flow of FDI (Iroanya 2008:93). Combined with the assumption that economic development is viewed as important for keeping peace and avoiding conflict (Solomon 2006:221), this makes appropriate risk models decisive. In other words, assessing the current risk models is important for post-conflict countries as the level of risk can be detrimental for Sierra Leone's ability to attract FDI. As of 2006, Sierra Leone had an FDI inflow of 50 million US dollars (FDI.net, 2009). Compared to other countries in Africa this is low, and compared to the rest of the world it is miniscule. In this study, political risk variables will be analysed in order to redefine some of the soft variables being looked at in political risk assessments.

Political risk variables tend to be the least quantifiable of variables in political risk and country risk analysis (Howell 1998:103), it is thus important to make sure that the variables are defined and the questions posed in such a manner that the results are not biased against post-conflict African countries by taking into account the unique political, economic and social characteristics. This means that the variables need to be analysed in such a manner that they present the client with the real potential risks and not the supposed risks. These variables need to be re-defined in order to develop an alternative method for political risk analysis which will provide an accurate assessment of risks in post-conflict African countries.

[1] The BRS is the country risk analysis used by BERI. The country risk analysis consists of three components the PRI, the ORI and the R Factor. The PRI looks at political risks associated with foreign investments and is the component used in this study. A more detailed account of the BRS will follow in chapter two.

Sierra Leone was chosen as the case study for this research as it is considered a post-conflict country in Africa with limited FDI. Sierra Leone was for a long time a neglected country in terms of assistance from outside during the civil war (Hirsch 2001:14). At a later stage in the civil war, international agencies and neighbouring countries intervened in the war torn country. The media showed pictures and printed stories of child soldiers to increase international attention to and recognition of the civil war. When the war ended in 2002, it seemed Sierra Leone was forgotten and the media were no longer reporting excessively on the country.

In 2002, President Kabbah declared the civil war in Sierra Leone as officially over, but as the figures below suggest, the country has not been able to attract a considerable amount of FDI (U.S. Department of State 2009:3). In 2005, the government claimed that several new policies and structures were in place in order to attract foreign investors. The message was simply that a new Sierra Leone was open for business (Butscher 2005:1). Four years later in 2009, Sierra Leone has not reached its potential when it comes to attracting foreign investors. As of 2006, Sierra Leone's FDI inflow was a mere 50 million US$ (FDI.net 2009). Compared to Africa, it is considered low and compared to the rest of the world it is almost insignificant. Sierra Leone was in 2008, ranked as number 26 in their ease of doing business in Sub-Saharan Africa, which makes it an ideal location for FDI (Doing Business 2009:1).

Considering the fact that Sierra Leone is rich in minerals within the mining sector, and especially rich in diamonds, this is surprising. Sierra Leone has one of the world's largest deposits of rutile and although production entered recession during the civil war, exports resumed in 2005 (U.S. Department of State 2009:6). Despite this the country is still unable to attract a substantial amount of FDI. This may be due to continued negative image the country has due to the civil war, followed by the negative publicity of diamond trade. It has been argued that negative perceptions are able to affect the flow of FDI (Iroanya 2008:93) and this may be one of the reasons for the lack of substantial foreign investments in Sierra Leone. This highlights the importance of a political risk analysis more applicable for analysing post-conflict African countries, as the current political risk models may exaggerate the potential risks for FDI in Sierra Leone. An African-orientated political risk analysis would be able to address the concerns which may have led to the inability of Sierra Leone to attract a substantial amount of FDI.

1.4 Research problem and research question

Alternative risk models for analysing the political risk of African countries are gaining more ground after research by, as an example, Ironaya (2008). The assumption is that the conventional models are too 'Western' in that some of the factors and indicators are not able to capture some of the inherent issues within most African countries (Sichei 2008:117). These issues include the socio-political structures, the democratisation process, the role of Structural Adjustment Programmes (SAPs), the informal sector and environmental issues (Sichei 2008:117). The result is thus that by using conventional risk models, African countries will usually rate as high political risk destinations for investments. The research problem guiding this study is consequently to conduct a political risk analysis of a post-conflict country to assess the need for a political risk model more accurate for analysing post-conflict African countries.

The main research question guiding this study is:

- Are conventional risk models able to objectively rate the political risk of post-conflict countries in Africa?

The following two sub-questions will also be investigated:

- What are the unique political, economic and financial characteristics of post-conflict African countries and how can the identification of these characteristics improve the political risk analysis of post-conflict African countries?
- Using Sierra Leone as a case study is the alternative and African-orientated political risk model able to objectively rate the political risk of a post-conflict African country or does it yield the same results as the conventional risk model?

1.5 Research design and research methods

This is a descriptive, analytical and comparative study which compares two political risk analysis models. The descriptive part of the study constitutes the existing risk models whilst the analytical part comes from the analysis of two models in addition to the political risk analyses of Sierra Leone. This is a cross-sectional research as it is conducted in a single-time frame. The time span will be from 2002 when the civil war ended in Sierra Leone, to recent years as late as 2009, when data was last produced relevant to the topic. The political risk analyses which will be conducted in chapter three will however resemble some elements of a longitudinal observation over an extended period of time, from the end of the civil war until October 2009.

The study is inductive and qualitative, where the aim is to discover meaning by exploring verbal and textual data (Nel 2007:9). Qualitative methods will be used when analysing the soft variables used in the two models and when comparing the two models. As will be explained later, the conventional model which will be utilised is the Political Risk Index (PRI) model from BERI and their Business Risk Service (BRS) country risk analysis model. This model was chosen as it is considered to be one of the most influential risk models in the international business community. This model does, however, make use of weighting of the variables when rating a country. Consequently this quantitative element will be included when rating the political risk of Sierra Leone. Textual data will be used in the form of secondary data analysis of articles, books, newspaper articles and journals.

This is primarily an analysis of a few selected factors and indicators used in a conventional risk model to investigate if an alternative political risk model for post-conflict African countries is more relevant. The political risk analyses of Sierra Leone are merely attempts to use both a conventional model and an alternative political risk model, to assess the usefulness of an alternative political risk model for post-conflict African countries. The conventional model will make use of the work of Howell (1998) and Iroanya (2008). The framework for the alternative model is taken from the work of Iroanya (2008) where he presents his alternative and African-orientated model after he has criticised the BERI model for being too 'Western'.

The research will first present the political risk model, known as the PRI, which is extracted from the country risk analysis model of BRS which is one of the models used by BERI. The matrix will then be presented, taken from Howell (1998) used by BERI and BRS. The PRI matrix is divided into different number categories which are divided into different categories of political risk ranging from low to extreme. The purpose of the matrix is to define what high or low risk entails. Although a country may be rated as a high risk destination in terms of political risk based on the composite score (overall score), it does not state what high risk in terms of political risk entails. The matrix gives a brief definition of what is meant by high or low risk. The PRI matrix will be presented in chapter three.

After having presented the PRI model and the matrix used to assess and rate Sierra Leone, an analysis of the model itself will follow. The next step is to present the alternative and African-orientated political risk model created by Iroanya (2008) along with a matrix for assessing and rate the political risk of Sierra Leone. The matrix used to define the different risk categories for the Iroanya model was created for the purpose of this study. Iroanya did not present a matrix along with his political risk model, and thus one had to be created in order to be able to provide a definition of what the various risk categories entail. The model was created as it would arguably be more accurate for African post-conflict countries. This model will be presented in chapter three to provide the research with a point of reference in terms of an alternative way of thinking about political risk analysis for African post-conflict countries. The Iroanya model will also be analysed.

This study looks only at the political risk component of the BRS, namely the PRI as BRS is actually a country risk analysis. This is due to the fact that the Iroanya model is a political risk model which does not include economic and financial factors. The critique by proponents of an African orientated political risk analysis (Iroanya 2008; Sichei 2008; Ndinda 2008) is that conventional risk models are not able to accurately rate African countries due to a failure to take into account the unique political and social characteristics found in most African countries, and for the purpose of this study, post-conflict African countries. ‘Soft’ variables found in political risk analysis are often subjective of nature as they are conceptualised and analysed by the researcher and not a standardised set of guidelines (Desta 1993: xvi).Soft variables refer to variables which are not easily measured by numbers as they are of a nominal character, which need to be analysed using qualitative methods. Some use political risk rating scales to rate political risk by using a quantitative method as well (see section on methods of political risk in chapter 2 for further discussion). In summary, the table below shows the method used for analysing the political risk of Sierra Leone:

Conventional model by BERI and its BRS country risk analysis model	**AFRICAN-ORIENTATED MODEL BY IROANYA**
PRI (The political risk component extracted from the country risk analysis model BRS)	POLITICAL RISK MODEL

Table 1: The two political risk analysis models used in this study

After the initial stage of analysing the risk models, two political risk analyses of Sierra Leone will be produced in chapter four using the two frameworks presented in detail in chapter three. It is not the aim of this research to create a new political risk analysis model; rather it is the aim to highlight the importance of adjusting risk models to African post-conflict countries. In doing so the political risk analyses of Sierra Leone are merely attempts to see if the results from a conventional political risk model will differ from the alternative political risk model created by Iroanya (2008). Using Sierra Leone as a case study will also help identify some of the unique social, political and economic/financial characteristics of post-conflict African countries which the conventional risk models may not be able to.

1.6 Limitations and delimitations

The main limitation to this study is the access to the conventional risk model. The models used by different risk companies are not available to the public because the model is what forms part of a company's uniqueness and intellectual property. It was therefore not possible to obtain this model from a primary source; instead the major risk variables used in the model was derived from secondary sources, most notably Howell (1998). When assessing the political risks in Sierra Leone it is important to note that I am not as familiar with the use of the two models as the PRI analysts and Iroanya respectively. It is acknowledged that the risk ratings from the two models presented in chapter four may be affected by the lack of inside knowledge. The African-orientated political risk analysis may also be used for other countries emerging from conflict or even other countries which are less developed. The reason for choosing to only focus on post-conflict African countries is to delimit the area of investigation. In addition, the combination of post-conflict countries and African countries are usually synonymous with less FDI. It is acknowledged in this research that although an alternative and more African-orientated political risk model is developed this may not necessarily be able to identify all the unique characteristics, as each country differs in terms of their political risk realities.

One of the major problems within political risk analysis is the gathering of all the necessary information available and the quality of this information. The former issue concerns the problem of getting access to all the information necessary to provide an accurate as possible assessment of the political risk factors and indicators that may affect the investment in a country. The latter issue concerns the quality of the information the risk analyst has access to and whether or not it comes from a reliable source. This is especially problematic in situations where the area of interest is remote and where information about events is delayed partially obscured. It is possible that this ‘information blackout’ may affect the political risk analysis of Sierra Leone, making it difficult to gather all the necessary information and determine its quality.

Sierra Leone is a country where little information is available from outside its borders. One of the reasons for this is the lack of information due to a lack of interest by the media. Two characteristics seem to be of interest to the media stemming from Sierra Leone, diamond trade and child soldiers. Since the country ended its conflict, little attention has been given to its post-conflict situation. This poses a problem for this study as it will be difficult to get hold of all the relevant information needed to conduct an accurate risk analysis. The methodological problem is to include all the variables needed to provide a complete political risk analysis, as far as this is possible. The risk analyst tends to be subjective and therefore decide which factors and indicators are considered to be important (Simon 1984:124). When information is lacking and/or the quality is undetermined, this poses a problem for analysis. Brink (2004:36) provides a very good statement summing up the arguments above: ‘A model for political risk analysis, after all, can only be as good as its components’. At the other end of the spectrum is the notion that although information may be available it does not necessarily follow that it is useful for the analysis you need to provide (Brink 2004:36). A model should only measure the risks that are relevant for the investment being made; this is a difficult task, however, and with regards to the political risk of Sierra Leone even more so. The political risk analyses of Sierra Leone are looking at the macro political risks (risks affecting all sectors) and are thus, a general overview of possible risks to an investment regardless of location and industry. Pitfalls for the political risk analyses of Sierra Leone include a model that is not able to adapt to the ever changing environment surrounding an investment, the neglect of important factors and indicators which makes the model incomplete and the conceptualisation and or definition of the results.

The history of Sierra Leone will be considered as it is important when analysing the current situation and the possible future scenario, while the focus will, however, centre on the current situation until September 2009. This study will not be able to monitor the situation after a political risk report has been conducted. It is important to mention, however, that the main aim of this study is not to produce a political risk rating of Sierra Leone, but rather show how factors and indicators chosen in a political risk analysis may be biased towards post-conflict African countries. It will also look at the two models used to see if they yield different results and if this may be attributed to model used. This research suffers from information blackout and subjectivity and this is a difficult problem to overcome. The research will thus analyse the two models by applying them practically to Sierra Leone and then review the applicability of the two models for analysing a post-conflict country like Sierra Leone. This review will be based on information which is excluded due to the use and combination of variables in the model. In the PRI the system of ranking the variables to reach a composite score which determines the risk rating will be reviewed to assess its applicability for analysing Sierra Leone.

1.7 Outline of the study

Chapter 1:

This chapter is a general introduction presenting the aim of the study, a short background and the methodology. This chapter looked at the method used for comparing two political risk models and their assessment of the political risk of Sierra Leone. This comparative case study is conducted in order to operationalise the research question: Are conventional risk models able to objectively rate the political risk of post-conflict countries in Africa? By using both a conventional and alternative African-orientated political risk model, the aim is to see if the alternative model may provide a more accurate assessment of the political risk realities in Sierra Leone. Several limitations exist in conducting this study and these were discussed in this chapter.

Chapter 2:

This chapter will present the theoretical framework for the thesis and conceptualise key concepts. This chapter will also look at some of the relationships which exist within political risk analysis, such as the one between political risk analysis and FDI. The last part of this chapter looks at various methods of political risk analysis.

Chapter 3:

Chapter three will present the political risk component extracted from the conventional risk model (the PRI model from BERI) and an alternative model for risk analysis constructed by Iroanya (2008). The models will be presented and analysed. At each model the major risk factors will be extracted and used to discuss the difference and/or similarities. It will also be explained how these models will be used in the political risk reports, to be conducted in the next chapter.

Chapter 4:

In chapter four the two risk models presented in chapter three will be applied to Sierra Leone. The political risk analysis will be at a macro level as there is not specific investment in mind. This analysis is merely an attempt to use the results of the previous chapters and put them into practical use. This analysis is provided not with the main aim of finding the risk rating for Sierra Leone (secondary) but to assess the different dynamics between the two models. By using two different political risk models where one is a conventional risk model and the other an alternative political risk model, the aim is to see if the two models will yield different results. If they do, this might be evidence supporting the hypothesis that the conventional risk models are too 'Western' and not able to objectively rate post-conflict African countries.

Chapter 5:

Chapter five will present a summary and evaluation of the findings in the previous chapters. It will assess if the research questions put forward in chapter one was adequately addressed and see if the aim of the study has been achieved. A summary of the limitations and difficulties of the research will also be discussed. The end of the chapter will provide recommendations for future research followed by a summary of the chapter.

1.8 Conclusion

In this chapter the research problem and the research questions guiding this study were introduced. This research will try to evaluate one conventional and influential risk model and its political risk component, and one alternative risk model to see if an alternative risk model needs to be developed in order to reach a more accurate and informed political risk assessment of post-conflict African countries. Both political risk and country risk analysis play a decisive role in a foreign company's decision to invest or not in a country. With regards to the issues facing most African countries, most risk assessments will not be beneficial as risk ratings tend to be negatively high due to regional threats, political instability and an unfavourable investment climate for foreign businesses. Nevertheless, foreign investments are by many viewed as important for post-conflict countries in order to achieve economic growth (Lall 2000:5). Two political risk analyses will be produced for Sierra Leone, a post-conflict country with natural resources and a coastline, but relatively low foreign direct investment. This chapter is a brief outline of the research including a definition and clarification of the main concepts. It is the aim of this study to assess if the conventional risk models are able to objectively rate post-conflict African countries. If they are not, an alternative model as the one suggested by Iroanya (2008) must be introduced to the international arena to better suit and reflect the political risk realities found in post-conflict African countries.

Chapter Two

Theoretical Grounding and Contextualisation

2.1 Introduction

This chapter will introduce the underlying theory of political risk analysis and introduce some of the concepts found within political risk and political risk analysis. Thus, the first section will present an overview of the underlying theory of political risk analysis. Second, key concepts used in this study will be clarified; this will include FDI and post-conflict countries. The chapter will end by looking at methods of political risk analysis. Political risk may be confusing at times and the aim of this chapter is to provide the reader with a clear understanding of what political risk and political risk analysis are. Often there exist misunderstandings between for example political risk and country risk, and political risk and political instability. The aim of this chapter is to clarify these misunderstandings.

2.2 Theory of Political Risk Analysis

In order to understand the relevance of political risk in business and decision-making an explanation of the underlying theory of political risk is needed. Some of the relationships found within political risk analysis will be investigated in order to explain the relevance and importance of political risk analysis.

