

GLOBAL RISK MANAGEMENT: HOW TACKLING POLITICAL RISK? INTRODUCTION I



CIFE SEMINAR ROMA-BERLIN-NICE 2023
MICHEL-HENRY BOUCHET

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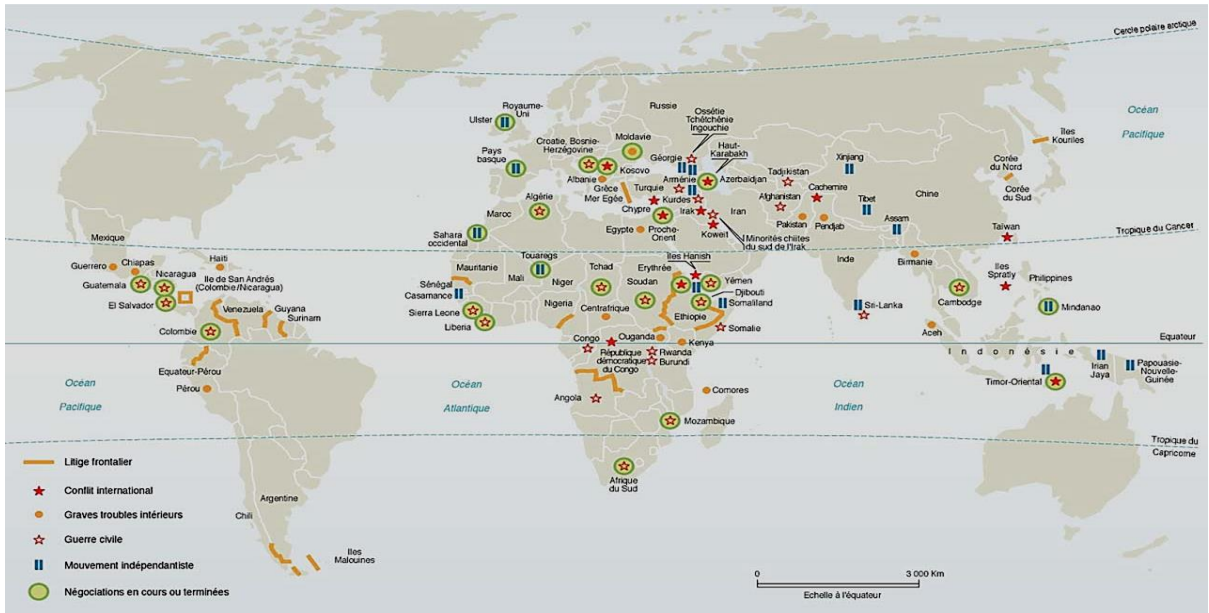
	April 24 Monday	April 25 Tuesday	April 26 Wednesday	April 27 Thursday	April 28 Friday	
	9:00AM			Failed States SEMINAR	Failed States SEMINAR	9:00 AM
		3. Measuring Political Risk? Group work!	6. How to anticipate institutional crises in both EMCs and OECD countries?	Intro: A. Leconte Analytical Framework and Prospects: MHB Corruption analysis: TI	Intro: A. Leconte Analytical Framework and Prospects: MHB D. Petitprez South Africa	9:30 AM 10:30 AM 11:30 AM
13:30 PM	expresso coffee break Debt Crisis Governance & Debt Reductions	10:30 AM expresso coffee break	expresso coffee break	expresso coffee break Lunch Break	Lunch Break T. Apoteker: scenario planning Chris McKee PRS/NY	12:30 PM 2:00 PM 3:00PM
17:30 PM	Wrap up and conclusions	12:30 PM Wrap up and conclusions	12:45 PM Lunch Break	Lunch Break Wrap up and conclusions wrap up AL & MHB	Concluding remarks and wrap up AL & MHB Concluding remarks and wrap up AL & MHB	4:00PM 5:00 PM

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Wars and civil conflicts all over the world



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Spring 2022-23:
 Conflict, wars,
 and violence are
 by no means
 things of the
 past:
**30 ongoing
 conflicts**



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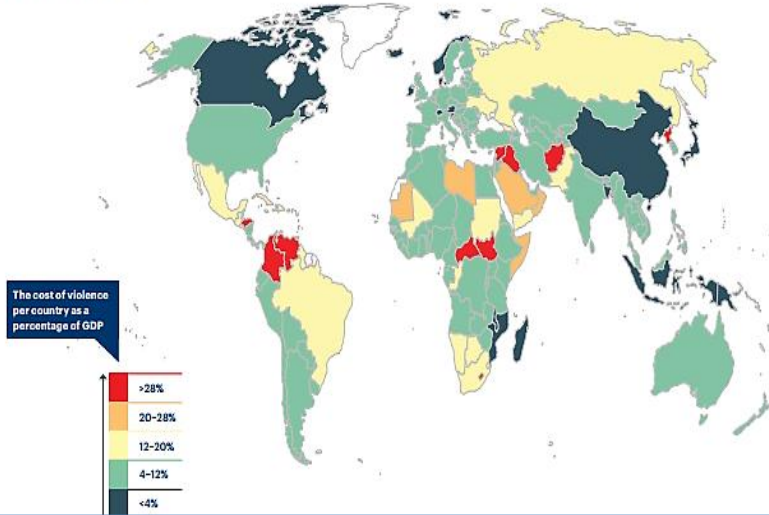
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THE COST OF VIOLENCE IN % OF GDP

