5 Objectives

1. Role of rating agencies
2. Looking at the pitfalls of rating agencies:
   Track record and shortsightedness
3. Rating methodology
4. Specific country risk ratings
5. Challenge of governance rating

Quantitative approach: Rating

- Means: Transforming a number of observations (Delphi method, surveys) or quantitative indicators into one single number.
- The various indicators can be weighted regarding their impact on creditworthiness and risk.
- **End-product**: one single grade to assess past and current country risk situation with possible cross-country comparisons across time

Quantifying Country Risk

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Country Risk Rating</td>
<td>30%</td>
</tr>
<tr>
<td>Political Risk Rating</td>
<td>70%</td>
</tr>
<tr>
<td>Political Factors</td>
<td></td>
</tr>
<tr>
<td>Political factor A</td>
<td>30%</td>
</tr>
<tr>
<td>Political factor B</td>
<td>50%</td>
</tr>
<tr>
<td>Political factor C</td>
<td>20%</td>
</tr>
<tr>
<td>Financial Factors</td>
<td></td>
</tr>
<tr>
<td>Financial factor A</td>
<td>30%</td>
</tr>
<tr>
<td>Financial factor B</td>
<td>40%</td>
</tr>
<tr>
<td>Financial factor C</td>
<td>30%</td>
</tr>
</tbody>
</table>
Country Risk Rating

Advantages/ Pros
- simple
- shrinks a large number of variables into one single grade
- cross-country comparison
- comparison across time
- reliable for smooth risk evolution

Shortcomings/Cons
- “reductionist”
- over-simplistic
- risk of self-fulfilling prophecy
- little predictive value
- weighted average tends to bury salient trends
- gives “market consensus” often made of herd instinct

Shortcomings of rating agencies?
- Power without accountability + conflict of interest
- Conformity bias and herd behavior
- Sociocultural bias
- Punishment of disobedient firms/countries that do not request a rating
- Procyclical bias, hence following the majority opinion of market participants without any early warning signals nor predictability track record
- Spill-over effect!

Fitch Sovereign Rating Snapshot 10-2013

Rating downgrades 10-2013

FITCH
- Tunisia = BB
- Egypt = B-
- Greece = CCC

MOODY’s
- USA = AAA
- Egypt= Caa1
- Tunisia = Ba2-
- Greece = C

S&Ps
- USA = AA+
- Egypt = B
- Tunisia = B
- Greece = CCC
  * selective default *

DAGONG
- Tunisia = BBB-
- Greece = C-
- USA = A
The 15 Triple-A rating countries end-2013

<table>
<thead>
<tr>
<th>Sovereigns</th>
<th>Foreign Currency Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Aaa</td>
</tr>
<tr>
<td>Austria</td>
<td>Aaa</td>
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<tr>
<td>Canada</td>
<td>Aaa</td>
</tr>
<tr>
<td>Denmark</td>
<td>Aaa</td>
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<tr>
<td>Finland</td>
<td>Aaa</td>
</tr>
<tr>
<td>Germany</td>
<td>Aaa</td>
</tr>
<tr>
<td>Isle of Man</td>
<td>Aaa</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Aaa</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Aaa</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Aaa</td>
</tr>
<tr>
<td>Norway</td>
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<td>Sweden</td>
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<td>Switzerland</td>
<td>Aaa</td>
</tr>
<tr>
<td>USA</td>
<td>Aaa</td>
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</tbody>
</table>

Rating = poor early warning signal?

1997 Asia risk? «It's like growth stocks... sovereign risk has never looked better!»
- Institutional Investor (March 1997)

South Korea was rated as Italy and Sweden until October of 1997... but was abruptly downgraded to junk bond status!
«There were no early warnings about Korea from us or, to the best of our knowledge, from other market participants, and our customers should expect a better job from us!» Fitch IBCA January 14, 1998

Asia-1998: lessons of the crisis

«Any agency which rated the Republic of Korea at the high investment grade rating of AA- (in the case of Fitch IBCA and S&Ps) or A1 (Moody's) before the crisis, and which now rates Korea at a speculative grade B-, was clearly either wrong initially or subsequently»

Fitch IBCA January 13, 1998

Was the 1998 Asian crisis anticipated by rating agencies?