2.2.1 Problem solving theory

The words *problem* and *solving* relates to political risk analysis as this method tries to solve situations in which choices need to be made often in situations characterised by uncertainty and risk (Brink 2004:30). Political risk can therefore help solve the problem by reducing the risk and identifying the risks, followed by risk management. Political risk analysis can thus aid foreign investors if they want to invest, but are not sure which are the best options (Brink 2004:30). This can be done by analysing and comparing various possibilities as one method for managing this type of uncertainty (Brink 2004:30). This would then be a rational way of solving the problem, one cognisant of the fact that problems do not exist in isolation, and that they instead ‘relate externally to the explicit decision making an environment as well as internally to individuals’ understanding of reality’ (Brink 2004:30). Problems are thus explicitly context-specific and must be analysed as such. Ethnic tension may be linked to political upheaval and popular discontent, as ethnic differences have been used as a political instrument to gather political support. It is insufficient to merely identify and analyse one variable, but one must be able to identify the possible relationships between variables and how they may pose political risks for a foreign investment. The difficulties arise when both the investor and the analyst are trying to compare the current situation with a future situation in an effort to forecast possible future scenarios affecting investments (Kaufman 1991 as quoted in Brink 2004:31).

2.2.2 Decision making theory

Several multinational companies use political risk analysis as a decision making tool, contributing to the increase of political risk assessment techniques and models (Tarzi 1992:434). Decision making theory is assumed to complement problem solving theory as it underlies rational decision making when the situation is uncertain (Brink 2004:30). ‘The major steps of decision analysis are defining the decision statement amongst uncertainty, establishing and evaluating objectives, generating alternatives, and finally comparing and choosing among options’ (Brink 2004:30). Decision making thus forms part of political risk analysis as the political risk analysis is a tool which aids the decision makers in becoming less uncertain, gain more knowledge and become more aware of the potential risks. Chicken (1986) identifies the steps involved in decision making: ‘Conceptualising the idea to invest or expand operations, conduct a feasibility study of the possible outcomes, prepare detailed specification, implementation of the decision, and eventual operation of the preliminary report (as quoted in Brink 2004:30). Ultimately, political risk analysis can make the decision maker aware of the potential risks facing a possible investment. It is important to note that although a political risk analysis may aid in identifying some of the problems, they need to be monitored by ‘constant application, adaptation and revision of political risk analysis mechanism or model’ (Brink 2004:30).

2.3 Clarification of concepts

Conceptualisation of key concepts is much more than providing a definition of the terms; it is also a clarification of how the concept differs from other concepts (Brink 2004:17). In this study this refers to the discussion of country risk. Although country risk is not used in this study, it is important to define the concept as it explains what political risk is not. This section will therefore include concepts such as country risk to achieve a clearer understanding of what is meant by political risk. A definition of political risk and the analysis of political risk will include terms like risk, political risk, country risk and political instability. These terms form part of political risk and the analysis thereof. For the purpose of this study, FDI and post-conflict countries will also be defined as they are important when looking at the impact of political risk analysis. First the concept of risk and risk analysis will be defined.

2.3.1 Risk and risk analysis

Before looking at the development of political risk as a study the terms risk and risk analysis will be defined. *Risk* refers to any situation where the outcome is uncertain. More formally, Chicken (1996) sees risk as 'the manifestation of doubt regarding the frequency and consequences of undesirable events' (as quoted in Brink 2004:17). Another definition is the one provided by Vertberger (1998). His definition is more detailed and is the definition used in this research. Risk is defined as 'the likelihood that a validly predictable, direct and indirect consequence with potential adverse values will materialise, arising from particular events, self-behaviour, environmental constraints or the reaction of an opponent or third party' (Vertberger 1998:22). Risk is not synonymous with uncertainty, as risk refers to a potential danger, whilst uncertainty refers to a situation where the knowledge and/or the information of a situation are not necessarily known (Vertberger 1998:22). This means, in other words, that risk is the question of whether an event will occur and what the result of this event will be; the outcome of the event (Valsamikis, Vivian, and Du Toit, 1999:39-40). Risk can be divided into three types, real, perceived and acceptable (Hough, Du Plessis, Kruys, 2008:10). Real risk refers to the actual or objective risk result; perceived risk is socially constructed and experienced in different ways. It is in other words subjectively defined in pursuit of a goal. Acceptable risk refers to the risk a decision maker finds tolerable or sustainable for investing.

Following from risk is the analysis of risk which studies the likelihood that agents or hazards will lead to or even create outcome of effect that is not welcomed and the severity of this. Risk analysis is synonymous with risk assessment. Risk assessment involves the above by making estimates of probabilities (Swaney 1996:463).

2.3.2 Political risk and political risk analysis

Political risk is a relatively new field of study and was introduced in the 1960s when the first writings appeared (Simon 1982:62). The field is still undergoing constant changes as the global environment change rapidly. The evolution of the field of political risk has led to various interpretations of what constitutes political risk. Another factor influencing the development of political risk was the low priority it was given by investors (Simon 1982:62). Historic events such as the Iranian Revolution and the Oil crisis in 1973 led to a greater focus on political risk as investors realised and experienced more and more the need for a proper assessment of the risks involved in establishing a business in other countries (Simon 1982:63). The impact of political factors on corporate goals and strategies became more evident after these historic events as they dramatically changed the host country’s political environment (Tarzi 1992:433).

Hough, Du Plessis and Kruys (2008:17) argue that political risk is over defined and consequently a wide range of definitions exist that are either too general or very specific. One problem with political risk is the nominal versus real definition (Brink 2004:18). Political risk is a nominal concept: it is a concept in name and though and not in reality (Cambridge 2003:841). Fitzpatrick (1983:250) identified some of the problems with political risk definitions, one being the definition of ‘political event risk rather than political risk’. He argued that there was a focus on event variables, when the definition would greatly benefit from a shift towards process variables (Fitzpatrick 1983:250). In other words, politics cannot be isolated into one political event, but has to be seen as a process and more importantly it is a process that does not stop as soon as the analysis is done. Robock (1971:7) operationalised and identified four premises that need to be present for a factor to be considered part of a political risk scenario: (1) A discontinuity has to occur in the business environment, (2) which is difficult to anticipate, is (3) the result of political change and (4) which has the potential for significantly affecting profit or other goals of the firm.

This operationalised definition sums up the definitions provided by both Howell (1998) and Brink (2004) as they both discuss the impact of politics change on the return of an investment. Howell (1998:3-4) defined political risk as decisions or events of a political nature that can either stem from direct or indirect government action or inaction or political events and forces which are non-governmental. This definition, albeit more comprehensive, also failed to acknowledge that economic and social factors, should and need to be included in a political risk analysis. Brink (2004:18) defined political risk as: 'the probability that business will either earn less money, or suffer losses in profit as a result of stakeholders within a political system's (in)actions or reactions to events, decisions and policies'.

> *'The analysis of political risk not only aids in describing political phenomena in terms of factors of risk, but also tries to explain or understand the occurrence of political risk. The term "analysis" denotes historic, current, as well as future investigation, and aims to interpret something in terms of its effects. Political risk analysis is a process in which investment potential is measured against the backdrop of certain factors which contribute to levels of political risk in a country' (Brink 2004:25).*

This is what explains the relationship between political risk and political risk analysis. The analysis of political risk is a field of study that tries to address all the factors that may affect a foreign investment in a country not only political, but also economical and social. It seeks to forecast the probability of what might happen and how and if it may be detrimental to an investment. Important to note the political risk is not necessarily negative, it can be manageable. It is this ability to manage political risk and use it as an advantage that makes political risk an important area for investment and assessment of a situation.

This study will make use of the definition of political risk analysis provided by Charlotte Brink in her study (2004). She has provided the field with a thorough definition of the term that seems to include many of the elements seen in previous definitions.

> *'Political risk analysis broadly encompasses the examination and explanation of the probability that interrelated factors caused or influenced by government political decisions, (in) actions, reactions, or other unforeseen external or internal events will affect business and investment climates in such a way, that investors will lose money or not make as much money as they expected when the initial decision to investment was made. These factors can be of internal (from inside the host country) or external origin,*

and can pose macro (generic) and/or micro (specific) risks. In order to conduct such an analysis, one needs to isolate risk factors that will be used when modelling the analysis' (Brink, 2004:1 and 25).

2.3.3 Country risk

A continued debate exists as to whether political risk analysis should be incorporated into country risk analysis (Fouché 2003:2; Iroanya 2008:94) or whether country risk analysis should form part of political risk analysis (Hough 2008:5). Country risk is by many viewed as a broader concept than political risk (Hough 2008:6). The narrow concept of political risk originates from its early conceptualization when political risk was recognized by two particular risks: revolution and expropriation (Hough 2008:5). The concept of political risk developed further to include issues where political decisions or events may impact an investment. Country financial risk analysis used to relate mainly to creditworthiness but developed to include a set of variables incorporating political risk (O'Leary and Coplin 1981:4-5 as quoted in Hough, 2008:5).

Thus there exist a significant number of different opinions as to what the difference between the two types of risk analysis is. It seems as if they both incorporate each other, but that the major focus shifts from political in political risk and financial and economic in country risk. When looking at political risk analysis it is thus important to make a distinction between political risk analysis and country risk analysis. Although the two are connected, they are still inherently different. One pitfall for researchers is to equate the two which will be misleading and inaccurate. 'Country risk can be defined more precisely by referring to sovereign, credit and transfer risk. Country risk differs from political risk in the sense that country risk can be explained as potential financial losses due to problems arising from *macro economic* events in a country', (Brink 2004:19). 'Country risk implies a country's *inability* to repay loans, whilst political risk relates to a country's *unwillingness* to do so (Brink 2004:23). The latter point refers to the unwillingness to fulfil the requirements of paying back the loan even though it may be able to do so. This may be due to ideological or other reasons (Brink 2004:23). This distinction between unwillingness and inability to repay is not always easy to distinguish and Brink (2004:23) therefore argues that this is exactly where political risk makes a contribution. This distinction is important as it determines some of the intentions of a country's government and makes it possible to forecast the likely behaviour of a government in other situations that may affect an investment and also assess the willingness of a government to follow through on what they have agreed to.

This may be important in situations where an agreement is made between company and host country stating the ground rules for the investment, for example a promise made by government that they will not nationalise the investment or increase tariffs on the goods they produce. It is precisely because of this latter argument that country risk should rather form part of political risk and not the other way around. Fluctuations in the components of a country's balance of payment are often symptoms of more deeply manifested policy problems. These problems are identifiable after conducting a political risk analysis, but not necessarily by conducting a country risk by itself. By including country risk into political risk analysis, the analyst will be able to provide the client with a more complete and in-depth picture, a country risk does not necessarily, if ever, include political risk factors (Brink 2004:18). An example of a political risk model is the Country Risk Forecast by Control Risks Group and an example of a country risk model is the Country Risk Service by Economist Intelligence Unit.

Howell (1998:3-4) sees the difference between country risk and political risk as the former is of a larger scale and includes economic and financial characteristics, whilst political risk are the possibilities of political decisions or events of affecting a business investment. This as a distinction for this research means that country risk should form part of political risk as political decisions and events do not stand in isolation of financial and economic characteristics of a country. Instead the factors and indicators used in a risk model decide whether the model is political risk or country risk. It is the belief of this research that a comprehensive political risk report needs to take into account financial and economic characteristics of a country in order to determine whether an investment faces any potential risks. A political risk report has as its main aim to try and cover as many of the possible risks facing an investment, and this means that one cannot exclude economic and financial characteristics. Economic and financial characteristics may be one thing today, but is subject to rapid change, as political decisions may alter the system. A final point that is important to bear in mind is that country risk may be rated as low in a country whilst political risk may be rated as high and vice versa (Brink 2004:23). The figure below illustrates this.

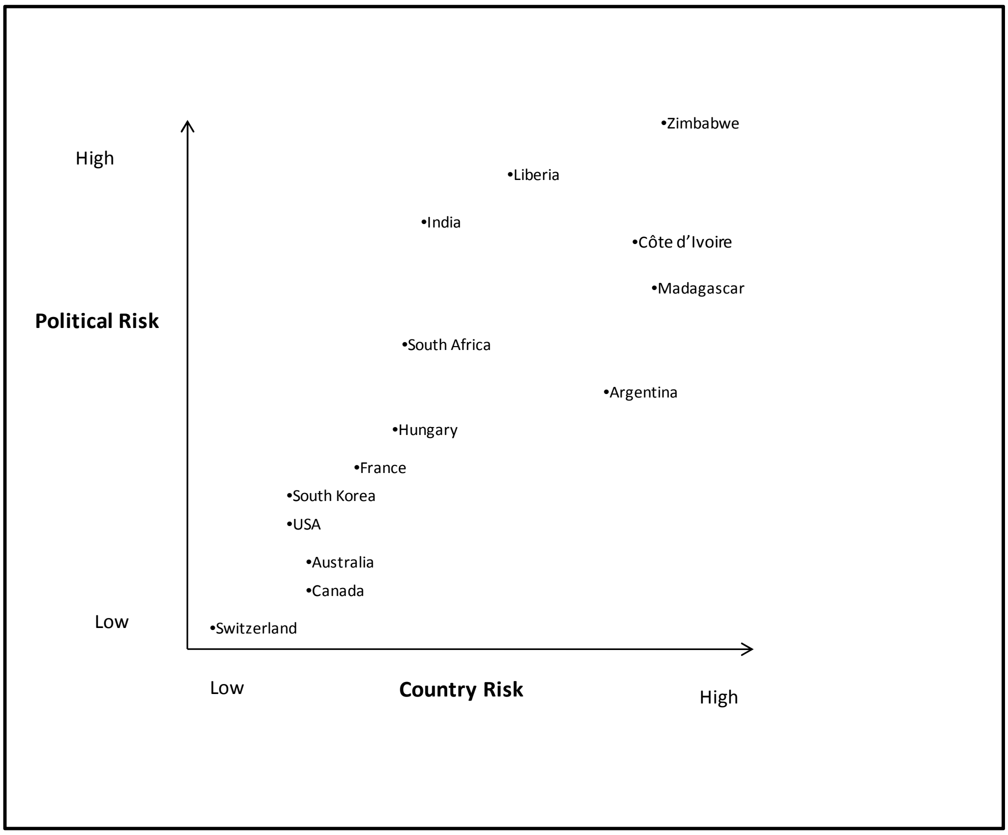

Figure 1. The relation of political risk to country risk (Brink 2004:24).

2.3.4 Political instability

It is also important to be aware of the difference between political risk and political instability. When analysing political risk in a country it involves not merely looking for an assessment of political instability, but an overall assessment of the political risk. 'Political instability refers to unexpected or unforeseen changes in leadership succession, government policy, or in a government's implementation of power. Political instability is one criterion that points toward the probability of risk occurring' (Brink 2004:19). It is a political risk factor and it is biased uncertainty about the probability of political events taking place, (Brink 2004:19). Political instability is a property of the environment whilst political risk is a property of the business (Kobrin 1978:114). Political instability is a property of the environment because environment does not necessarily have to affect the business's investment in the country (Fitzpatrick 1983:250), whilst political risk is a property of the business as political instability then may be regarded as posing a high probability that it may affect the investment. Several country risk models, one being the International Country Risk Guide (ICRG), have a component which assesses the political risk in a given country (Sichei 2008:120). This risk rating; however, tries to assess the political stability of that given country, and not the overall political risk. Political instability is related to political risk, but it is still a separate phenomenon (Robock 1971:8). Political instability is an important indicator of political risk, but one needs to be aware that it is not the same as political risk. Several indicators will determine the level of political risk and political instability may be one of these indicators. Political instability alone does not necessarily have to affect a foreign investment, but there is a high probability that political risk may affect a foreign investment. The main difference thus lies in political risk being an overall assessment of potential threats to a foreign investment, whilst political instability may form part of this assessment as one of the indicators needed to rate the political risk in a given country.

2.3.5 Macro risk and micro risk

'Political risk is not only present in macro environments, but can also be industry (micro) specific', (Brink 2004:20). Macro political risks can be characterised as 'actions and policies directed at all foreign enterprises in a given country' and micro political risks can be characterised as actions and policies 'aimed only at a selected fields of foreign business' (Simon 1982:66). Macro political risks look at the whole country and even external factors that may affect the host country such as neighbouring countries, regions or events on the international arena. Macro political risks can arise from a change in the political environment and may affect all foreign enterprise (Fitzpatrick 1983:250). Micro political risks look at specific regions within the country and/or specific areas or industries within the country, (Fitzpatrick 1983:250). This research will focus on macro political risk as it allows the political risk analysis to be applied and generalized across industries (Alon and Martin 1998:2).

Macro political risk looks at factors that may affect investments regardless of the type of investment and or location of investment. Macro political risk gives a general overview of the possible risks an investment may encounter in a specific country. Micro risk, on the other hand, provides a more detailed analysis as it analyses political risk by focusing on possible risks for a specific type of investment in a specific location in a country. Whilst civil war (macro political risk) may affect all types of investment, clashes in one area of the host country may only affect an investment in that specific area. Although both the civil war and the clashes may be included in both micro and macro political risk analysis, the risk rating for each may be presented differently according to type of investment and where. This study will assess macro political risk as the aim is to analyse political risk in Sierra Leone and not the political risk attributed to a specific industry or in a micro specific location.

2.3.6 Models as used in political risk analysis

The definition of a model is: ‘a model offers a way of applying rational analysis to complex issues’ (Brink 2004:33). In political risk analysis, a more specified definition of a model is needed. This study will use the conceptualisation of a model used as a tool for political risk analysis presented and created by Brink (2004:33):

> A political risk model is ‘*an extended representation of a certain potential host country’s political and overall business and investment climate as viewed by potential foreign investors, political risk analysts and host governments, that wish to use the model for political risk analysis in order to better understand and comprehend, adapt to, manage and control the identified political risk factors the model is specifically designed for to deal with’*.