(IEP 2021: THE ECONOMIC VALUE OF PEACE REPORT)

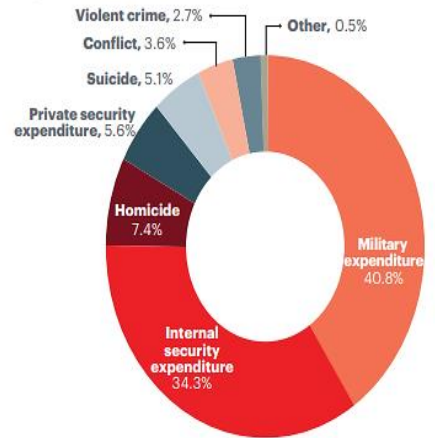
Economic impact of violence on the global economy
 = **\$14.4 trillion** in PPP terms
 = **10.5 per cent** of the global GDP
 or **\$2,000** per person

THE COST OF VIOLENCE BY COUNTRY AS A PERCENTAGE OF GDP



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Government spending on the military and internal security comprises almost three-quarters of the global economic impact of violence.

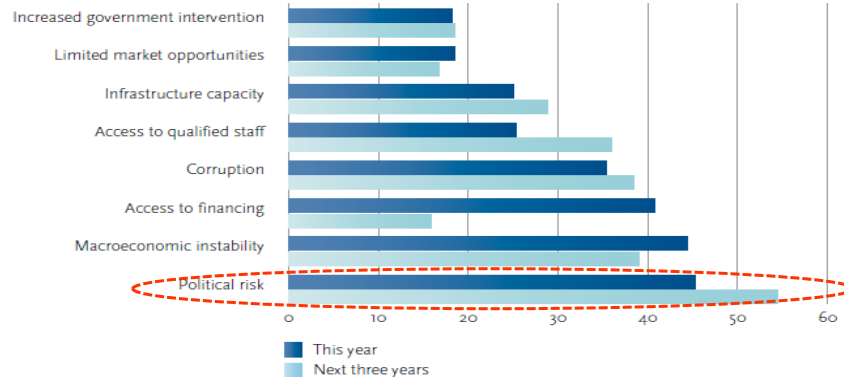


Source: IEP calculations

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MIGA: THE KEY CHALLENGE OF POLITICAL RISK

MAJOR CONSTRAINTS ON FOREIGN INVESTMENT IN EMERGING MARKETS
 Percent of respondents



In your opinion, which of the following factors will pose the greatest constraint on investments by your company in emerging markets this year and over the next three years?

Source: MIGA-EIU Political Risk Survey 2009.
 Note: Percentages add up to more than 100 percent due to multiple selections.

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POLITICAL RISK ASSESSMENT

- ▶ **Origins?** Political risk stems from the **threat** related to the exercise of direct or indirect power by public or private forces on foreign and domestic agents
- ▶ **Impact?** Arbitrary political decisions and events in a country will affect the business climate in such a way that investors, exporters, creditors, as well as domestic residents will confront risks and losses

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Political risk materialization



- ▶ Contract repudiation, capital controls, currency inconvertibility, sham contracts and bribery, corruption, blocked funds, ideological shift, political upheaval, expropriation, coup d'état, martial law, revolution, civil strife damage, terrorism, war damage, kidnapping, crimes...

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UKRAINE:

THE « MARKET PRICE » OF POLITICAL RISK IN THE WAKE OF THE REVOLUTION AND THE
RUSSIAN INVASION OF CRIMEA IN 2014 AND THE 2022 WAR



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► *Political risk analysis is both an art and a science
but many types of risk are amenable to rigorous analysis:*