<table>
<thead>
<tr>
<th>Credit Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor's</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Korea</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>Philippines</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
</tbody>
</table>
EUROMONEY’s Risk Rating
the higher the score, the larger the risk

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tr>
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<td>Indonesia</td>
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<td>91</td>
<td>98</td>
<td>107</td>
<td>81</td>
<td>76</td>
</tr>
</tbody>
</table>

Agencies were blind for too long, then hammered the counties with abrupt downgrading!

Rating = poor early warning signals?

ENRON’s collapse in December 2001

- The credit agencies were still tipping the energy firm as an investment-grade credit four days before it filed for bankruptcy protection on 12/2/2001.
- Moody’s and S&Ps finally downgraded Enron to junk status on 11/28/01
- «The credit raters -despite their unique position to obtain information unavailable to other analysts- were no more astute and no quicker to act than others »
  – Senator Joe Lieberman

Source: Credit October 2006, Vol7, Issue 09

Rating = poor early warning signals?

2007-2008 US Subprime crisis: from Triple A rating of MBS (mortgage backed securities) to junk bonds
06/2010: Dagon downgrades the US
08/2011: US downgrading to AA+: Political Risks, Rising Debt Burden

Fall 2011: Italy-Spain downgrading
2012: Greece’s multiple downgradings
October 2012: Spain downgrading by S&Ps
November 2013: S&Ps downgrading of France: Political Risks, Rising Debt Burden

06/2013: US Government versus S&Ps

- In its civil lawsuit against Standard & Poor’s, the US Department of Justice accuses the credit-rating agency to have defrauded federally insured financial institutions...
- The US complaint alleges that S&P’s presented overly optimistic credit ratings as objective and independent when, in truth, S&P’s downplayed and disregarded the true extent of credit risk...
- According to the plaintiff, Standard & Poor’s catered rating favors in order to maintain and grow its market share and the fee income generated from structured debt ratings.
09/2013: S&P sues US government over alleged retaliation for AAA credit downgrade

"Plaintiff [Justice Department] commenced this action in retaliation for S&P's exercise of their free speech rights with respect to the creditworthiness of the United States of America."

01 2011- Moody's downgrades Tunisia's to Baa3 Negative

Moody's Investors Service downgraded to Baa3 from Baa2 the local and foreign currency government bond ratings of the Tunisian government. The main drivers for today's rating action are as follows:

1. The country's instability due to the unexpected recent regime change, which resulted from the ongoing political crisis that first began as social unrest.
2. The significant uncertainties surrounding both the economic and political outcomes.
3. The ongoing unrest and the fluidity of the political situation which further endangers the country's future stability.

May 2013: new downgrading to Ba2

Country Risk and Competitiveness indices

DBRS
Coface
SACE
AT Kearney
WEF
IMD
World Bank

DBRS's sovereign risk assessment methodology

DBRS's sovereign rating methodology groups risk factors into six categories, each of which contains a set of quantitative and qualitative considerations:

1. Fiscal management and policy
2. Debt and liquidity
3. Economic structure and performance
4. Monetary policy and financial stability
5. Balance of payments
6. Political environment
### DBRS

**(Canada’s rating agency since 1976)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Long Term Foreign Currency</th>
<th>Long Term Local Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>AAA</td>
<td>AAA</td>
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<tr>
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<tr>
<td>Germany</td>
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<tr>
<td>Netherlands</td>
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<td>AAA</td>
</tr>
<tr>
<td>Switzerland</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Japan</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Italy</td>
<td>AA (low) N</td>
<td>AA (low) N</td>
</tr>
<tr>
<td>Chile</td>
<td>A (high)</td>
<td>A (low)</td>
</tr>
<tr>
<td>Ireland</td>
<td>A N</td>
<td>A N</td>
</tr>
<tr>
<td>Portugal</td>
<td>BB (high) N</td>
<td>BB (high) N</td>
</tr>
<tr>
<td>Mexico</td>
<td>BBB</td>
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</tr>
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<td>Spain</td>
<td>BB (low)</td>
<td>BB (low)</td>
</tr>
<tr>
<td>Colombia</td>
<td>BB (low)</td>
<td>BB (low)</td>
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<td>India</td>
<td>BB (low)</td>
<td>BB (low)</td>
</tr>
<tr>
<td>Ukraine</td>
<td>D (low) P</td>
<td>D (low) P</td>
</tr>
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<td>Armenia</td>
<td>B (low) D</td>
<td>B (low) P</td>
</tr>
<tr>
<td>Tunisia</td>
<td>A (low)</td>
<td>A (low)</td>
</tr>
<tr>
<td>Egypt</td>
<td>B (low)</td>
<td>B (low)</td>
</tr>
</tbody>
</table>