It is the task of a political risk model to ‘make explicit or concrete the aspect of reality that is being investigated’ in this context it would be the reality of a foreign investment decision (Brink 2004:34). It is important to note that the model for political risk analysis should not be about predicting, but forecasting (Brink 2004:27). ‘A forecast presents an *estimate* of something in the future, a *probability* that a certain country *might* pose a *certain* degree of political risk to a foreign investor’ (Brink 2004:27). A political risk model is merely an instrument to aid the analyst in trying to identify the major risks affecting a potential investment.

2.3.7 FDI and Economic growth

FDI is the ‘direct control of either assets or an enterprise in a foreign country through ownership of a substantial portion of the assets or the enterprise’ (Comeaux and Kinsella 1997: xix). Foreign Direct Investment (FDI) according to the Dictionary of Economics refers to an investment by an individual or a firm 'acquires a controlling interest in productive assets in another country' (Durlauf and Blume 2008b:459). This differs from what is known as portfolio investment which refers to purchases that do not provide control through stocks, currencies and foreign bonds (Durlauf and Blume 2008b:459). FDI usually entails taking over a firm or a joint venture; however, the construction of an entirely new plant, known as 'greenfield' FDI, can also occurs (Durlauf and Blume 2008b:459).

Economic growth is briefly defined here, as it has been mentioned as an important part and reason for FDI. The concept will not be discussed in great length as it is not the purpose of this study to investigate economic growth in detail. Rather economic growth is mentioned as it forms one the reasons for why FDI is important for post-conflict African countries. 'Economic growth is typically measured as the change in per capita gross domestic product (GDP)' (Durlauf and Blume 2008a:675). Economic growth has a tendency to be higher in the early phases of post-conflict, but slow down shortly after (Collier et al. 2003: 147). This becomes a problem as a post-conflict country needs to have economic growth in order to rebuild the country and economy after a long period of conflict (Collier et al. 2003). The lack of economic growth also poses a high risk in post-conflict countries for a return to conflict (Collier et al. 2000:9).

2.3.8 Post-conflict countries

Several articles, journals and books discuss post-conflict, be it post-conflict settlement, peace-building, post-conflict societies or post-conflict reconstruction (Jeong 2005; Mazula et al. 2008), but information on the direct definition of the concept of post-conflict is limited. Although many discuss the concept in relation to peace-building and countries where the war has ended, post-conflict as a term is not necessarily defined. One possible definition may be the one offered by Collier et al. (2003) in Paffenholz and Spurk (2006:22). According to Collier et al (2003), there are three phases of peace-building which correspond to the three phases of conflict. These are: '(i) the prevention phase aiming at preventing armed conflict; (ii) the conflict management or peace-making phase aiming to end armed conflict and reach a peace agreement; and (iii) the post-conflict peace-building phase, or post-settlement phase' (as quoted in Paffenholz and Spurk 2006:22). Collier et al. (2003) continue by offering a definition of the term post-settlement as they feel that post-conflict is at 'odds with notion that conflict is inevitable in any society and can be constructive' (quoted in Paffenholz and Spurk

2006:22). They also mention that post-settlement may sometimes be misleading as in certain cases there may not exist a peace agreement, although organized violence at a large scale has ended.

Paffenholz and Spurk (2006) use the term post-conflict in their study and divide the post-conflict phase into two sub-phases: the immediate aftermath of armed conflict which is considered to be within one to five years; and the period after from five to ten years (Paffenholz and Spurk 2006:22). The reason for dividing the post-conflict phase comes as a result of research which shows a high risk (44%) of large scale violence re-emerging within the first five years after the end of an conflict, this risk, according to post-conflict research, decreases after the first decade after a conflict (Collier et al. 2003 as quoted in Paffenholz and Spurk 2006:22). Analogous to the post-conflict phase is post-conflict reconstruction. Post-conflict reconstruction is a complex system including short-, medium-, and long-term programmes in order to hinder conflicts from resurfacing and to build and consolidate sustainable peace, where the aim is to address the root causes of the conflict (NEPAD 2005:iv). The post-conflict reconstruction proceeds through three phases: (i) emergency, (ii) transitional and (iii) developmental phase (NEPAD 2005: IV). For the purpose of this research study, a definition of post-conflict countries will be constructed from the work of Jeong (2005), Mazula et al. (2008) and a conceptualisation used by NEPAD (2005):

A post-conflict country is one that has signed a comprehensive peace agreement and is in the process of implementing the requirements in the agreement such as disarmament. It is a country with a transitional government, in the process of conducting free and fair elections or has already elected a new government based on free and fair elections (Jeong 2005). Post-conflict countries are thus countries that have reached peace and or a ceasefire and are in the process of implementing the post-conflict reconstruction system through its three phases: emergency, transitional and developmental (Mazula et al. 2008:159; NEPAD 2005: iv).

The definition above will constitute the working definition of post-conflict countries for the purpose of this study. The underlying theory of political risk analysis and a clarification of the key concepts were given above. The next section will look at the relationship between FDI and political risk analysis before the section ends by looking at some of the methods often used within political risk analysis.

2.4 FDI and political risk analysis

Although FDI was defined above, it is important to mention briefly the relationship between FDI and political risk analysis. The two are, to an extent, mutually dependent on each other. It is imperative to be aware of the notion that African countries aspire to develop their economies and societies and in order to achieve this it is argued that FDI is indispensable, and more so a steady flow of FDI (Iroanya 2008:99). FDI has, throughout the world, had an enormous growth since the 1960s and as a result of this political risk analysis has expanded as a discipline (Alon and Martin 1998:2). Baker and Hashimi (1988:40 as quoted in Brink 2004) assert 'political risk analysis is an integral part of multinational business operations.' Simon (1984:123) points out that market surveys and foreign exchange analysis are not designed or able to assess the possibility of political and social upheavals, this has made political risk analysis one of the fastest growing sectors in the study of international business.

It is crucial to evaluate the current, conventional risk models as they are considered influential for the decision to invest abroad, and FDI holds such a high position for a country's ability to grow economically. Basic macro economic theory will state that most important for a country is its domestic savings, but for most developing countries, and especially post-conflict countries, domestic savings is not necessarily attainable, at least not to a sufficient enough degree. This is why FDI plays such a significant role as it enables a country to accumulate capital for investments, normally achieved by domestic savings through FDI (Todaro and Smith 2006; Iroanya 2008:99).

The argument is that FDI will help create employment opportunities as well as stimulate economic growth by bringing in additional capital (Iroanya 2008:99). There seems to be a growing consensus that economic growth and thus poverty reduction must come from investment and especially foreign investment. Many studies emphasise the importance of growth for poverty reduction namely Fafchamps, Teal and Toye (2001) and Dollar and Kraay (2002). FDI as mentioned earlier is linked to political risk analysis, as the decision to invest in a foreign country is determined, amongst other things, by the level of political risk a company will face in that specific country (Sichei 2008:118; Friedmann and Kim 1988:63; Robock 1971): 'A high level of political risk in a certain country can stop an investor from spending any amount of investment capital' (Brink 2004:25). Political risk analysis may affect the flow of FDI to a country as high risk ratings may lead to foreign investors turning to another country or territory. This is important in post-conflict countries as FDI is often needed as an alternative to domestic savings as it will enable a post-conflict country to accumulate capital (Iroanya 2008:99). The situation is often, however, that post-conflict countries suffer from high levels of political risk which may affect the decision to invest in the country. The relationship between FDI and political risk analysis is thus important for both the foreign investor and the host country.

2.5 Methods of Political Risk Analysis

One of the major problems within political risk analysis is the gathering of all the necessary information available, and the discrepancies in quality of this information. The former issue is concerned with the problem of getting access to all the information necessary to provide an accurate as possible assessment of the political risk factors and indicators that may affect the investment in a country. The latter issue concerns the quality of the information that you get access to and whether or not it comes from a reliable source. This is especially problematic in situations where the area of interest is in a remote place where information about events is delayed, or it is difficult to be sure of the situation at hand. An 'information blackout' thus exists. The methodological problem is therefore the need to include all the variables needed to provide a complete political risk analysis, as far as possible. Analysis is thus subjective and individual analysis thus decides which factors and indicators are considered important (Simon 1984:124). Brink (2004:36) provides us with an excellent statement summarising the arguments above: 'A model for political risk analysis, after all, can only be as good as its components. At the other end of the spectrum is the notion that although information may be available it does not necessarily follow that it is useful for the analysis you need to provide, (Brink 2004:36).

A model should only measure the risks that are relevant for the investment being made; this is a difficult task, however. Another problem facing political risk analysts is the issue of keeping up to date with events after the political risk report is finished and make sure that the company is given relevant information about the risks that may affect the investment. This argument can be seen in Brink's (2004:30) statement that 'due to the dynamic nature of political risk(s), problems or political risk do not remain solved after analysis. But they can be monitored by constant application, adaptation and revision of the political risk analysis mechanism of model'.

‘In order to conduct valid and reliable political risk analyses, one also has to be aware of the pitfalls that an analyst is likely to encounter in order to avoid, accommodate or remedy these problems’, (Brink 2004:25). These pitfalls include a model that is not able to adapt to the ever changing environment surrounding an investment, the neglect of important factors and indicators which makes the model incomplete and the conceptualisation and or definition of the results. The political risk analysis is in danger of becoming too subjective leading to both an incomplete model and the analysis itself. What one researcher considers being high risk is not necessarily high risk to someone else, an example being the level of crime in South Africa. Although the same criteria or definition is used for what constitutes the various levels of crime, the result can be completely different depending on the researcher. Several methods and models exist for analysing political risk:

> *‘Existing risk rating methodologies are limited and include mostly macro economic risk factors, measures of social structure and development, and political events that are primarily indicators of instability and/or regime change. The unit of analysis is almost always the nation-state, and there are related problems of reliability, accuracy, validity and comparability’ (Stubbs and Underhill 1994; Kobrin 1981 as quoted in Brink 2004:42).*

A model for political risk should have as it main goal to try and understand ‘all attempts to create or mobilise power, in whatever form it may occur’ (Brink 2004:44). In political risk analysis there is no standardised method for conducting an assessment, but there exists suggestions as to which requirements should be fulfilled:

1. ‘Identify social, political, and economical factors that may adversely or positively affect a country’s business environment;
2. Identify social, political, and economic factors that may adversely or positively affect a sector or project’s viability within this environment;
3. Measure and aggregate factors in a rigorous manner (a structured quantitative model tailored to institutional applications);
4. Systemic risk estimates allowing for comparisons (or risk equivalents) across countries, sectors, and projects;
5. While imposing a discipline on the selection, weighting and analysis of variables, the model must nevertheless be flexible, forward-looking and predictive; and

6. Disaggregate estimates allow for identification of viable opportunities in (and within) markets where traditional risk indicators perform erratically and exceed comfortable margins, but also mask sector- or project-specific possibilities' (Nairne 2004:29-30).

The above basic six requirements should be fulfilled in any political risk assessment, but in addition Friedman and Kim (1988:67) discuss the main problems often found when analysing political risk:

1. Lack of clear definitions, reliable and valid measures of variables, and theories;
2. Little predictive validity that any forecasting work has;
3. Overemphasis on dramatic events, and
4. Treatment of subjective estimates as objective data.

Although this research is not creating a new framework for analysing political risk, the above requirements and pitfalls are important to be aware of and bear in mind in any political risk analysis. They provide the political risk analyst with guidelines for methods of political risk analysis.

There are three methods for evaluating political risk: structural functional analysis of the political system; indicators indexing approach (summary indicators approach); and scenario writing approach (Nel 2007:48). These methods will be explained in the next section.

2.5.1 Structural functioning analysis

This approach decomposes political risk into political factors and political risk events (Nel 2007:17). The aim is to 'make risk evaluation more precise by indentifying and clearly defining both dependent and independent variables' (Tarzi 1992:444). The dependent variables are the political risk events whilst the independent variables are political risk factors (Tarzi 1992:444). The rationale is that political risk events, which are any changes in the host country 'which, if and when it occurs would negatively impact' the profit opportunity of the investment, are caused by the independent variables, which have the ability to influence and give rise to political risk by affecting the dependent variable; political risk events (Tarzi 1992:444). The dependent (political risk events) and independent variable (political risk factors) are causally linked, and it is this relationship that determines the political risks which may exist in a host country. Tarzi (1992:445-446) uses regime change as an example of a dependent variables which is influenced by several independent variables (influencing political risk factors), leadership succession crisis and legitimation crisis of the state. This approach evaluates political risk by indentifying dependent and influencing independent variables and the relationship between them. It is the relationship between the two which is important within political risk analysis as the independent variables analysed in isolation of dependent variables may not tell the analyst anything about the possible political risks which may arise in the future.

2.5.2 Summary indicators approach (indices approach)

This approach makes use of indices by using various political risk-rating scales; this is done by presenting ratings of countries by looking at various factors of political risk (Tarzi 1992:436). The relative weight from these factors is derived from questions and answers (Tarzi 1992:436). BERI and the PRI component is an example of a popular method of combining the summary indicator approach with a measurement scale. The PRI makes use of weights attached to each variable by giving them the value of maximum 7 points each. After each variable is given a point based on an analysis of the possible risk they may pose to an investment, all the variables are added up to give an overall score of the political risk of a given country. Critiques of this approach exist as it is not considered to be able to provide the investor with the needed in-depth and project-specific information which is necessary to assess specific risks the foreign investment may face and to be able to forecast changes in the environment (Tarzi 1992:437; Kobrin 1979:76).

2.5.3 Scenario writing approach

Scenarios are: ‘focused descriptions of fundamentally different futures presented in coherent script-like or narrative fashion’ (Schoemaker 1993:195). Scenarios are used to avoid a situation where only one outcome is possible and the approach is best suited in situations with a need for diversity (Nel 2007:50). This method is most popular in strategic management and have a Hegelian philosophical premise, in other words they are dialectical (Nel 2007:50). Scenario writing is an approach where positive and negative possible outcomes are discussed in order to be able to evaluate how a system is most likely to evolve. After having cast various propositions, the consistency of each set of propositions is examined (Nel 2007:50). Scenarios are therefore defined as 'possible futures visualised as a story of the future that help the strategist to conceptualise the conditions that the organisation will be confronted with it in the future and that falls outside the scope of statistical forecasting' (Sunter 2001:1 as quoted in Nel 2007). Scenario writing is not used as an approach in this study, but is mentioned as one possible method of analysing political risk.

This research investigates one conventional risk model and one alternative political risk model, which will be analysed in greater length in chapter three. Both of these methods are qualitative, although the conventional method makes use of weightings of the variables which is a summary indicators approach combined with a measurement scale. The alternative political risk model suggested by Iroanya (2008) is a structural functioning method for analysing political risk.

2.5.4 Forecasting political risk

In political risk analysis one should never predict an event or an outcome, but try to forecast what might happen in the future based on a political risk analysis, using a model with major risk variables relevant for the potential investment. 'A forecast presents an *estimate* of something in the future, a *probability* that a certain country *might* pose a *certain* degree of political risk to a foreign investor' (Brink 2004:27). 'The political risk analyst cannot (and should not) predict that risk will occur, or when it will happen, but can attempt to *anticipate* a *probability* by observing certain trends or current events, and the way in which they come together' (Brink 2004:27). As the analytical method and the model are not able to give accurate prediction, it is all a forecast as to what might happen (Brink 2004:27).

In a political risk analysis several circumstances are taken into consideration based on the functionality and possible application to the analysis conducted. They are not necessarily all the circumstances possible to affect the investment, but a great number that can help forecast a possible scenario. Whenever a political risk analysis is conducted the information gathered will not necessarily include all the factors available or relevant, your information will not be 100% complete (Brink 2004:28; Simon 1984:124). Several factors contribute to the inability to predict and also to forecast, as the political, social and economic environment is constantly changing and different factors can affect each other in less than obvious ways. As it is not possible to predict the future, the results of the analysis can merely forecast a probability of future events.

2.5.5 Quantitative research and qualitative research

The main purpose of this study is to investigate the relevance of conventional risk models when assessing post-conflict African countries, and to test the relevance of the suggested alternative political risk model. In order to do this, empirical research (qualitative research) and social inquiry (quantitative research) need to be clarified (Nel 2007:28). In most research, regardless of discipline, a debate exists about whether qualitative or quantitative research is the better method for conducting social research. The opinion that will be followed in this research study is that a dual approach (qualitative combined with quantitative) provides optimum results. The different qualities of each method can complement each other, and should thus be incorporated in most research to avoid the pitfalls found in each method. In political risk analysis, however, I am of the opinion that qualitative research should be emphasised due to the behavioural nature of political risk analysis. Those who are sceptical of quantitative research argue that the behavioural nature cannot be measured as they do not deal in data; in addition, the conclusions cannot be proved or disproved (Brummersted 1998:81).

Quantitative analysis tries to compare and generalise findings by accepting or rejecting hypotheses through repetition (Nel 2007:28). The method and design used in quantitative analysis are based on deductive reasoning by constructing a hypothesis which will either be accepted or rejected. In other words, the research accepts or rejects an assumption to create a new theory or shed light to an existing theory. A theoretical standpoint exists and the aim of the researcher is to test this standpoint to contribute to the theory.