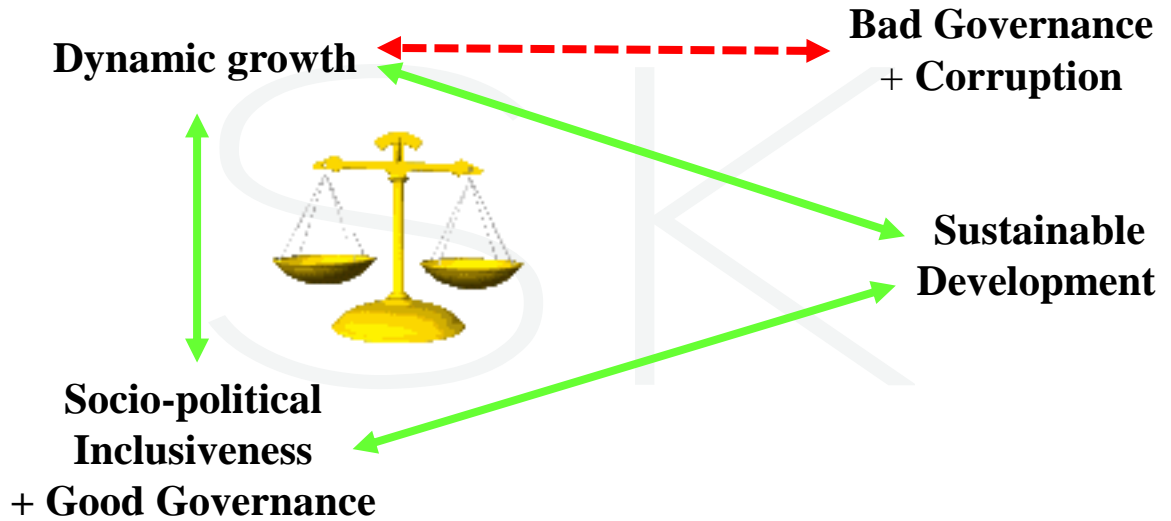
1. How resilient is the political system and its institutions?
2. Is there a tradition of peaceful transitions of power?
3. How robust are the social shock absorbers that provide buffers between citizens and governments? Institutions!
4. What about wealth gaps?
5. What about economic and financial power concentration?
6. Which groups control the engines of growth?

Ambassador Paul Bremer (US State Department)
Harvard Business School Review, 2002

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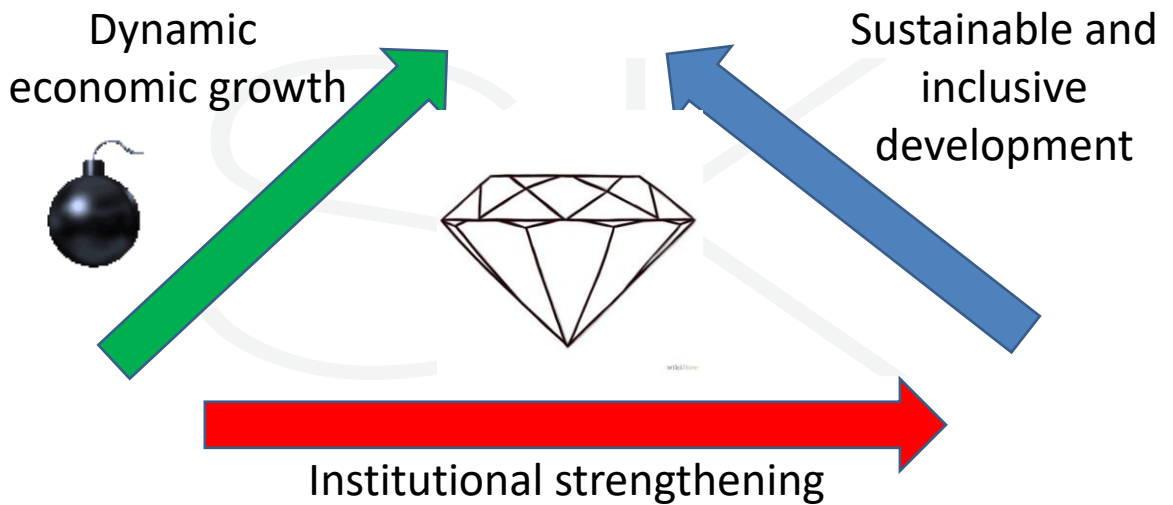
TRILEMMA OF GROWTH AND DEVELOPMENT?



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THE REQUIRED POLITICAL STABILITY TRIANGLE



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Three Sources of Political Risk

Direct «hard risks»

- **Risk materialization directly hurts the institution:** Nationalization, expropriation and confiscation, contract repudiation, sham contracting, bribery and corruption, blocked funds, kidnapping, crimes

Indirect «surrounding risks»

- **Risk materialization stems from the hostile environment:** Revolution and civil unrest, martial law, terrorism, war damage, ideological and cultural shifts. Capital and dividend remittance constraints, ineffective legal and regulatory systems, non-compliance, strikes, currency inconvertibility, regional crisis and volatility spill-over

Collateral «soft risks»


- **Risk materialization is the byproduct of unfavorable interactions between power groups:** Legal and ethical risks, reputational risk, protectionism, fiscal uncertainty, wealth gaps, bureaucracy and weak institutions, hostile pressure groups, ethnic/linguistic fragmentation


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MCKINSEY'S GEOPOLITICAL RISK TAXONOMY

[BLACK SWANS, GRAY RHINOS, AND SILVER LININGS: ANTICIPATING GEOPOLITICAL RISKS \(AND OPENINGS\) | MCKINSEY](#)

Black swans are unpredictable events with high impact (needs anticipating a wide a range of scenarios for sound planning and preparedness (political implosion of a major economy, forcible removal of a leader or a government, significant regional military conflict; unprecedented climate event that results in mass casualties, waves of migration, and famine; another pandemic. 