### COFACE

155 countries

Country risk + Business climate ratings:

- **Investment grade**
  - A1 = steady economic and political situation
  - A2 = weak default probability
  - A3 = adverse circumstances may lead to worsening payment record
  - A4 = payment record could be worsened by adverse economic/political developments

- **Speculative grade**
  - B = unsteady economic and political environment
  - C = bad payment record
  - D = high risk profile and very bad payment record

### Coface credit Rating

- Canada = A1
- Australia = A1
- Japan = A1
- USA = A2
- Korea = A2
- Chile = A2
- China = A3
- Thailand = A3
- India = A3
- Brazil = A3
- Mexico = A4
- Tunisia = A4
- Egypt = B
- Russia = B
- Algeria = B
- Vietnam = C
- Congo = C
- Ukraine = C
- Venezuela = C
- Argentina = C
- Cuba = D
- Ivory Coast = D
- Nigeria = D

### TUNISIA-2012 COFACE’s Macro-economic prospects

<table>
<thead>
<tr>
<th>MAJOR MACRO-ECONOMIC INDICATORS</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Inflation (year-on-year%)</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Budget balance (% GDP)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Public debt (% GDP)</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**STRENGTHS**
- Labor market: job opportunities; agricultural sector
- Financial sector: diversified economy; fairly reliable labor force
- Priority of the Tunisian national and international agreements with the EU
- Responsiveness of institutions, industry and trade sector

**WEAKNESSES**
- Coerce exit strategy (5.5% of GDP) and need for improvement in the business environment
- High unemployment, mainly among the young and especially among university graduates
- Economic performance: agriculture
- Economic performance: agriculture
- Labor market, mobility in the labor market; and political instability
- High unemployment, mainly among the young and especially among university graduates
- Risk management; the need for improvement in the business environment
AT KEARNEY: the FDI confidence index

- Constructed using primary data from a proprietary survey administered to senior executives of the world’s 1000 largest corporations.
- 25-country survey is designed to gauge the likelihood of investment in specific markets in order to gain insights into likely trends in global FDI flows over the next one to three years.
- Index values are based on non-source country responses about various markets (eg: the index ranking for the United States reflects all non-US company responses about the US market)


AT Kearney – FDI Confidence Index

1. China
2. USA
3. India
4. Brazil
5. Germany
6. Poland
7. Australia
8. Mexico
9. Canada
10. UK
11. UAE
12. Vietnam
13. France
14. Hong Kong
15. Romania
16. Czech
17. Russia
18. Saudi Arabia
19. Indonesia
20. Malaysia
21. Chile
World Economic Forum: competitiveness ranking

- Growth prospects of 146 countries
- Countries in are ranked by the Growth Competitiveness Index and the Microeconomic Competitiveness Index, which combined encapsulate the relative strengths and weaknesses of growth
- **Hard + Soft DATA:** Public debt + REER + interest rates + inflation + savings rate + legal and regulatory framework + infrastructure & institutions + Health & Education….

Components:

- The Global Competitiveness Report is backed up by the GCN’s annual Executive Opinion Survey (EOS). It captures the expert opinions of over 11,000 business leaders and entrepreneurs on:
  - Technology, Innovation and Diffusion
  - Domestic Competition
  - Human Resources
  - Environment
  - Public Institutions
  - Company Operations and Strategy
  - General Infrastructure
  - Cluster Development

IMD World Competitiveness yearbook

- World Competitiveness Index: ability of nations to provide an environment that sustains the competitiveness of enterprises.
- Extensive coverage of 60 countries chosen because of their impact on the global economy and the availability of comparable international statistics.
- Over 300 competitiveness criteria are selected.
IMD Criteria

- Over 300 competitiveness criteria are selected.