Qualitative analysis usually involves inductive reasoning where observations made by researchers through a literature review are investigated before the research begins (Du Plooy 2002:82). In other words, the researcher makes assumptions based on previous evidence and tests this evidence to provide a theory as to why. The aim is not to create evidence for a theory as seen in deductive reasoning, but to create theory based on evidence. The researcher has made some observations about real life or real situations, and then tests some of the assumptions made in order to build a theory based on these observations.

This research will focus on qualitative research. It is important to note that by using both methods when constructing a political risk model, the researcher is better equipped in avoiding the pitfalls found in each method, 'we cannot construct and test models in the scientific sense of the word without data, and we cannot efficiently generate or acquire data without close attention to the models we now have, and to the theories we hope they will become' (Singer 1990:112). This study will analyse the qualitative parts of two political risk models and will thus not venture into the quantitative method of political risk analysis.

2.6 Conclusion

In this chapter an introduction to the underlying theories of political risk analysis were presented followed by a clarification of the key concepts. A short explanation of the relationship between FDI and political risk analysis were given. The last part of this chapter introduced some of the methods used within political risk analysis. The theoretical background given in this chapter will guide the way forward for the rest of the research. The next chapter will introduce the two political risk models which will be used to analyse the political risk of Sierra Leone.

Chapter Three

Models for Political Risk Analysis

3.1 Introduction

The previous chapter provided the study with a theoretical background needed in order to move on to the two political risk models analysed and applied in this chapter. This chapter will start by introducing the political risk component (PRI) extracted from the BRS country risk analysis used by BERI. The next section will look at the alternative and African-orientated political risk model created by Iroanya (2008). Proposing the alternative and African-orientated political risk model, he argues that it would be less biased and provide a more accurate political risk analysis of African countries, and for the purpose of this study, post-conflict African countries. Both models will be presented in more detail below.

The first section of this chapter presents the BERI and its BRS model. Then the PRI component of the BRS and its matrix which is used to rate the political risk are presented. The matrix is a table which is divided into various ratings of political risk from low to high or extreme, within each category is a definition of why the political risk is high or low and what this entails. The PRI matrix, also known as the interpretation scale, which is the matrix used by BERI to rate the PRI (Iroanya 2008:104; Howell 1998). An example would be that political risk in a given country is high due to political instability and no state legitimacy. An analysis of the model in its entirety is then provided. The second section presents the model put forward by Iroanya, and the developed matrix which will be used to rate the political risk of Sierra Leone.

After the model has been presented an analysis of the model will be provided in a similar manner as in section one. The matrix used for the Iroanya model was developed for the purpose of this study and has not been provided by Iroanya. The political risk analysis of Sierra Leone will be on a macro level with no particular type of investment in mind. It will rather be an overview of some of the macro political risk that a country should bear in mind when wanting to invest in Sierra Leone. This is done to accommodate chapter four which will produce two political risk analysis of Sierra Leone using a conventional risk model and an alternative model to see if the two different models will yield different results. This will make it possible to answer the research question: Are conventional risk models able to objectively rate the political risk in post-conflict countries in Africa and how is the alternative political risk model more relevant?

'Institutional scholarship has revealed that factors needed to attract FDI in any country are the following:

- Political stability, peace and security
- Transformation to market-based economies
- Resource endowment
- Good infrastructure
- Tourism potential (Hough and Bottom 2003)' (as quoted in Ejidike 2008:70).

Following from the list above, it is clear that political risk is an important and integral part of any decision making to invest abroad. In this chapter I have extracted only the political component of the BRS country risk analysis model. The Iroanya model is a pure political risk analysis model and does not include any economic or financial risks. Thus, in order to compare the conventional risk model to the one created by Iroanya, the PRI was extracted from the BRS country risk analysis. It is the argument of this study that soft variables are more difficult to conceptualise and measure. In addition, 'foreign investments relationships with host governments are inherently political...Isolating political risk factors and incorporating these into decision-making processes, thus, are widely accepted practices' (Tarzi 1992:433).

3.2 Business Environment Risk Intelligence (BERI)

The BRS is one of the analyses offered by BERI a risk company developed by Haner in the 1960s (Desta 1993:14). The BRS provides qualitative analyses and forecasts for 50 countries and is published three times a year. The BRS also provides quantitative rankings on government, proficiency, labour force evaluation and market opportunity and a table of historical statistics and political information showing trends (Howell 1998:36). The BRS is analysed by the Profit Opportunity Recommendation (POR) put together by the average of three components each on a 100-point scale: the Political Risk Index (PRI), the Operations Risk Index (ORI) and the Remittance and Repatriation Factor (R Factor). The BERI is a rank-ordering approach which makes use of ranking countries numerically to circumvent weaknesses found in earlier approaches (Desta 1993:13). The BERI assigns each variable with a number and then each country is ranked on a Likert scale (Desta 1993:14). The countries assessed by BERI are then ranked on a composite scale of 1 to 100 where the closer to a 100 the lower the risk. A basic table is provided below to show the relationship between the three components and how they determine the overall risk for a country. Within each component several calculations exist for each variable giving the average score as seen for PRI (55). This study will only assess the PRI. It is important to note that when a composite score is given, a qualitative analysis of each variable is provided with the results.

POR		
PRI	**ORI**	**R Factor**
55	**51**	**63**
Average of POR is thus 56		
The risk rating for China is thus above average and is rated a moderate-risk country		

Table 2 Risk rating for China in 1996 (Howell 1998:50).

The PRI consists of ratings on 10 political and social variables and measures socio-political changes. The ten variables are divided into three categories: internal causes of political risk, external causes of political risk and symptoms of political risk assessed and scored by a permanent panel of experts with diplomatic experience and political scientists (Howell and Chaddick 1994:78). Each variable is given a maximum point of seven which represents the least risk, whilst 0 points represents the highest risk, in other words, the higher the points the lower the risk (Venter 1999:76). Bonus points may also be given, as many as 30, which will bring the score to 100 if maximum points are given including the bonus points (Venter 1999:76). The political risks must be assessed over four time periods consisting of present conditions, conditions over a year, five years and ten years (Howell 1998:41). The ORI consists of weighted ratings on 15 economic, financial and structural variables and measures the degree to which complex operating conditions may affect local currency earned by production and profits. The R Factor covers the country's legal framework, foreign exchange, currency reserves and foreign debt and measures the risk affecting access to foreign exchange and remittances of profits and repatriation of capital in a convertible currency (Howell 1998:36-37).

The ORI assess the business operations climate. Two variables are measured in this index: '(1) the degree to which nationals are given preferential treatment and (2) the general quality of the business climate, including bureaucratic and political continuity' (Howell 1998:39). Fifteen criteria measure the country's business environment: Policy continuity, attitude: Foreign investors and profits, degree of privatisation, monetary inflation, balance of payments, bureaucratic delays, economic growth, currency convertibility, enforceability of contracts, labour cost/productivity, professional services and contractors, communications and transport, local management and partners, short term credit, long-term loans and venture capital. For the purpose of this study, only the PRI component will be analysed, due to its focus on socio-political analysis. ORI and the R Factor are not analysed, but they are mentioned in order to give an overview of the model. It is important to note that they are both essential when assessing the overall country risk rating of a country.

3.2.1 The PRI model

Six internal causes of political risk used in the model

- Fractionalisation of the political spectrum and the power of these factions
- Fractionalisation by language, ethnic and/or religious groups
- Restrictive (coercive) measures required to retain power
- Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise etc.
- Social conditions, including population density and wealth distribution
- Organization and strength of forces for a radical government

Two external causes of political risk used in the model

- Dependence on and/or importance to a major hostile power
- Negative influences of regional political forces

Two symptoms of political risk used in the model

- Societal conflict involving demonstrations. Strikes and street violence
- Instability as perceived by non-constitutional changes, assassinations and guerrilla wars

To reach a final evaluation and rating of Sierra Leone the scale below is used. Iroanya (2008:102) refers to this scale as the interpretation of scale of the PRI, but this research will refer to the scale as the matrix.

3.2.2 The matrix for the PRI

	Political risk
70-100 Low risk	Political changes will not lead to conditions seriously adverse to business. No major socio-political disturbances are expected.
55-69 Moderate risk	Political changes seriously adverse to business have occurred in the past, but governments in power during the forecast period have a low probability of introducing such changes. Some demonstrations and strikes have a high probability of occurring.
40-59 High risk	Political developments seriously adverse to business exist or could occur during the forecast period. Major socio-political disturbances, including sustained rioting, have a high probability of occurring periodically.
0-39 Prohibitive risk	Political conditions severely restrict business operations. Loss of assets from rioting and insurgencies is possible. Disturbances are part of daily life. [2]

Table 3. The PRI matrix (Howell 1998).

[2] This interpretation scale of the PRI is taken from Howell 1998 qouted in Iroanya 2008:102.

3.2.3 Analysis of the PRI model

The PRI has been able to incorporate several important risk indicators. A study by Howell and Chaddick (1994) found that after a regression analysis of the PRI model eight of the variables can account for 50% of the loss analysed (as quoted in Venter 1999:76). These variables are restrictive measures to retain power, negative influences of regional forces, ethnic fractionalisation, and dependence on a major hostile power, instability, societal conflict and social conditions (Howell and Chaddick 1994:74). They have also divided their indicators into internal, external and symptoms of political risk which is seen as positive. It is important when analysing political risk in post-conflict African countries to identify and acknowledge that several of the risks encountered may be caused by external factors and not necessarily internal factors or the two combined. The variables are all given 7 points each which does not emphasise one variable over the other. Some rank-ordering approaches will provide some of the variables with different points, based on an assumption that certain variables will pose a higher risk for a foreign investment EIU is an example of this). BERI, by providing each variable with a maximum point of seven it is argued in this study that the result will be more accurate.

It is not necessarily the variable alone which is most important, rather the relationship between variables and the impact the may have on a foreign investment. PRI is also not using democracy as a measure for good governance, but rather looking at the risk of fractionalization within the political spectrum and the power of these factions. By doing so, they are able to avoid the trap several risk models do, the equation of democracy with political stability. One of post-conflict African countries' unique political characteristics is the stage of democracy they find themselves in. In addition, it is worth mentioning that dictatorship may provide equally, if not more, political stability in a country than democracy. The PRI matrix is important in this study as it forms part of the way the model assesses political risk in countries. The variables in the PRI model will be analysed independently and combined to see if the model is able to accurately identify the political risk of Sierra Leone. The matrix and the result of the matrix will also be analysed as this will impact on the overall risk rating of Sierra Leone. The aim is to observe if the risk rating (quantitative analysis) as defined by the matrix corresponds to the qualitative analysis of Sierra Leone. The PRI model first conducts a qualitative analysis of the 'soft' variables. The result of each variable is then given points which provide an overall composite score used for the matrix. This latter method is a quantitative analysis of the political risk analysis where the variables are weighted. The aim is thus to see if the qualitative analysis will yield the same result as the quantitative analysis. If corruption is viewed as posing a high risk for potential investments thus the overall risk rating correspond to the risks found in the composite score. High risk within a matrix may refer to political instability and violent riots as an example, whilst the qualitative analysis does not rate political stability as high risk and violent riots rarely occur. Rather the situation is that public service and corruption may pose high risk to foreign investments.

3.3 Iroanya's alternative and African-orientated political risk model

Iroanya (2008) introduced his alternative risk assessment model for Africa after analysing indicators used in BERI and EIU and their respective risk models. Although he acknowledged that the indicators they used were important for assessing political risk, he argued that several of them were biased towards African countries (Iroanya 2008:110). His model was created after analysis of conventional risk models such as BERI and EIU and the work by Verstegen et al. (2005). The table presented below includes the indictors Iroanya considered relevant when assessing African countries for FDI (Iroanya 2008:111). The model comprises variables from 'a number of models to specifically address the level of political stability in African countries' (Iroanya 2008:114). He argues that after analysing and examining generic risk indicators from models such as BERI and EIU, it is clear to him that the main concern of risk assessors is political stability (Iroanya 2008:114). Iroanya included other variables such as environmental issues as they may impact on political risk and thus stability even if they are not directly linked. He is also concerned with operational policies, as this may often expose the investor to political risk caused by the investment itself and not the host country. His argument is thus that the political risk models suffers from not being holistic (which they claim to be) as political risks are only blamed on host countries (Iroanya 2008:115).

3.3.1 The Iroanya framework

A political risk assessment model for Africa:

Political indicators

State legitimacy

Assess legitimacy of the state to see if people still see it as legitimate representative of their aspirations or target of demand.

Public service

Assess if public service delivery is effective; if education, health, water, electricity and other services.

State capacity

Assess capacity of the state to rule or implement its development policies, generate sufficient resources to fund its programmes, and exercise control over its functionaries. This indicator is not necessarily about whether a state is democratic or authoritarian. It assesses the capability of the state to mediate the various national questions and ensure stability of the country. It also assesses the attitude of key political actors towards foreign investors through public statements or insight knowledge of the officials. Do they ask for co-ownership of business, some kind of favouritism, victimise those companies that object? Does the state accede to regional initiatives such as New Partnership for Africa's Development (NEPAD) or African Peer Review Mechanism (APRM)?

Political stability

Investigate if the policies of the government are stable, and there are procedures for their formulation and implementation. Do policies change every year or arbitrarily? Do they stay for up to five years or more? Is there a recent history of expropriation, nationalisation, revocations, and closures of foreign-owned businesses? Do target countries respect international conventions relating to international business such as the protection of copyright?

Socio-economic indicators

Corruption and crime

Assesses if there is a lack of accountability, honesty and probity in government, if there are widespread violent crimes, targeting mostly foreign investors, and if the judiciary is ineffective and biased.

Ethnic and religious bigotry

Assess if there are ethnic cleavages, religious bigotries, and restrictions of people to certain regions based in ethnic or religious affiliations. Support of a particular religion or ethnic group by the government.

Socio-economic development

Assess if these developments affect foreign investors in terms of location of business, staffing, management, and distribution of products. Assesses if there is severe economic decline, unequal economic development of constitutive regions, vast disparities in income and wealth of populations, resource control by government or its officials are capable of causing revolts in the country.

Population growth

Assess if there is high population growth in the face of economic decline, high rural-urban migration, widespread diseases such as HIV/AIDS and malaria, and these in turn cause violent demonstrations that target foreign investors or cause capital flight.

Security indicators

Law enforcement

Assess if there is a lack of security in the state. If the state cannot guarantee the safety of its citizens and protection of foreign investors. Are the national police corrupt and inefficient, and operate under the influence of those in power? Do the police execute arbitrarily, collaborate with organised criminal groups that rob and kidnap foreign investors?

Environmental stress

Assesses how operations of foreign firms affect the environment. Is there limited land for farming, and fresh water resources? Is there massive environmental degradation, due to mineral extraction that increases rural poverty, or other actions capable of causing violent demonstrations?

Regional developments

Assesses political stability of neighbouring countries; incidences of cross-border operations such as crime, drug trafficking, influx of refugees from war torn countries, drought, famine etc, which cause a humanitarian crisis in the host country, and can provoke revolt by its nationals.

Operating policies

Reconcilable goals

Assesses if developmental goals of host country and main objectives of foreign investors are compatible. Assesses if workers work under approved standard conditions, are paid according to a government- approved minimum wage scale, if foreign companies pay income tax accordingly, reinvest profits in the country, observe environmental laws and protection, help skills acquisition and development by training local employees, etc. Contrary actions may create opportunities for breach of contracts, license revocation, and arbitrary taxation.

3.3.2 The matrix of Iroanya's model

The interpretation scale (matrix) below was not provided by Iroanya, but has been developed for the purpose of this research study in order to analyse and rate the risk results that will be produced while using this framework. Although an analysis of each variable is given, an interpretation scale is needed in order to give an indication of what medium or high political risk is. The matrix gives a brief definition of what each risk category entails. High risk in terms of political risk is defined in the matrix used with the Iroanya model as: political stability is frail, civil unrest and politically motivated violence is rife, the state enjoys limited legitimacy and state capacity is severely limited.

	Political risk	Socio-economic risk
Extreme	**There is no political stability and the state enjoys no legitimacy. Public service is non-existent. State capacity is non-existent and the state is not able to deal with national questions or provide political stability. The political risk in the country is extreme and foreign investors are advised to stay away.**	**Corruption and crime is rife. Ethnic and/or religious cleavages causes violent attacks, government belongs to one ethnic/religious group. Socio-economic development affects foreign investments. Regional developments create problems and insecurity within national borders.**
High	**There is a high political risk for foreign investors. Political stability is frail and there civil unrest and politically motivated violence is rife. The state enjoys limited legitimacy and state capacity is severely limited.**	**Corruption and crime is prevalent and instances of ethnic and religious motivated violence and discontent exist. Socio-economic developments are able to affect foreign investments. Regional developments are highly insecure.**
Medium	**There is a medium political risk for foreign investors. Political stability is not a given, and instances of civil unrest and politically motivated violence may occur. The state enjoys some legitimacy, and state capacity is acceptable. There has been no recent regime change.**	**Corruption and crime is present, but not to an extent where business is greatly affected. There are some instances of ethnic and religious discontent, but it has not led to violence. Socio-economic development should be monitored, but are stable. Regional developments are relatively stable, but should be monitored.**
Low	**There has been no recent regime change and there is political stability. The rule of law is being upheld, the state enjoys legitimacy and the state capacity is good.**	**Although some corruption and crime exist is not at a level where it would affect foreign investments. Ethnic and religious cleavages do not exist. Socio-development and regional developments are stable and do not pose a threat to foreign investments.**

Table 4. The Iroanya interpretation scale (matrix).

3.3.3 Analysis of Iroanya's model

The political risk analysis model provided by Iroanya is extensive regarding political and social variables, but he does not include any economic and financial variables. As discussed in chapter two, the latter variables should not be excluded from a political risk analysis, but for the purpose of this study are not included in this research. Iroanya makes use of state legitimacy to assess if the general population see the state as a legitimate representative of their targets and demand. In the African context this is a more accurate variable to use rather than, for example, democracy. As discussed earlier, most African countries are at different stages of democracy, a factor not necessarily linked to political stability in the country. State legitimacy may more accurately be able to capture potential political risks associated with political stability. State capacity is another important variable used in the Iroanya model. One of the problems with many African countries is that the checks and balances needed to make sure that dilemma of credible commitment will not occur are not present as the states are often weak in terms of weak institutions (Reno 1998, Bøås and Dunne 2007).

Due to this, the state is not capable of dealing with internal and external issues in a manner to serve the people and the country as the institutions serving these purposes are incapacitated. As a result it becomes important to assess the ability of the state to deal with national questions in order to avoid conflict in the future. Sierra Leone is an example of a country where the lack of state capacity helped fuel the civil war, as the war became a way of earning a living which was not possible in a peaceful Sierra Leone (Collier et al. 2003:127). Public service is linked to the two variables mentioned previously, and the effectiveness or even existence of public service delivery is linked to the weak institutions found in many African countries (Reno 1998, Bøås and Dunne 2007).

Iroanya's model is thorough in its analysis of the state and its institutions and how the general population views the state. These are important variables and are taking into account some of the political characteristics found in several African countries and especially post-conflict African countries such as Sierra Leone. Several of the variables found in the model are important when analysing post-conflict African countries. Ethnic and religious bigotry is often used as a political tool which may be used to gather people for or against a sitting government (Hylland Eriksen 2002:54; Bowen 1996:3). This is seen in a post-conflict country like Liberia, where this was used actively during the war. It is thus important to assess how the post-conflict country is able to deal with tensions or cleavages after war.

Law enforcement is another particularly important variable in a post-conflict African country. After a civil war it is difficult to convince people that law enforcement will be respected, instead a condition of “emerging anarchy” when the state is no longer able to provide security for its citizens and the number one goal becomes physical security for oneself (Lake and Rothchild 1996:43). After a civil war involving the government, persons forming part of the law enforcement may have been perpetrators themselves, creating a clear conflict. Law enforcement is thus an important variable, especially when looking at post-conflict African countries.

Iroanya includes environmental stress as a variable for analysing political risk. In post-conflict African countries this is very relevant in face of a dire economy, but also due to the food insecurity and shortages found throughout the continent. Food security has in several instances been one of the reasons for sparking political protest and a coup, Ghana in the 1970s is one example of this (Maxwell 1999:1944). A foreign investment may increase rural poverty if there is already limited land for farming and fresh water, thus creating violent demonstrations (Iroanya 2008:112). The political risk analysis model created by Iroanya seems to have been able to capture some of the unique political and social characteristics found in post-conflict African countries. One example of this is the inclusion of indicators such as political legitimacy, state capacity and service delivery rather than democracy. By using the former indicators countries which are in different stages of democracy, or without democracy may be rated based on their performance and acceptance by their population. Law enforcement is also an important indicator as post-conflict countries may suffer with this as a consequence of years of conflict. In countries where agriculture is often the main industry, environmental stress is an indicator which is able to capture one of the characteristics of post-conflict countries and African countries in general.

3.4 Conclusion

This chapter has introduced the two political risk analysis models which will be used to assess the political risk of Sierra Leone at a macro level. Both models have been analysed and both the model and the matrix (interpretation scale) for each has been presented. Only the political risk component of the BRS country risk analysis will be used in this study in order to be able to compare it to the political risk analysis model of Iroanya. Chapter four will apply the two models above when analysing assessing the political risk of Sierra Leone and then use the matrix for each model to give an overall political risk rating for Sierra Leone along with a definition of the risk category, in other words an interpretation scale of the political risk.

Chapter Four

Political Risk Analyses of Sierra Leone

4.1 Introduction

This chapter aims to conduct two political risk analyses of Sierra Leone using the models presented in chapter three along with the matrix developed by BERI and the matrix developed for the Iroanya model (the latter was developed for the purpose of this study) to provide an overall risk rating of Sierra Leone. The first framework and its matrix are taken from BERI and the BRS country risk analysis, the PRI component which focuses on socio-political risks. The second framework was developed using the alternative political risk model suggested by Iroanya (2008), and a matrix was created for this model as Iroanya did not provide one in this work. The intention is to see if and how the proposed alternative political risk model may aid in achieving a more accurate political risk rating.

4.1.1 History and background of Sierra Leone

Figure 2. Map of Sierra Leone (CIA 2009).

Facts about Sierra Leone

Population: 6,440,053 (July 2009 est. CIA 2009)
Urban population: 38% of total population (2008).
Rate of urbanization: 2,9% annual rate of change (2005-10 estimate).
Population below poverty line: 70,2% (2004).
Ethnic groups: 20 African ethnic groups make up 90% of the population which is composed by 30% Temne, 30% Mende and 30% other. 10% of the population is Creole (Krio) which are descendants of freed Jamaican slaves who were settled in the Freetown area in the late- 18th century and refugees from Liberia's recent civil war and a small number of Europeans, Lebanese, Pakistanis and Indians.
Religion: Muslim 60%, Christian 10%, indigenous beliefs 30%.
Language: English (official, regular use limited to literate minority), Mende (principal vernacular in the south), Temne (principal vernacular in the north), Krio (English-based Creole, spoken by the descendants of freed Jamaican slaves who were settled in the Freetown area, a lingua franca and a first language for 10% of the population but understood by 95%)
Education(2004): *Literacy*--35.1%.
Health: Life expectancy *(2009 est.)--41.24 years.* Infant mortality rate--*154.43 deaths/1,000 live births.* HIV infection rate for adults, ages 15-49 years *(2007 est.)--1.7%.* *Work force:* Agriculture--*52.5%;* industry--*30.6%;* services--*16.9%.*

Table 5. Facts and Figures on Sierra Leone (U.S. Department of State 2009; CIA 2009).

Sierra Leone gained independence from Britain in 1961 and was a country known for educational achievements, trading activities, entrepreneurial skills and art and was considered top in the region in terms of education and scientific accomplishment (U.S. Department of State 2009; Healy 2009). Since independence Sierra Leone has struggled with mismanagement and patronage for decades, most notably through the autocratic rule of Siaka Stevens (ICG 2008). Up until the civil war in 1991, The All People's Congress (APC) had ruled Sierra Leone for 23 years, initially by Siaka Stevens and then succeeded by President Joseph Momo in 1984 (Zack-Williams 1999:143). Since 1961, Sierra Leone has had six general elections and five military coups (EIU 2008). Siaka Stevens won the general election in 1967, but was not able to resume office as a he was put under house arrest by Force

Commander Brigadier Lansana and later removed from office by a military junta known as The National Reformation Council (NRC) (Zack-Williams 1999:144). It did not take long before officers calling themselves the Anti-Corruption Revolutionary Movement (ACRM) ousted the NRC and welcomed back Siaka Stevens. Already in 1971 Stevens had managed to turn the national coalition government into a *de facto* one-party government and years of personalised and monolithic rule began (Zack Williams 1999:144). Under the rule of Stevens politics of clientelism and networks of informal markets were set up, the latter was important to try and control the diamond-rich Kono district (Zack-Williams 1999:145). The Kono district would prove to be an important contribution to the prolongation of the civil war as will be mentioned below. Stevens rule and, later the rule of his successor Joseph Momo, were instrumental in causing the civil war as the years of mismanagement had left Sierra Leone with disenchanted youth and disenchanted population due to poverty and dire social conditions.

The civil war in Sierra Leone began in March 1991 when the group known as Revolutionary United Front (RUF) staged an armed offence against President Joseph Momo and his government the APC (Zack Williams 1999:143). RUF was led by Foday Sankoh and did not seem to be based on ethnic background; rather the group was formed by intellectuals who were politically and economically excluded (Zack-Williams 1999:147). Decades of mismanagement and a centralisation of power and resources by the APC and Siaka Stevens, succeeded by Joseph Momo, helped establish and strengthen the RUF (EIU 2008; Country Watch 2007). The civil war in neighbouring Liberia may also have been a contributing factor and RUF were aided by the aggrieved, Liberian warlord Charles Taylor (Zack-Williams 1999:147). After years of mismanagement and abuses of power under President Momoh, the RUF started to attack villages in eastern Sierra Leone on the Liberian border in 1991. The RUF was able to gain support due to the dire social conditions and years of bad governance and endemic corruption, and a large number of economic excluded youth (Freeman 2008). The RUF quickly gained control of the diamond mines in the Kono district and this helped RUF finance their rebellion throughout the war. The civil war was not necessarily caused by ethnic tensions, but access to economic resources, such as alluvial diamonds and a large number of people who had no incentives to end the war as the war became the only source of income (EIU 2008).

The Nigerian-led ECOMOG forces were able to remove the military junta from Freetown after heavy fighting in the capital for years and Kabba was reinstated as President (Zack-Williams 1999:160). Sierra Leone officially declared peace in 2002 after more than ten years of civil war and several coups (Countrywatch 2007). Sierra Leone has thus had seven years to rebuild its infrastructure and social and political institutions. The current government is active in its pursuit of FDI and marketing of Sierra Leone as a tourist destination. After more than a decade of civil war, the country struggles to convince outsiders that it does not pose a high political risk, and seeks to improve its negative image. There are currently three major parties in the country, Sierra Leone People's Party (SLPP), APC and People's Movement for Democratic Change (PMDC). Sierra Leone is a republic with a democratically elected president and unicameral parliament. The civil war left the once Athens of West Africa (Healey 2009) in a dire state as the third lowest ranked country on the Human Development Index (2009), only behind Afghanistan and Niger. Sierra Leone is at present struggling to rebuild the war torn country. It seeks to improve the dire social conditions and the prospects of a large group of disenchanted youth, along with curtailing rapid levels of urbanisation (ICG 2008). Being located in a region with a longstanding history of conflict, regional security and stability is fragile, and this predisposition to violence in its history poses a significant potential threat for the internal prospects of peace and stability (ICG 2003).

The next section of this study will analyse the political risk of Sierra Leone at a macro level using two models, one conventional political risk model and one alternative, African-orientated political risk model.

4.2 Political risk analysis of Sierra Leone using PRI

This section will analyse the macro level political risk of Sierra Leone using the political risk component of the BRS, the PRI. The PRI matrix will be used to interpret the results of the political risk analysis in section 4.3. As this is a macro level analysis, it will focus on overall possible political risks.

4.2.1 Political risk

Six internal causes of political risk

4.2.1.1 Fractionalisation of the political spectrum and the power of these factions

Although there are several parties in Sierra Leone, they are not considered to constitute a fractionalisation of the political spectrum. Two parties dominate, but in recent years, they have both been in government. The election of 2007 was the first time a third party was able to win a significant share of the votes, 9%, (EIU 2008; ICG 2008). The result of the 2007 election is an implication that the power of these factions is balanced, as the performance of the political party in government seems to determine the likelihood of a party being re-elected. Although the former President Koroma and his party (SLPP) are associated with achieving peace in Sierra Leone, their post-conflict performance was considered meagre and thus the APC won the 2007 election. The majority of the people acknowledged the effort SLPP made in achieving peace, but the party’s post-conflict performance did nothing to improve the social conditions and the level of crime and corruption (EIU 2008; Country Watch 2007).

The handover of power was peaceful which is seen as positive for democracy after decades of military coups and civil war. The People’s Movement for Democratic Change (PMDC) got 9% of the votes in the 2007 elections. The Party was formed as a large faction headed by Charles Margai broke away from the SLPP prior to the elections (EIU 2008; ICG 2008). The PMDC has maintained its main support base in the south and east of the country; in addition, the party has high support from the unemployed urban youth (EIU 2008). The high level of unemployed urban youth, coupled by support from the PMDC, may pose a risk in the future and should be monitored as a potential fractionalisation of the political support. Considering the recent history of civil war caused by poor governance, the lack of public service and employment opportunities pose a challenge for the ruling party and continued political stability.

It should be mentioned, however, that post-conflict Sierra Leone has experienced resurgence in identity politics where political mobilisation is centred on ethnic or regional identity; APC is northern-aligned and SLPP southern-aligned (ICG 2008:1). The identity politics are not absolute and do not pose a high risk within politics in Sierra Leone.

Fractionalisation of the political spectrum and the power of these factions is rated as medium risk and given **5 points.**

4.2.1.2 Fractionalisation by language, ethnic and/or religious groups

Sierra Leone has various ethnic groups and languages, but it does not seem to fractionalise the country. During the civil war, economic decline and lack of job opportunities were some of the main reasons for joining the RUF and it was not a movement based along ethnic, religious or language lines (EIU 2009)

A recent conference in Saudi Arabia (September 2009) on justice with delegates from Sierra Leone, 'requested Muslim leaders to implement 'Sharia' code in their countries, and called upon the Muslims to ensure Islamic brotherhood and unity' (The Patriotic Vanguard 2009a). There were also requests to speed up the formation of an Islamic Court of Justice (The Patriotic Vanguard 2009a). The Sierra Leonean delegate is not a member of the government, but considering that in Sierra Leone as many as 71% of the population are Muslims (Miadhu News 2009), requests like these should be monitored as they may come into play at a later stage.

Concerns have been raised over the process of selecting the new Director General of the National Social Security and Insurance Trust (NASSIT) after allegations of the election process being tarred by tribalism and political interference (Fonti 2009). The fear of citizens is that there lies a danger in accepting and allowing tribal and/or political interests to decide the election of the head of such an important state institution (Fonti 2009). The allegations are that government functionaries, including ministers, are lobbying the President to pay special attention to people coming from the same tribe and political camps (Fonti 2009). The result of the election of the Director General thus needs to be monitored, to observe if the result is accepted and acknowledged by the general population.

As a post-conflict country, Sierra Leone needs to be serious in its attempt to try and win the trust of its people. When looking at other Western African countries, and how ethnic tensions and political differences have led to violent conflict (Liberia), it is important to avoid this turn of events in Sierra Leone. As the country still finds itself in a fragile position, trying to overcome the problems stemming from the long civil war, the building of strong and credible state institutions is indispensable. Avoiding situations of tension and or conflict is important to keep internal peace, but also for rebuilding the image Sierra Leone has of being a country marred by civil war.

Fractionalisation by language, ethnic and/or religious groups is rated as medium to low risk and given **5 points.**

Restrictive (coercive) measures required to retain power

Sierra Leone has experienced several coups since independence in 1961. The country was ruled by one man and had a de facto one-party system for decades, before power was handed over to a successor chosen by the dictator himself. In recent years, Sierra Leone has had two successful elections, which were free and fair. Power was handed over both to different Presidents, but also different parties. Recent years have thus not experienced restrictive measures to retain power. President Kabbah stepped down voluntarily for the 2007 elections as he had two terms in power and thus had to hand over power to someone else. The election was won by the opposition party APC with 53% of the votes on their promise of widespread reform and improvement of the poor post-conflict rebuilding efforts by the SLPP (ICG 2008).

The SLPP became associated with poor governance, widespread corruption and incapable of improving the living conditions during their time in office (EIU 2008). Ernest Bai Koroma became president after winning the second round of presidential elections with 55% of the votes (ICG 2008). A sitting president thus handed over the leadership of the party to another member, and the election led to a change in the ruling party and a peaceful transfer of power.

Restrictive (coercive) measures required to retain power is rated medium to low risk and given **5 points.**

4.2.1.3 Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise etc.

Corruption is rife in Sierra Leone. Although measures have been taken to combat the problem, they are far from reaching an acceptable level. In 2000 the then government introduced the Anti-Corruption Act which had a revised version of the law in 2008 (U.S. Department of State 2009). In 2008 the country ranked 158 out of 180 countries on the Transparency International Corruption Index (TICI 2008); the Anti-Corruption Commission has thus not been very successful in its attempts to combat corruption in Sierra Leon. TICI is an organisation which deals globally with the issues of corruption, which measures levels of corruption and perceptions of corruption (Ndinda 2008:76). Previous governments have ruled by a patrimonial system where corruption was used to gather political support, and in Sierra Leone and Liberia the neopatrimonial politics were so extreme that it is seen as one the root causes for war in both countries (Bøås 2001:697). This system also led resources away from the population, enriching only a select few privileged people and draining the state institutions (Reno 2009:1995), eventually leading to the civil war.