<table>
<thead>
<tr>
<th>Category</th>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>74</td>
<td>Performance</td>
</tr>
<tr>
<td>Government</td>
<td>84</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Business</td>
<td>66</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>99</td>
<td></td>
</tr>
</tbody>
</table>

IMD Scoreboard 2013
60 countries
The ICRG model for forecasting financial, economic, and political risk was created in 1980 by the editors of International Reports (weekly newsletter). To meet the needs of clients the editors created a statistical model to calculate risks and backed it up with analyses that explain the numbers and examine what the numbers do not show. The ICRG model allows users to make their own risk assessments based on the ICRG model or to modify the model to meet their specific requirements.

Monitors 140 countries. The International Country Risk Guide (ICRG) rating comprises 22 variables in three subcategories of risk: political, financial, and economic. Testing has proven ICRG’s reliability and its uniqueness:

- Claim to have the longest history of country risk data for analysis
- Easy to customize and merge with in-house systems
- Useful for multinational firms, banks, and equity and currency traders

Political Risk Components

- Government Stability: 12 points
- Socioeconomic Conditions: 12 points
- Investment Profile: 12 points
- Internal Conflict: 12 points
- External Conflict: 6 points
- Corruption: 6 points
- Military in Politics: 6 points
- Religious Tensions: 6 points
- Law and Order: 6 points
- Ethnic Tensions: 6 points
- Democratic Accountability: 6 points
- Transparency Quality: 4 points

Financial Risk Components

- Annual Inflation rate: 10 points
- Current Account/GDP: 10 points
- Budget Balance: 10 points
- Real GDP Growth: 10 points

Economic Risk Components

- GDP Per capita: 10 points

Total score / 2

- 80 - 100 points: Very Low Risk
- 0 – 49.5 points: Very High Risk
FINANCIAL RISK COMPONENTS (50 max)

- Foreign debt: 10 points
- Debt service/NGS: 10 points
- Current account: 15 points
- Net liquidity: 5 points
- Exchange rate stability: 10 points

Euromoney: Rating Methodology

- 186 countries
- 15 criteria
- Delphi Technique: Panel of 250 leading economists in international financial institutions evaluating performance in the financial markets (market access, bond issue, spreads, selldown, terms and maturity...)
- Scoring between 100 (excellent) and 0 (high risk)
- Panel of political analysts to measure short-term risk of destabilization

EUROMONEY: Country Risk Rating

End-2001
1= Singapore
2= Taiwan
3= Hong Kong
4= Chile
5= Hungary
6= China
7= Greece
8= Poland
9= Brazil
10= Malaysia
11= Romania
12= Bulgaria
13= Congo

End-2005
1= Ireland
2= Singapore
3= Hungary
4= China
5= Greece
6= Russia
7= China
8= Vietnam
9= Indonesia
10= Ivory Coast
11= Congo
12= Cuba
13= North Korea

End-2006
1= Singapore
2= USA
3= Mexico
4= Poland
5= Russia
6= Vietnam
7= Indonesia
8= Ivory Coast
9= Congo
10= Cuba
11= North Korea

End-2012
1= Singapore
2= USA
3= Mexico
4= China
5= Brazil
6= Vietnam
7= Indonesia
8= Ivory Coast
9= Congo
10= Cuba
11= North Korea
**EUROMONEY Risk Rating: Ivory Coast 1980-2013**

- **Higher Risk**
- **Lower Risk**
- **Coup d'état**
- Political upheaval

**Scoring/Rating of Country Risk**

- 0-100 semi-annual Rating of 179 countries’ creditworthiness based on survey of 100 leading international bankers
- **Best**: Switzerland, Finland, Norway, Germany, Netherlands, France, US, UK, Luxembourg… Singapore, Australia, Taiwan, Chile
- **Worst**: Cuba, Myanmar, Cambodia, Nicaragua, Rwanda, Ivory Coast, Sudan, Iraq, Congo, Sierra Leone, North Korea, Liberia