The new GST currently being introduced in Sierra Leone is suffering from a lack of trust and credibility of the tax authorities among the upper- and lower-income citizens (Standard Times Press 2009). This lack of trust stems from corruption among tax authorities and government officials and has led to non-compliance to pay local taxes (Standard Times Press 2009). It is believed that higher revenue could be achieved if there had been less institutional corruption (Standard Times Press 2009). The GST is replacing seven taxes which is an indication of a complex tax system. A complex tax system makes it easier to facilitate corruption as accountability and control becomes difficult (Standard Times Press 2009).

In Sierra Leone, high taxes coupled with a complex tax system gives an incentive to try an evade paying taxes (Standard Times Press 2009). Investigations show that corruption is still high among people working for the National Revenue Authority (NRA) (Standard Times Press 2009). The Anti Corruption Commission recovered billions in revenue, a recovery which should have been done by the NRA, suggesting that the NRA is still struggling with corruption (Standard Times Press 2009). All of the issues mentioned above, has led to citizens of Sierra Leone to not fear the consequences of being caught for tax evading, rather it seems it has become the norm (Standard Times Press 2009). Due to government officials being corrupt and not combating corruption properly, citizens do not fear doing the same, as it is common practice to evade taxes and receive bribes. There are no incentives to pay taxes. For Sierra Leone to be able to combat corruption, it needs to start with building trustworthiness and credibility amongst the tax authorities and government officials before citizens will follow. With the current situation as dire as it is, Sierra Leone will struggle to achieve higher revenue needed for development and the negative images of Sierra Leone as a war torn country with an unprofitable and insecure future will continue.

The revised Anti-Corruption Act requires that all government officials needs to declare their assets in an attempt to combat corruption within the government and ministries (U.S. Department of State 2009). President Koroma was the first to declare his assets and he was soon followed by all other government officials. Although this may be considered an important step in trying to rid the high level of corruption, the situation is still troublesome. As long as incentives for the general population to pay taxes lack, and bribes continue in a high scale, corruption will continue to pose a high risk for foreign investments. Several people also believe that official corruption was one of the root causes of the civil war as it led to mismanagement and lack of public service delivery to the population (U.S. Department of State 2009). Resources and revenues gained from the abundance of natural resources found in Sierra Leone never reached the general population, which in turn led to general discontent. This acted as a determining incentive to join the RUF.

Corruption in Sierra Leone is thus ranked as high risk and is given **3 points.**

4.2.1.4 Social conditions, including population density and wealth distribution

Social conditions in Sierra Leone are poor, and the country was in 2008 ranked as the worst country in terms of Human Development by the UN HDI (HDI 2008). Wealth is unequally distributed with only a few belonging to the elite. Most people live in poverty, as many as 70, 2% of the population (CIA 2009). There are, however, efforts made by the government to try and achieve economic growth in order to make the country less dependent on donor funding. The Sierra Leone Investment Conference in London in November this year will focus on the opportunities for foreign investments and tourism (The Patriotic Vanguard 2009b).

Although Sierra Leone is struggling in terms of social conditions, efforts seem to be made by the government to improve this. The goods and services tax (GST) is being introduced to Sierra Leone in January 2010, replacing seven other taxes and thus easing administration costs (Standard Times Press 2009). ‘The tax is seen as one of the most efficient ways of mobilising domestic resources for development in the country’ (Standard Times Press 2009). This is thus another attempt and effort by the government to try and combat the dire social conditions in the country. As long as the government is unable to combat corruption in a credible manner, people will have no incentive to pay taxes (Standard Times Press 2009). This results in fewer resources to deal with the social conditions in the country.

Sierra Leone is struggling with several people moving from their home villages, as they are unable to provide a living due to the effects of the civil war (Zapor 2009). This puts extra strain on urban areas which also struggle to meet the needs of the people (ICG 2008:23). Most of the refugees from the war have returned to Sierra Leone which is a positive sign as it is safe enough for repatriation, but it strains a country trying to rebuild its economy and society (Zapor 2009).

The National Social Action Project (NSAP) is a body for funding direct community action which is administered by the National Commission for Social Action (NaCSA), a strategy for post-war recovery and poverty alleviation in Sierra Leone (Richards et al. 2004:i). This is an attempt by the government of Sierra Leone to deal with some of the problems caused by the civil war, and to improve the social conditions facing the population. This is viewed as a positive development, but there are still hefty challenges facing the programme such as lack of information of people's rights and undemocratic processes. These challenges are compounded by Sierra Leone's struggles with a large number of socially alienated youth who are unemployed and unskilled and pose a security threat (ICG 2008).

Sierra Leone is no longer viewed as the beacon of education in West Africa, as years of civil war and dwindling of resources has led to a general crisis in the quality of education in Sierra Leone (Pratt 2009). President Koroma has stated that the education is top priority for the government as it is one of the requirements for improving both social and economic conditions in the country (Pratt 2009).

The discovery of oil outside the coast of Sierra Leone may help fund social and economic development (Sesay 2009b). A US oil firm, Andarko Petroleum Corporation, has confirmed the discovery of an 'active petroleum system' in the Sierra Leone-Liberian basin (BBC 2009). The ability of government to deal with the situation if large deposits of oil are found will determine whether it will benefit the general population, or if it will fuel further conflict. Nigeria is an example of an African country where the discovery of oil and mismanagement of the revenues has led to violent conflict.

Crime is rife in Sierra Leone, with armed robbery surging in the capital, Freetown along with business fraud schemes targeting foreigners (OSAC 2009b). The government has had to involve the military in cooperation with the civil police under a provision called the Military Aid to Civil Power (MACP) as a result of the surge of armed robberies in the capital (OSAC 2009b). Crimes rates are high in the capital as high unemployment coupled with poverty as a result of years of poor governance and the civil war fuel poverty related crime (OSAC 2009a). Sierra Leone is ranked at the bottom of the UN human development index with as many as 70, 2% of the population living below the poverty line (CIA 2009). As a result of the civil war, Sierra Leone is also struggling with a high number of unemployed youth and former combatants who lack the skills to compete in an already difficult employment market (OSAC 2009a). These factors contribute to spiralling crime levels as a great proportion of the population are unable to support themselves by legal means. Crime is thus a consequence of the social conditions and the civil war, and poses a high risk both for security and political stability. Social conditions, including population density, crime and wealth distribution is rated as high risk and is given **2 points.**

4.2.1.5 Organisation and strength of forces for a radical government

Sierra Leone does not have a strong force of organisation for a radical government. There are three major parties, but none of them are considered to be forces for a radical government. The election outcomes also suggest that the majority of Sierra Leoneans are concerned with having a government which answers to their societal needs as President Koroma and APC were elected due to the failure of the SLPP to improve societal conditions in their post-conflict period in government (ICG 2008). It is positive and important that the population have been able to elect the government and president they believe to be capable in two successive elections. It is also an incentive for the government to be accountable for their actions, because if they do not fulfil their promises, they will not be re-elected.

The risk rating of this variable is thus considered medium risk and given **3 points**. Although it may not necessarily be an issue at the moment, it is something which should be monitored, especially by looking at the performance of the current government. If this government also fails to improve societal conditions it may result in attempts to increase the strength of forces for a radical government.

Two external causes of political risk

4.2.1.6 Dependence on and/or importance to a major hostile power

Sierra Leone is not dependent on a major hostile power. Sierra Leone instead enjoys strong diplomatic ties with the UK, as seen with the upcoming Investment Conference in London. One of the reasons for this conference is the wish of President Koroma to not be dependent on foreign donors (aid). Sierra Leone is currently relying on substantial amounts of foreign aid, mainly from multilateral donors, but they are not considered to be hostile powers (US Department of State 2009). The largest donors continue to be the UK and the European Union (EU). Several agreements are in place between the West African countries such as the Economic Community of West African States (ECOWAS), the Mano River agreement between Sierra Leone, Liberia and Guinea. Sierra Leone is also a member of the UN, the African Union (AU), the African Development Bank (ADB), the Organization of the Islamic Conference (OIC) and the Non-Aligned Movement (NAM).

Dependence on and/or importance to a major hostile power is rated low risk and given **6 points**.

4.2.1.7 Negative influences of regional political forces

West Africa has struggled with regional issues and spill over effects due to various conflicts in the region. Recent years, however, have seen the peace in Sierra Leone and Liberia, leading to more stability. Sierra Leone did struggle during the civil war with Charles Taylor and his support of the RUF, but in recent years the region has become more peaceful. Regional instability caused by Guinea poses a threat to Sierra Leone’s security, despite the presence of a UN peacekeeping force (Trading Safely 2009). President Koroma has expressed his concern for the current state of affairs in the neighbouring country. Since the death of former President Lansana Conte, Guinea has had continued military intervention in its ‘political setup’ under the rule of Moussa Dadis Camara (Sesay 2009a). Conte also assumed power in Guinea through military intervention and the region is asking for Guinea to turn to democratic progress (Sesay 2009a).

Guinea is also trying to claim Yenga, a territorial area belonging to Sierra Leone (Kamara 2009). This is a small town, but it is placed strategically between Sierra Leone and Guinea in the eastern parts of Sierra Leone. Yenga has been an area of dispute between Sierra Leone and Guinea since decolonisation, but the tension increased in 2003 when Guinea moved people into the territory to start farming, they moved out soon, however, as a result of not being welcome in the area (ICG 2003:4). The Guinean contingent of Economic Community of West African States Monitoring Group (ECOMOG) resided there during the civil war in an attempt to avoid Sierra Leoneans crossing into Guinea to attack villages (Kamara 2009). There is limited information on why the area is so important- some speculate that the area has diamond prospects along the river, in addition it may have served as a supply route to assist LURD (ICG 2003:4).

There have been attempts to try and solve the situation for years, a joint Yenga Border Demarcation Committee was set up to investigate the issue in 2003, but no solution was found (ICG 2003:4). President Koroma has begun dialogue with Guinea to try and solve the situation with peaceful means, but this is a situation which should be monitored closely. President Koroma has set up an exploratory committee to find a solution to the dispute (Karama 2009).

Negative influences of regional political forces is rated as medium risk and given **4 points.**

Two symptoms of political risk

4.2.1.8 Societal conflict involving demonstrations. Strikes and street violence

Political violence does occur in Sierra Leone, although most political demonstrations and rallies are for the most part peaceful. There are some instances of spontaneous rioting and attacks, and instances of clashes between the police and students; the latter was especially an issue in the latter part of 2008, (OSAC 2009a). Political demonstrations have the potential of becoming dangerous as rival factions may become aggressive towards each other and the police (OSAC 2009a). Although this does not pose a major threat at the moment, the situation should be monitored closely as there is potential for further (possibly violent) demonstrations should the dire social conditions not be improved. Early October 2009, students protested to the minister of education in a peaceful protest to create public awareness of their grievances

(Turay 2009). The minister of education refused to meet with the demonstrators and instead sent riot police from the Sierra Leone Police (SLP) to disperse the crowd (Turay 2009). This demonstration did not pose a threat to anyone's security and was conducted in peaceful manners. The situation should be monitored as this could escalate if the minister of education does not take the protestors seriously in the future.

The risk for societal conflict and demonstrations are rated as medium as there are limited incidents of political violence and violent demonstrations. The monitor needs to be monitored closely as this may change. Societal conflict and demonstrations are given **4 points.**

4.2.1.9 Instability as perceived by nonconstitutional changes, assassinations and guerrilla wars

The civil war saw non-constitutional changes, assassinations and guerrilla wars amass, but post-conflict Sierra Leone has been relatively stable. There have been limited guerrilla wars in seven years, and the 2007 elections saw a return to a constituency-based parliamentary system. Instability in Sierra Leone is not necessarily associated with nonconstitutional changes, assassinations and guerrilla wars, but rather corruption and weak state institutions.

Instability as perceived by nonconstitutional changes, assassinations and guerrilla wars is rated as medium to low as there has been limited incidences in the last seven years, the variables is given **5 points.**

4.3 Results of the risk analysis using PRI

This section will present the results of the PRI analysis of Sierra Leone by using the PRI matrix developed by BERI (Howell 1998).

political spectrum	Ethnicity Religion	Restrictive measures to retain power	Mentality, xenophobia, nationalism, corruption	Social condition	Radical government	Major hostile power	Regional political influences	Societal conflict	Instability
5	**5**	**5**	**3**	**2**	**4**	**6**	**4**	**4**	**5**
The sum of the variables is 43 points out of a maximum of 70 points. The political risk rating for Sierra Leone is thus high according to the matrix.									

Table 6. The risk calculations from each variable

The results from the PRI analysis of Sierra Leone is a composite score which is achieved by adding the points given to each variable, which can be seen in the table above. The composite score is in this study is 43 which then gives us a score to be found within the high risk category following the PRI matrix below.

	Political risk
70-100 Low risk	Political changes will not lead to conditions seriously adverse to business. No major socio-political disturbances are expected.
55-69 Moderate risk	Political changes seriously adverse to business have occurred in the past, but governments in power during the forecast period have a low probability of introducing such changes. Some demonstrations and strikes have a high probability of occurring.
40-59 High risk	Political developments seriously adverse to business exist or could occur during the forecast period. Major socio-political disturbances, including sustained rioting, have a high probability of occurring periodically.
0-39 Prohibitive risk	Political conditions severely restrict business operations. Loss of assets from rioting and insurgencies is possible. Disturbances are part of daily life. [3]

Table 3. The PRI matrix (Howell 1998).

[3] This interpretation scale of the PRI is taken from Howell 1998 as qouted in Iroanya 2008:102.

The political risk rating for Sierra Leone using the PRI is high. It is important to remember that this is a macro level analysis, and that a micro level analysis is needed to decide whether or not to invest in a specific industry or area. This analysis is based on forecasts concerning the near future, and the situation thus needs to be monitored closely. All in all, however, Sierra Leone is making serious attempts to rebuild the country and attract foreign investment. Several positive developments are taking place such as the dam, the discovery of oil and social programmes to improve development in the country.

Corruption continues to be a major issue for Sierra Leone; both for foreign investors directly and indirectly through the effects on the nation. If corruption is not dealt with in an effective manner by the government, the consequences of continued corruption both official and general may lead to political instability and popular discontent. Corruption in Sierra Leone is not just about the difficulty of conducting business, but also on the dire consequences. Corruption was one of the main reasons for the descent into civil war as the inability of the government to deliver public service and resources for development led to popular discontent (ICG 2008). This made it easier for Sankoh to recruit support and soldiers as most people did not earn a living.

The civil war thus became a viable source of income. The RUF was in some ways able to provide people with resources and opportunities which the government had failed to do. Corruption thus needs to be closely monitored in order to see the effects it may have on the population. In addition, a general overview of the development of the standard of living for the nation is important. It seems in the case of Sierra Leone that the combination of a poor standard of living, combined with corruption, is able to cause political instability and violent conflict.

Although corruption and societal conditions continue to be issues in Sierra Leone I disagree with the notion of Sierra Leone posing a high risk destination. This is one of the reasons for why conventional models are not always able to capture the political risk realities of post-conflict, African countries. The PRI model did indentify several important issues which may pose high risks in Sierra Leone such as corruption and social conditions. The matrix (interpretation scale), however, gave the impression that political developments in Sierra Leone are seriously adverse to business. Following the qualitative analysis of Sierra Leone political developments are seen as positive after two successful elections and several measures in place to try and combat poverty. The PRI is thus not able to provide an accurate assessment of the political risk realities of Sierra Leone. A more accurate political risk analysis of Sierra Leone will include the potential high risks, but also positive developments. By providing this, a more accurate overall assessment of the political risk in Sierra Leone would be possible. The reason for Sierra Leone being a high risk destination in terms of political risk given in the matrix, does not correspond to the political risk realities found in Sierra Leone. Riots and government actions adverse to foreign business, is not a reality in Sierra Leone. Investors should be aware of the high level of corruption and the societal conditions in Sierra Leone, but this does not make Sierra Leone a no go destination.

4.4 Political risk analysis of Sierra Leone using Iroanya's model

4.4.1 Political indicators

4.4.1.1 State legitimacy

The state of Sierra Leone enjoys legitimacy after two successful elections, one in 2003 and one in 2007. The last election led to a change of party in power considered positive in democratic terms. The election was also rated as free and fair. The 2007 election saw a notable change in the previous patronage system of governance as the system and its mentality is losing its stronghold in the urban areas (ICG 2008:6). This puts greater emphasis on the government's ability to deal with national questions and prove themselves whilst in office. This is considered a positive post-conflict development as the government only enjoys legitimacy as long as it is able to comply with their electoral promises. This was one of the reasons for why SLPP did not win the 2007 election as the majority of the population were dissatisfied with the post-conflict politics (ICG 2008:9).

The upcoming appointment of the Director General of the important state institution NASSIT has caused concern in Sierra Leone, as allegations of tribalism and political interference is said to be part of the selection process (Fonti 2009). Allegations are that government functionaries and ministers are lobbying the President to pay attention to the candidates' tribal background and the political camp they belong to (Fonti 2009). This situation should be monitored as the outcome of the appointment and the acceptance of the population of this appointment is important in order for people not to lose confidence in state legitimacy. Sierra Leone is struggling to overcome problems caused by the long civil war, while accusations of tribalism and political interference may cause great damage to the state's legitimacy.

The state needs to rebuild its institutions to rebuild confidence and credibility to its population (internally) and potential foreign investors (externally). Internal status is needed to maintain political stability and avoid future violent conflict, whilst external reputation is to achieve foreign investment to boost a damaged economy caused by years of war. In addition, if tribalism and political interference is allowed to affect state institutions this may create ethnic and political cleavages which may fuel popular discontent and cause conflict. Neighbouring Liberia is an example where ethnicity was used actively to gather political support and, helped cause and prolong the civil war (Bøås and Dunne 2007). Although this situation has not led to any problems, the result of this will be of importance and should thus be monitored.

The government enjoys state legitimacy as they were elected in free and fair elections. The continued legitimacy depends on the ability of the current government, the APC, to reverse the social conditions and combat endemic levels of corruption. **State legitimacy is thus rated as medium risk.** The situation needs to be monitored, although the government enjoys legitimacy on borrowed time.

4.4.1.2 Public service

Public service is poor in Sierra Leone. As the struggle continues to improve human development in the country, several people live below the poverty line and have no access to clean water and electricity (EIU 2009). The government is trying to combat this by introducing measures such as the GST to create domestic resources for development in the country (Standard Times Press 2009). The treasury thus have fewer resources available for development projects and citizens of Sierra Leone lose faith in government authorities. 'Poor service delivery and corruption makes people less willing to pay taxes' (Standard Times Press 2009).

Public service is already tarnished in Sierra Leone due to its inability to provide for its citizens, evident by the lowest ranking on HDI. Sierra Leone also suffers from a disorganised civil service (Trading Safely 2009), which affects the ability of the state to provide public service delivery. The government must be able to decentralise services in the provinces and improve and reform state institution and manage the growing number of disenchanted youth (ICG 2003:1). In 2004 the number of people under the age of fifteen was 42% of the population and 35% were between fifteen and thirty five (ICG 2008:22). This may constitute a time bomb as too many youth with no prospects of the future may lead to political instability. Public service delivery must therefore be improved to improve social conditions. The Sierra Leone Truth and Reconciliation Commission (TRC) reported how the issue of disenchanted youth with no future prospects must be addressed as they formed a large group of the members of the guerrilla forces during the civil war (ICG 2008:22).

Public service in Sierra Leone is rated as posing high risk as the consequence of continued inability to provide public service may lead to popular discontent and political violence.

4.4.1.3 State capacity

State capacity is something Sierra Leone struggles with. The country is ranked as the third worst country in terms of human development, only beaten by Afghanistan and Niger (Human Development Index 2009). The level of corruption for decades in Sierra Leone has exhausted state institutions and limited state capacity (Reno 1995). This is an indication that state capacity needs drastic and equally urgent improvement. One of the measures which may improve the situation is to combat official corruption. The current government's intentions to improve and combat corruption and high levels of unemployment are impeded by the lack of support in parliament (Trading Safely 2009). This may affect the state's capacity to deal with national questions.

The civil service is still disorganised (Trading Safely 2009). The introduction of the GST is an effort by the government to improve development in the country, but also ease administration costs by replacing seven other taxes (Standard Times Press 2009). In line with some of the arguments found under public service, the amount of corruption impacts negatively on the government, as citizens view the state unable to provide for people and deliver services and thus they become unwilling to pay taxes further hindering state capacity (Standard Times Press 2009).

NaCSA is the administrator behind the NSAP, a programme aimed at post-war recovery and poverty alleviation in Sierra Leone (Richards et al. 2004: i). This programme is an effort by the government to try and tackle some of the problems caused by the civil war. It is also a programme which speaks of the capacity of the state to answer some of the pressing national questions. Although this is a positive development in combating poverty and post-war recovery, the programme has the potential to be improved. Several people lack information on their rights and undemocratic processes are rife (Richards et al. 2004: i).

In September 2009, the second largest producer of natural gas in the US, Anadarko Petroleum Corp, reported a discovery off the coast of Sierra Leone (Bowers and Mbachu 2009; BBC 2009). This discovery has led to further exploration off the coast. If Sierra Leone is to discover large deposits of oil, this could lead to socio-economic development if the government is able to deal with the discovery in an efficient manner. The danger is however that the oil found could lead to a situation similar to the one seen in the Niger Delta. The discovery of oil in the Niger Delta has caused violent conflict between the central government in Nigeria and the Movement for the Emancipation of the Niger Delta (MEND) due to the inability of the government to develop the region and bring it out of poverty.

State capacity in Sierra Leone is rated as posing a high risk due to the inability to improve social conditions and combat corruption. If the situation remains constant there is a high risk of political instability as people are becoming frustrated with the inability of the state to deal with pertinent issues which greatly affect the entire population.

4.4.1.4 Political stability

Sierra Leone has enjoyed political stability over the last couple of years. 2007 saw a new presidential election, this time organized by Sierra Leone without the aid of the UN, which was peaceful. Prior to this, however, Sierra Leone has experienced 5 coups and a civil war so this needs to be taken into account. In the 2007 elections the ruling SLPP lost the election to APC who won both the parliamentary majority (59 of 112 seats) and the presidential election (U.S. Department of State 2009). It is a major victory for Sierra Leone do have had this free and fair election with a peaceful handover of power from one party to another. This handover was peaceful within parliament, but also within the population. The current government enjoys state legitimacy which is important in order to maintain political stability. It is also a healthy sign that one of the reasons for voting for APC rather than SLPP was their poor performance after gaining peace. This is positive as it shows that the government needs to perform otherwise they will not be re-elected. Power is thus slowly turning to the hands of the people rather than a privileged few in parliament.

Civil rights and religious freedom is respected and Sierra Leone has a critical press which continue to operate (U.S. Department of State 2009). Incidences of arrests of journalists and editors have occurred when the government considers the articles published inflammatory (U.S. Department of State 2009). The Public Order Act of 1965 is however, criticised as it states that any journalist or writer who publishes a story may be arrested or jailed regardless of the story published is true or not (Fofanah 2009). This is a law that needs to be amended as it goes against the constitution which guarantees and protects freedom of speech.

Political violence is not rife in Sierra Leone, most political demonstrations and rallies are usually peaceful although some rioting and attacks do occur on occasions (OSAC 2009a). There have been some violent clashes between students and police forces in the capital, Freetown, in the latter part of 2008 (OSAC 2009a). Political demonstrations have the potential of becoming dangerous as rival factions may portray aggressive behaviour towards each other and the police (OSAC 2009a). Although political violence does occur, it is currently not at such a scale that it is considered a major threat in Sierra Leone. The situation should however be monitored closely as the situation may change as a result of the terrible social conditions.

Political stability is rated as posing a medium risk. Due to poor governance, dire social conditions and high levels of corruption there are high risks of popular discontent turning into riots and violence. Currently, however, the situation is calm, but this needs to be monitored closely.

4.4.2 Socio-economic indicators

4.4.2.1 Corruption and crime

Corruption is considered endemic in Sierra Leone. In 2008 the country ranked 158 out of 180 countries on the Transparency International Corruption Index (TICI 2008). Measures have been taken through a national corruption body aimed at targeting corruption the Anti-Corruption Commission (U.S. Department of State 2009). In 2000 the then government of Sierra Leone promulgated the Anti-Corruption Act; the revised version of this law was passed in 2008 (U.S. Department of State 2009). Although the corruption body is separated from the government, it has been criticized for not fulfilling its mission to a satisfactory degree. President Koroma was the first to declare his assets in 2008 following the requirement in the revised Anti-Corruption Act, where all government officials have to declare their assets (U.S. Department of State 2009). Corruption is one the main concerns when the government is introducing the new tax, GST.

The population is concerned as to the NRA ability to cope with the GST based on the NRA's stance on corruption and corruption practices (Standard Times Press 2009). It is believed in Sierra Leone, that the non-compliance by upper- and lower-income citizens to pay local taxes stem from a lack of trust and credibility of the tax authorities (Standard Times Press 2009). If the GST is to achieve its goal in improving development and collect taxes, corruption amongst tax authorities and government officials needs to be dealt with. At the moment, it is believed that more revenue could be raised in Sierra Leone if corruption were lower (Standard Times Press 2009). The complex tax system makes corruption easier to facilitate and with a system of seven taxes rather than one, Sierra Leone becomes a place where corruption is made easier (Standard Times Press 2009). High tax rates give a higher incentive to try and evade paying taxes, thus high tax rates and a complex tax system makes Sierra Leone s country where it is easy and where it pays to commit corrupt acts (Standard Times Press 2009). Investigations show that corruption is still high within the NRA despite efforts to combat corruption (Standard Times Press 2009). The Anti Corruption Commission has recovered billions of tax revenue, this should have been achieved by the NRA, and this suggesting corruption still exists (Standard Times Press 2009).

As long as it is accepted practice for tax authorities and government officials to evade tax and receive bribes, there are no incentives for the citizens to become law abiding tax payers. The tax authorities and government officials need to build trust and credibility, a situation, radically different to the current circumstances. The high level of institutionalised corruption adversely affects the amount of revenue achieved; leading to fewer resources for development and it smears the image of Sierra Leone. With corruption being rife, Sierra Leone will struggle to attract FDI. It is also believed that official corruption needs to be dealt with in an effective manner by the government as it is viewed as one of the main reasons for the descent into civil war (U.S. Department of State 2009). Official corruption has for decades affected the revenue and resources needed to provide the population with public service delivery. This led to stagnation in economic growth and an increase in poverty as the resources and revenues from the abundance of natural resources never reached the general population.

Sierra Leone has rampant crime and there is an increase in the amount and spread of armed robbery in the capital, Freetown (OSAC 2009). Sierra Leone still struggles with the consequences of the civil war and is currently ranked in the bottom of the UN Human Development Index (OSAC 2009). This combined with endemic poverty and high levels of unemployment contribute to high crime rates (OSAC 2009). As a consequence of the war a number of previous combatants are struggling to find employment due to a lack of skills to compete in the job market and high unemployment, and a number of youth (between the age of 15 to 35) are idle without any prospect of immediate work opportunities (OSAC 2009).

Corruption and crime in Sierra Leone are ranked high risk due to the country's inability to effectively combat official corruption and corruption in general and the high levels of armed robbery. Corruption is by many viewed as one of the main reasons for the descent into civil war. The continued high level of corruption is therefore troublesome as the consequences of corruption greatly affect the population and the development of the country. If this does not change the result may be a return to conflict as seen during the civil war.

4.4.2.2 Ethnic and religious bigotry

Sierra Leone does not seem to struggle with ethnic and religious bigotry. Although the country comprises various ethnic and religious groups, this was not the cause or promoted actively in the civil war. Rather, the rebel groups used economic difficulties and poor governance as the major campaign to gather support. Years of mismanagement had led the country from a beacon of higher education into one of the poorest countries on the continent. Botswana has sometimes been compared to Sierra Leone as they both had diamonds as the major source of income (Collier et al 2003:150). Botswana, however, was able to prosper, whilst Sierra Leone became poorer and poorer.

A recent conference in Saudi Arabia on justice focused on how there is a need to speed up the formation of an Islamic Court of Justice and that Muslim leaders should implement the 'Sharia' code in their countries (The Patriotic Vanguard 2009a). Although this is not necessarily an indication of religious bigotry, it is a situation which should be monitored as it does have the potential to grow. In Sierra Leone an estimated 71% of the population are

Muslims (Miadhu News 2009) and this could lead to tension later if these requests are pushed further.

Ethnic and religious bigotry are rated as posing a medium to low risk as there are limited clashes caused by ethnic and/or religious bigotry.

4.4.2.3 Socio-economic development

Sierra Leone is this year ranked the third worst- off country in terms of human development on the Human Development Index (Human Development Index 2009). President Koroma stated in a press release that Sierra Leone is determined to end their dependence on donor funding, instead there is a need for economic growth through foreign investment and tourism (The Patriotic Vanguard 2009b). The press release came as a response to the upcoming Sierra Leone Investment Conference in London this November (The Patriotic Vanguard 2009b). The conference is important to make people aware of the opportunities in Sierra Leone and that the war has been over for almost a decade. This conference may aid Sierra Leone in altering people's negative images of the country caused by war, corruption and child soldiering. This is linked to socio-economic development as it may be a tool for Sierra Leone to climb higher on the HDI and improve the socio-economic situation in the country. The introduction of the GST is an effort by the government to mobilise domestic resources for development to try and combat the dire social conditions in the country (Standard Times Press 2009).

Sierra Leone's educational system is suffering from years of civil war and dwindling of resources and the situation is now becoming critical (Pratt 2009). Sierra Leone was once considered the Athens of West Africa due to Fourah Bay College impressive reputation in the region. Today, Sierra Leone is not synonymous with high quality education. In order for socio-economic development to take place, improvements in the educational system need to be implemented. President Koroma has stated that education is a top priority as it is one of the requirements for rebuilding Sierra Leone and improving both social and economic conditions (Pratt 2009).

Socio-economic development is rated as posing a high risk as recent history saw the lack of socio-economic development as one of the root causes behind the civil war. If socio-economic development is not improved there is a high risk of popular discontent leading to political instability and violence.

4.4.2.4 Population growth

The population in urban areas has grown as a consequence of war as the result of lacking financial opportunities in the home villages. This puts a strain on the cities already struggling to provide employment for people (Zapor 2009; ICG 2008:23). Most of the refugees from the war have been able to return as repatriation is considered to be safe which is a positive sign, however, repatriation puts a strain on the already battling economy and society. The inability of previous governments to provide for their citizens is one of the root causes of the civil war and the massive support the RUF gained. It is therefore vital for the current government to efficiently deal with the population growth and the strain it puts on society. If the human development does not improve in Sierra Leone, it may fuel further conflict.

Sierra Leone is considered one of the worst countries in the world in terms of human development (HDI 2009). Sierra Leone also suffers with a large group of disenchanted youth who may constitute a time bomb as their frustrations increase as there are no prospects for the future in terms of employment opportunities and/or improved social conditions (The Economist 2009). In 2004 as many as 42% of the population were below fifteen and 34% were between fifteen and thirty five, most of these are without future prospects and live in abject poverty (ICG 2008:22). This group of disenchanted youth and their issues needs to be addressed as soon as possible to avoid a relapse back into civil war.

Population growth is rated as medium to high risk. Sierra Leone has not been able to improve the living conditions for the majority of the population, population growth may further destabilise the situation as the country is not able to cater for high population growth.

4.4.3 Security indicators

4.4.3.1 Law Enforcement

Law enforcement is a contentious issue in post-conflict countries like Sierra Leone as civil wars and violent conflicts destabilised and often render law enforcement non-existent, while judicial accountability has been left non-efficient. In addition to a general lack of trust in law enforcement agencies, several conflicts have had the enforcers of law as perpetrators in the conflict, which makes people distrust the institution as a whole. Sierra Leone also suffers from corruption, another factor contributing to the lack of credibility. The SLP, which consists of approximately 9000 members, works together with a small contingent of police advisors from the UN Integrated Peacebuilding in Sierra Leone (UNIPSIL) on police preparedness and strategies for crime prevention (OSAC 2009a).

The SLP struggles to contain criminal elements in the country and the response of the police has been slow and unreliable in most cases (OSAC 2009a). The quality of the police service is known to decline as soon as one moves out of the capital, Freetown, and into the provinces (OSAC 2009a). Law enforcement is thus still struggling as crime and corruption are rife. **Law enforcement is rated as medium risk,** as the police force and the Operational Security Division (OSD) with its 2200 members is still receiving help from the UNIPSIL, but they still suffer from lack of resources and adequate training. Law enforcement has not reached an effective level of enforcement and ‘by and large, the rule of law prevails’ (The Economist 2008).

4.4.3.2 Environmental Stress

Sierra Leone has had problems with electricity shortages, but the opening of the new dam is a positive development for dealing with this problem. Environmental stress is dependent on type of investment. Sierra Leone still depends on rice from Asia to sustain the population although there should be enough arable land for the country to sustain itself as a consequence of the civil war (EIU 2009).

The rapid population growth puts pressure on the environment, resulting in large-scale environmental devastation. The overharvesting of timber, expansion of cattle crazing and slash-and-burn agriculture have led to deforestation and exhaustion of the soil; there are also examples of overfishing. Food security is further threatened by high unemployment, lack of irrigation structures, low productivity, lack of farming resources and limited access to food markets caused by poor infrastructure (IRIN 2007). The civil war in the country has also had a detrimental effect on the environment through a depletion of natural resources (CIA 2009).

The environmental stress on Sierra Leone should be considered and analysed in more detail, especially in a micro-specific analysis. At the moment the environmental stress is not completely exhausted, but the dire social conditions combined with the environmental stress may further stress the environment and vice versa. This may also affect the political stability in the country as resources become even scarcer and the opportunity for the government to improve living standards through public service becomes more limited as a result of less revenue. The prospect of finding oil off the coast may improve these conditions if managed in an efficient manner. **Environmental stress is rated as medium risk.**

4.4.3.3 Regional developments

Sierra Leone is member of several regional unions such as ECOWAS and the Mano River Union which helps to maintain relative stability in the region. In addition membership in unions such as UN, AU and ADB are also stabilising factors in the region. The civil wars in both Sierra Leone and Liberia were ended with help from both the UN and ECOWAS. These are positive development for the region's future stability. These unions are also active in encouraging economic growth, peace, human development and increased foreign investments.