Global average risk rating as of 03/2000 = 41
Global average risk rating as of 03/2007 = 46
Global average risk rating as of 09/2011 = 46
Global average risk rating 03/2013 = 44
### Institutional Investor Risk Rating

- Information provided by leading international banks.
- Bankers are asked to grade each of the countries on a scale from 0 to 100 (100 = best creditworthiness)
- Sample updated every six months, ranges from 75 to 100 banks, each of which provides its own ratings. The names of all participants in the survey are kept strictly confidential. Banks are not permitted to rate their home country.
- Individual responses are weighted using an *Institutional Investor* formula that gives more importance to responses from banks with greater worldwide exposure and more sophisticated country analysis systems.

#### Risk Rating of ASIA

<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
</tr>
<tr>
<td>Singapore</td>
<td>6</td>
</tr>
<tr>
<td>Australia</td>
<td>12</td>
</tr>
<tr>
<td>HK</td>
<td>16</td>
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<td>Japan</td>
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<td>Taiwan</td>
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<td>Myanmar</td>
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<tr>
<td>North Korea</td>
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</tr>
</tbody>
</table>

#### Risk Rating of Southern Europe & Maghreb

<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
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<td>Lebanon</td>
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<tr>
<td>Syria</td>
<td>166</td>
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</table>

### Institutional Investor 2013

#### Risk Rating of ASIA

<table>
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<tr>
<th>Country</th>
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<tbody>
<tr>
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<td>Myanmar</td>
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<td>North Korea</td>
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#### Risk Rating of Southern Europe & Maghreb

<table>
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<th>Country</th>
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<tr>
<td>Norway</td>
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<td>Switzerland</td>
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<td>Qatar</td>
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<td>Kuwait</td>
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<td>Malta</td>
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<tr>
<td>Oman</td>
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</table>

### Institutional Investor Risk Rating 1981-2013

#### Ivory Coast

- Higher Risk
- Lower Risk
- Coup d'état
- CFA devaluation
Country risk: Governance matters!

- Corruption
- Regulatory framework
- Business conditions
- Transparency
- Corporate and sovereign governance

World Bank: « Doing Business »
end-2013

183 Countries
10 Parameters
Ranking does not take into consideration the macroeconomic framework and organized crime.

1. Singapore
2. Hong Kong
3. New Zealand
4. USA
5. Denmark
6. Norway
7. UK
8. South Korea
9. Ireland
10. Ireland
20. Germany
34. France
37. Chile
50. Tunisia
91. China
112. Russia
130. Brazil
132. India

14
How assessing corruption?

Transparency International’s CPI

- Germany-based NGO, founded in 1993
- Global network with national chapters in >70 countries
- Annual Corruption perception index ranking 180 countries
- Annual Bribe index

CPI is a composite index: poll of polls conducted over a 3-year period, drawing on 13 surveys from 8 independent organizations

Measuring Corruption?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Rank</th>
<th>Country</th>
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<tbody>
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<td>New Zealand</td>
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<td>Guinea-Bissau</td>
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<td>2</td>
<td>Denmark</td>
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<td>Guinea</td>
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<td>16</td>
<td>Austria</td>
<td>180</td>
<td>Somalia</td>
</tr>
</tbody>
</table>
What is development?

- Economic growth + those conditions that make growth *sustainable* over the long-term =

\[ \Sigma \text{life expectancy, education, health, infrastructure, institutions, governance} \ldots \]