The region is more stable now after conflict has ended in neighbouring countries such as Liberia. The recent history of civil wars in the region and the massive consequences for each country from both its own civil war and neighbouring civil war may act as incentives to work hard to maintain the relative peace found in the region. The previous regional instability was evidence of how important it is for Sierra Leone that there is peace in Liberia and vice versa. This may this act as an incentive to promote peace in the entire region and prevent regional disagreements to escalate. The spill over effects from civil wars into neighbouring countries are so negative that every effort is made not to let the situation escalate again.

The region has thus realised how it is of mutual interest for all parties to work together as seen in the Mano River Union. Sierra Leones's security is however threatened by the regional instability caused by the situation in Guinea, despite the presence of a UN peacekeeping force (Trading Safely 2009). Since the death of former President Lansana Conte in 2008, Moussa Dadis Camera has followed in the footsteps of Conte and assumed Presidency through military intervention (Sesay 2009a). President Koroma has expressed his concern of the current state of affairs in Guinea and calls for the neighbouring country to turn to democratic progress before the situation deteriorates (Sesay 2009a). The developments in Guinea should be monitored closely as it may pose a risk for Sierra Leone due to its close proximity. Political instability in Guinea may also spill over into Sierra Leone.

There is also tension between Sierra Leone and Guinea in a territorial dispute over the small town of Yenga, strategically placed between the two countries (Kamara 2009). President Koroma has set up an exploratory committee in order to try and find a solution to the dispute with peaceful means (Kamara 2009). The Guinean contingent of the ECOMOG mission to Sierra Leone during the civil war resided in Yenga to prevent Sierra Leonean fighters to cross into Guinea to attack villages (Karama 2009). The situation is stabile but the results of the findings of the exploratory commission should be monitored closely. If a peaceful solution is not found, the dispute could escalate into violent conflict.

The trafficking of narcotics through Sierra Leone is a problem, one that is seen in several countries in West Africa (OSAC 2009a). West Africa is susceptible to this problem as the countries struggle to secure their borders. The countries also suffer with endemic poverty and a relative close proximity to European markets. The trafficking of narcotics is a threat to stability and security in Sierra Leone and the region due to its organised criminal elements and the insecurity of the borders (OSAC 2009a).

Regional developments in Sierra Leone are thus considered positive with the exception of Guinea and the trafficking of narcotics. Regional developments do not pose an immediate high risk, but there is a need for close monitoring of regional developments, especially the situation in Guinea. **Regional developments are rated as medium risk.**

4.4.4 Operating Policies

4.4.4.1 Reconcilable Goals

Sierra Leone is attempting to attract more FDI, and several policies are in place to improve the conditions for foreign investments taking place. The upcoming Investment conference in London in November 2009 is also evident of the eagerness of Sierra Leone to attract FDI. Sierra Leone ranks high on ease of doing business in Sub-Saharan Africa, number 26 out of 46 countries, which is also evidence of the welcoming attitude of Sierra Leone (Doing Business 2009). The aim of the Sierra Leonean government is to make the country less dependent on foreign aid and the country is therefore in a situation where their goals cannot differ too much from that of the foreign investor. Due to the low level of FDI in Sierra Leone (FDI, net 2009), the country is not in a position where they can dictate the conditions for investing. Rather Sierra Leone is in a situation where they need to convince foreign investors that the country is favourable for investments.

After the end of the civil war the government put in place many new policies, administrative and business structures to attract overseas investors (Butscher 2005). Sierra Leone has been encouraging foreign investment since independence in 1961, but the biggest obstacles for the business climate has been civil war, shortage of foreign exchange and corruption (US Department of State 2009). The uncertainty due to civil war has improved, as the country has experienced political stability for seven years now. Corruption however continues to be an obstacle for foreign investors. In Sierra Leone the relationship between corruption and societal conditions needs to be monitored closely as this combination may cause political instability and violent conflict as seen with the civil war.

4.5 Results of the risk analysis using Iroanya's model

	Political risk	Socio-economic risk
Extreme	**There is no political stability and the state enjoys no legitimacy. Public service is non-existent. State capacity is non-existent and the state is not able to deal with national questions or provide political stability. The political risk in the country is extreme and foreign investors are advised to stay away.**	**Corruption and crime is rife. Ethnic and/or religious cleavages causes violent attacks, government belongs to one ethnic/religious group. Socio-economic development affects foreign investments. Regional developments create problems and insecurity within national borders.**
High	**There is a high political risk for foreign investors. Political stability is frail and there civil unrest and politically motivated violence is rife. The state enjoys limited legitimacy and state capacity is severely limited.**	**Corruption and crime is prevalent and instances of ethnic and religious motivated violence and discontent exist. Socio-economic developments are able to affect foreign investments. Regional developments are highly insecure.**
Medium	**There is a medium political risk for foreign investors. Political stability is not a given, and instances of civil unrest and politically motivated violence may occur. The state enjoys some legitimacy, and state capacity is acceptable. There has been no recent regime change.**	**Corruption and crime is present, but not to an extent where business is greatly affected. There are some instances of ethnic and religious discontent, but it has not led to violence. Socio-economic development should be monitored, but are stable. Regional developments are relatively stable, but should be monitored.**
Low	**There has been no recent regime change and there is political stability. The rule of law is being upheld, the state enjoys legitimacy and the state capacity is good.**	**Although some corruption and crime exist is not at a level where it would affect foreign investments. Ethnic and religious cleavages do not exist. Socio-development and regional developments are stable and do not pose a threat to foreign investments.**

Table 4. **The Iroanya matrix**

The political risk for Sierra Leone is considered medium. One of the main issues in Sierra Leone is the high level of corruption and the resultant consequences. If corruption is not dealt with in an effective manner by the government, the problems will continue. As a result of official corruption and general corruption, the government has not been able to provide its citizens with public service delivery. Resources and revenues have not reached the general population due to corruption thus the necessary developments to improve public service delivery and poverty reduction has not taken place in Sierra Leone. Sierra Leone is ranked as one of the bottom countries on the HDI which is incredible considering the abundance of natural resources found in the country.

Sierra Leone has one of the largest deposits of rutile in the world in addition to other minerals such as diamonds. Still, the human development in the country and the level of poverty is striking; while corruption, due to its consequences and effects on the population, was one of the main reasons for the descent into civil war. In Sierra Leone, corruption is thus closely linked to political stability and societal conditions. The effect on foreign investments is thus not merely the act of corruption in itself, but also the effects it may cause in Sierra Leone in terms of political stability and popular discontent. Sierra Leone is not suffering, like Liberia, from ethnic cleavages. The country is more concerned about the development of the nation.

4.6 Conclusion

The PRI analysis of Sierra Leone has some important and essential variables that need to be analysed in a political risk analysis, but some are also missing. The PRI does not have any variables on state legitimacy or state capacity which are important variables in post-conflict African countries. The PRI focuses more on radical forces within society or government and regional hostile powers. For a post-conflict country like Sierra Leone, the legitimacy and capacity of the state is important as it is one way of making sure conflict does not occur. Negative influence of major regional powers is a variable which excludes influence of regional powers which are not major and also positive regional influences. In addition a major power with negative influences does not necessarily have to be regional. By doing this, important issues may be overlooked.

The result of the analysis using the PRI is flawed in that it is not able to capture the political risk realities found in Sierra Leone. Instead, the political risks are rated high, when in reality the rating could be medium. The composite score of the PRI model falls under the high risk category in the matrix. The interpretation of high risk in the PRI matrix does not necessarily reflect the political risk reality of Sierra Leone. Although there are several issues of concern such as dire social conditions and endemic corruption the political stability of Sierra Leone is not necessarily high. Several of the variables in the PRI model are biased towards negative images of political risk.

By focusing on the negative structuring of the variables titles it may lead to exclusion of positive developments. One example is the variable, dependence on and/or importance to a major hostile power. This variable in its sentence structuring already excludes smaller powers and/or powers which are not hostile. The Iroanya model is better in avoiding this bias by looking at state legitimacy and state capacity rather than restrictive measures to retain power. The two former variables are not preconceived as it simply asks for the current situation. The latter variable, used in the PRI, looks for restrictive measures rather than an overview of the political situation. State legitimacy and state capacity are able to assess the political environment and also how this environment is perceived and accepted by the country's citizens.

Iroanya's alternative model rates the political risk in Sierra Leone as medium. The Iroanya model included some important variables which were not included in the PRI analysis such as state capacity, state legitimacy and public service. Although the PRI might include these variables in its analysis, they are not specified in the model as such. Instead there is an all encompassing variable, namely political stability. Environmental stress is an important variable, especially in less developed countries, as food security, lack of resources and public service delivery, combined with environmental stress, may add to an already dire situation. This may result in disagreement, unrest and potentially violent clashes and conflict.

Chapter Five

Conclusion

5.1 Introduction

This research has attempted to analyse and apply two different political risk models when analysing post-conflict African countries. This research may be applied to African countries in general, and maybe even less developed countries in general. Due to time limitation and limiting the area of investigation, post-conflict African countries, represented by the analysis of Sierra Leone, was chosen as the ‘subject’. It is important to note, that although the results of this research may be used for other countries as well, the results may not necessarily yield the same conclusions. The rationale for conducting this research was the need to emphasise and investigate the need for an African-orientated approach to analyse post-conflict African countries and African countries in general. Some research has been done in this area, but the work within this field is still at an early and explorative stage.

This research has several limitations which were mentioned earlier and which will be discussed below, but the aim is to highlight some of the needs and areas which need more attention and investigation for future research within this field. This chapter will briefly discuss what has been done in this research. Consequently, the research question and the two sub questions will be answered as best as possible. Finally, this chapter will end with a small discussion of suggestions for future research.

The first part of this research analysed and presented the two models used, the PRI and Iroanya’s alternative model. The PRI was chosen to represent the conventional and influential international business risk models. The PRI was chosen as it is the political risk component of the BRS country risk analysis used by BERI, which is one of the most influential risk companies in international business (Iroanya 2008). BERI and the BRS were presented in brief before the framework and matrix of the PRI was presented and analysed. Iroanya’s model was chosen as it is one of few political risk models which try to analyse the political risk of African countries using an African-orientated approach. The framework of the model created by Iroanya was presented and analysed. Iroanya did not provide a matrix in his research. A matrix was therefore developed in order to be able to rate the political risk of Sierra Leone. This matrix was created using the Iroanya model and its variables.

The second section of the research was a comparative political risk analysis of Sierra Leone using the two frameworks presented in chapter 3. When analysing Sierra Leone using the PRI, the framework and matrix were extracted from the work of Howell (1998). The political risk analysis using the PRI model was done by me. Due to a lack of inside information of how the PRI model is utilised, the analysis in this research may not have been carried out in the exact manner it would have been if analysed by someone working for BERI. It is important to acknowledge this as it may have affected the results of the analysis. The analysis suffered from a lack of inside knowledge and information about the PRI. The PRI makes use of bonus points when calculating the composite score of a country, I have not utilised this as I am not certain of this system works. Regardless of these problems, the analysis was able to identify some of the weaknesses of the PRI method. Some important variables were not included in the framework and some of the variables were not optimal when attempting to identify the political risk realities of a post-conflict country such as Sierra Leone.

One such example is the variable, dependence and/or influence of a major hostile power. This variable suffers by firstly only focusing on major powers and secondly only referring to hostile powers. A minor, non-hostile power may also influence a country in both positive and negative terms. Another problem with the PRI framework was the quantitative ranking of each variable and the composite score provided by adding each variable score. The total score of the variables combined (composite score) did not necessarily correspond to the political risk realities found in Sierra Leone. Although corruption and social conditions in Sierra Leone are considered to pose high risks for the country, the overall high political risk given by the matrix was not accurate. The Iroanya model lacked the suggestion for a matrix for the framework presented. A matrix was therefore created for the purpose of this study. Regardless of this, however, the variables in the framework were better able to identify some of the political risk realities found in Sierra Leone. The political indicators were better equipped to assess the state of governance and legitimacy in Sierra Leone, than seen in the PRI. Iroanya included three variables which did not discriminate the fact that Sierra Leone is still in an early phase of the democratic process. These were state legitimacy, state capacity and public service. In addition important variables such as environmental stress and reconcilable goals were able to assess some important factors which should be taken into account when analysing post-conflict African countries.

One research question supported by two sub questions guided this research. The research question will be answered first followed by answers to the two sub questions before a final conclusion of this research will be provided. The research question was:

- Are conventional risk models able to objectively rate the political risk in post-conflict countries in Africa?

When analysing Sierra Leone using the political component, PRI, of BRS the country risk model used by BERI, this study found that the PRI was not able to accurately rate political risk realities of Sierra Leone. The main reason was not necessarily found in the analysis of each component, but the summation of the component and the result given by the matrix. When each variable was analysed the composite score put Sierra Leone in the category of a high risk destination for political risk. The composite score did not correlate to the qualitative analysis of Sierra Leone. Sierra Leone has certain variables such as corruption and poor social conditions, but the matrix result stated that the political situation was highly unstable. This does not necessarily correlate with the qualitative analysis, as Sierra Leone has had two consecutive free and fair elections with peaceful handovers of power from one party to another.

The first sub question was:

- What are the unique political, economic and financial characteristics of post-conflict African countries and how can the identification of these characteristics improve the political risk analysis of post-conflict African countries?

When analysing post-conflict African countries it is important to be aware of the democratic stage the country is in. By not focusing on democracy as an indicator of political risk, but rather looking at public service, state capacity and state legitimacy, the analyst is more likely to be able to identify the political risk realities of post-conflict African countries. This research did not look into economic and financial analysis of Sierra Leone, but the same arguments apply. It is important to identify the unique characteristics of post-conflict African countries in order to provide the investor with the most accurate political risk assessment as possible.

The second and final sub question was:

- Using Sierra Leone as a case study is the alternative political risk model able to objectively rate the political risk of a post-conflict African country or does it yield the same results as the conventional risk model

Iroanya's model did not yield the same results as the PRI, but this was mostly due to the quantitative ranking used in the PRI. In addition, Iroanya's model included some variables which improved the analysis of Sierra Leone. The final conclusion of this research is that the conventional risk model, represented in this research by PRI, is not able to accurately rate the political risk of Sierra Leone. The qualitative analysis does not necessarily reflect the result found in the quantitative analysis. The PRI model has some variables which are biased in its title such as dependence on and/or importance to a major hostile power and fractionalisation of the political spectrum. This excludes dependence on smaller powers and powers which are not hostile and it already focuses on negative images of the political spectrum through fractionalisation. The Iroanya model is able to more accurately assess the political risk of Sierra Leone thanks to variables such as state legitimacy, state capacity and public service. These three variables are able to capture the unique political characteristics found in post-conflict African countries. Rather than focusing on the level or stage of democracy, these variables assess how the country is able to fulfil the needs and demands of its people regardless of state form. One major problem with the political risk analyses of Sierra Leone is lack of information and inside knowledge of the models used. The political risk analyses conducted are only able to give an indication of whether or not the model is able to capture the risk realities of Sierra Leone. The results of the analyses and the ratings given are not applicable, as they were subjectively analysed without having the inside knowledge of the models. Different people will give different ratings using the same model, and the result is thus not able to provide the research with an answer as to which rating is objectively more correct or more accurate. The interesting part of this analysis is the variables used in each model. The PRI model was not comprehensive enough in its choice of variables. Several important variables when analysing post-conflict countries where not included. State legitimacy, state capacity and public service are three variables which are useful for analysing post-conflict African countries, along with law enforcement. The PRI model included several variables which had a negative focus such as fractionalisation of political spectrum, ethnicity and language, restrictive measures to retain power and dependence to a major hostile power.

These variables and especially so, the negative focus, show an already bias towards each variable rather than a focus on gaining overall information on the political risk in a given country. In a political risk analysis I would argue that it is not enough to merely have one indicator looking at the fractionalisation of the political spectrum and the power of these factions. The answer to this variable will not provide the analyst and the investor an accurate assessment of the political risk in a given country. Iroanya included state capacity, state legitimacy and public service which may provide more accurate information on political stability in Sierra Leone and thus with the inclusion of the other variables, a more accurate assessment of the political risk of the country. Iroanya is thus better equipped to identify the unique social and political characteristics of post-conflict African countries.

Both models lacked a few variables that were logical to include when analysing a post-conflict country such as Sierra Leone. None of the models included a variable looking at civil rights, religious freedom and freedom of speech. These are important variables, especially after a civil war. The return to these three variables may give an indication as to how the post-conflict society has been able to return to better conditions for people.

5.2 Further research

The main suggestion for further research is to test and re-test several suggestions for alternative and African-orientated political risk models, in order to try and find a model able to more accurately assess the political risk realities of post-conflict African countries. Although some research has been done in this area, there is still a need for further exploration within this field. Although some may argue that this type of research might reinforce pre-existing biases against African countries in general, it still important to try and find a model which will be more accurate in its analysis of political risk in African countries than conventional models may be able to. It is acknowledged that an African-orientated political risk model will not necessarily be able to accommodate all the differences found in African countries and or post-conflict countries in general, but the fact still remains that the African continent is still the continent with the least amount of FDI, this despite an enormous amount of natural resources and minerals. Another interesting research would be to analyse Sierra Leone or any other post-conflict African country by the PRI and their staff and the Iroanya model by Iroanya himself to see what the political risk rating would be. It is acknowledged that the conclusion of this research may be limited in its effect, but it is still the argument of this research that this is an important field of study which needs more attention, consideration and investigation.

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