### Human Development Index

- HDI developed by UNDP
- A composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living, as measured by real GDP per capita on a purchasing power parity basis.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP informal economy</th>
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<tbody>
<tr>
<td>Georgia</td>
<td>67.3</td>
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<tr>
<td>Bolivia</td>
<td>67.1</td>
</tr>
<tr>
<td>Panama</td>
<td>64.1</td>
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<tr>
<td>Azerbaijan</td>
<td>60.6</td>
</tr>
<tr>
<td>Peru</td>
<td>59.9</td>
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<td>Zimbabwe</td>
<td>59.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>58.3</td>
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<td>Nigeria</td>
<td>57.9</td>
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<tr>
<td>Thailand</td>
<td>52.6</td>
</tr>
<tr>
<td>Ukraine</td>
<td>52.2</td>
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<tr>
<td>Guatemala</td>
<td>51.5</td>
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<tr>
<td>Uruguay</td>
<td>51.1</td>
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<td>Honduras</td>
<td>49.6</td>
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<td>Zambia</td>
<td>48.9</td>
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<td>Belarus</td>
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</tr>
<tr>
<td>Armenia</td>
<td>46.3</td>
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<tr>
<td>Russia</td>
<td>46.1</td>
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<tr>
<td>Benin</td>
<td>45.2</td>
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<tr>
<td>Nicaragua</td>
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<td>Moldova</td>
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**UNDP Human Development Index**

1. Norway
2. Australia
3. New Zealand
4. United States
5. Ireland
6. Liechtenstein
7. Netherlands
8. Canada
9. Sweden
10. Germany
11. Japan
12. Korea
13. Switzerland
14. France
15. Israel
16. Finland
17. Iceland
18. Belgium
19. Denmark
20. Spain

**UNDP HDI**

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14. France
15. Israel
16. Finland
17. Iceland
18. Belgium
19. Denmark
20. Spain

**Sources:** World Bank, July 2010

**Hernando de Soto**
Conclusion
Assessing country risk?

1. Market consensus: rating agencies
2. Macroeconomic analysis
3. Balance of payments analysis: liquidity & solvency
4. Socio-political analysis
5. Business environment: corruption, bureaucracy, institutions, transparency
6. Economic Intelligence!

Heritage Foundation: Index of economic freedom

- Economic freedom = absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself.

The Index includes a broad array of institutional factors determining economic freedom: corruption, non-tariff barriers to trade, the fiscal burden of government, the rule of law, regulatory burdens, restrictions on banks, labor market regulations, black market activities...

Criteria of economic freedom

- To measure economic freedom and rate each country, the Index is based on 50 independent economic variables within 10 broad categories of economic freedom:
  1. Trade policy,
  2. Fiscal burden of government,
  3. Government intervention in the economy,
  4. Monetary policy,
  5. Capital flows and foreign investment,
  6. Banking and finance,
  7. Wages and prices,
  8. Property rights,
  9. Regulation, and
  10. Black market activity

Heritage Foundation’s Index of Economic Freedom

- Trade + Fiscal Burden, + Government Intervention, + Monetary Policy, + FDI + Inflation + External Competitiveness + Banking sector

Worst:
- Argentina, Colombia, Venezuela, China, Russia, Vietnam, Romania, Ukraine, Nigeria, Iran, Syria, Cuba

1. Hong Kong
2. Singapore
3. Luxemburg, New Zealand
4. Ireland
5. Denmark, Estonia, USA
6. Australia, UK
7. Finland, Iceland, Netherlands, Sweden
8. Switzerland
9. Chile
10. Canada
11. Austria, Belgium, Germany
12. France
Freedom House:
Political Freedom in the World annual report
(1972-2011)
Since 1972, Freedom House has published an annual assessment of the state of freedom in all countries in the world, based on a checklist of questions on political rights and civil liberties that are derived from the Universal Declaration of Human Rights. Each country is assigned a rating for PR and a rating for CL based on a scale of 1 (best) to 7 (worst).
http://www.freedomhouse.org/ratings/index.htm

Freedom House:
Freedom in the World annual report
Free countries (89)
- Australia
- Finland
- Malta
- Slovenia
- Uruguay
- Bulgaria
- Chile
- Costa Rica
- Mauritius
- Poland
Not Free countries (47)
- Cameroon
- Congo
- Haiti
- Iran
- China
- Vietnam
- Burma
- Cuba
- Saudi Arabia
- Syria
- Turkmenistan

Fraser Institute
Since 1975
130 countries
Annual Index of Economic Freedom in the world: reliable measure of cross-country differences in economic freedom, using third-party data to help ensure objectivity
Criteria: government quality, legal structure, security of property rights, access to sound money, personal choice, freedom to exchange with foreigners and to compete in markets, quality of regulations and institutional strength…
Fraser Institute’s Economic Freedom World Map