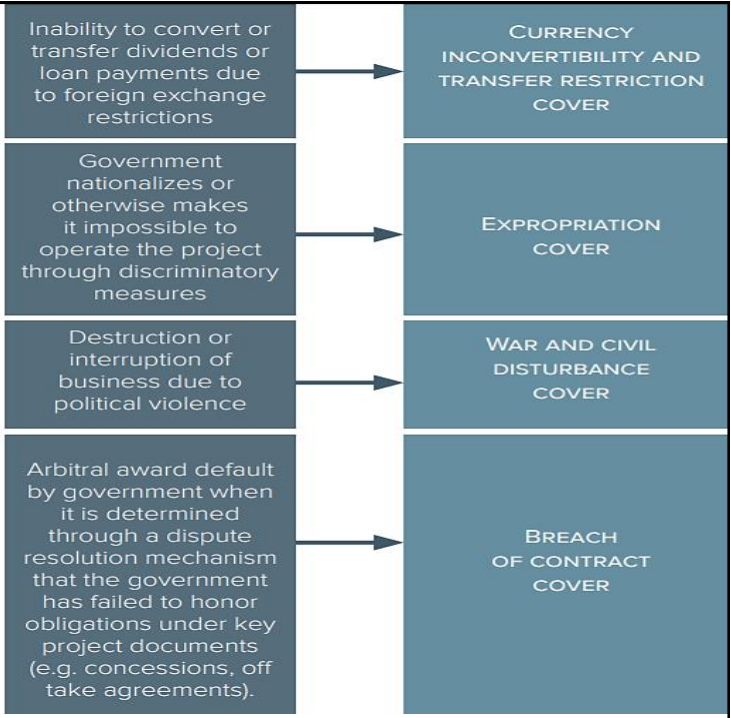
Gray rhinos are probable events with high impact. We don't clearly perceive their full dimensions, but we don't know precisely when or how much. (requires a framework to clear out of the way of gray rhinos when they charge (regional conflicts in Asia escalating amid broader strategic competition, major escalation in the Middle East...) 

Silver linings are strategic opportunities: In the maelstrom of geopolitical risks, organizations must step back and assess opportunities that allow them to operate in a safe zone and potentially garner competitive advantage for leaders who exhibit strategic courage amid the volatility (Russia's invasion of Ukraine has been a material disruption of Europe's energy market and the opportunity for an accelerated renewable-energy transition, emergence of pivot geographies, such as India and Vietnam, as additional opportunities for investment amid "friendshoring.")

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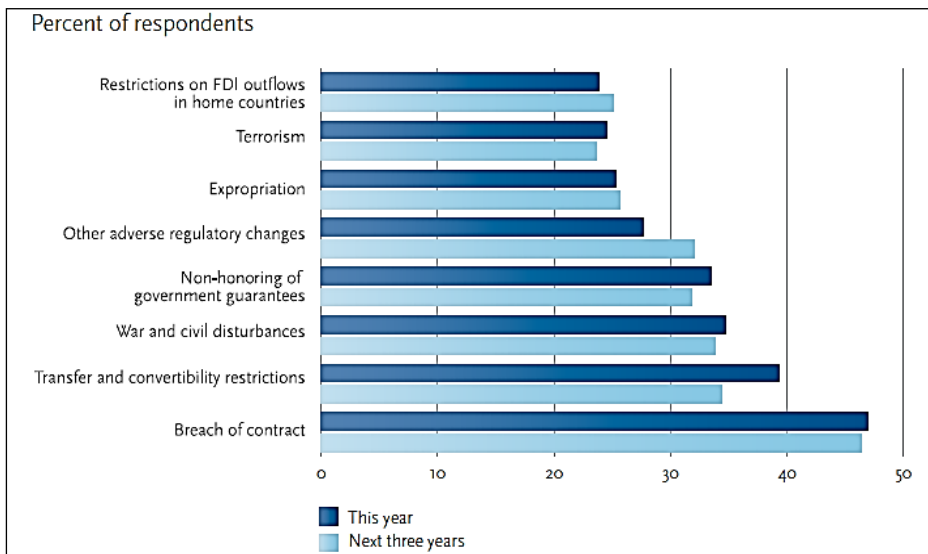
A FEW EXAMPLES OF POLITICAL RISK CONSEQUENCES TACKLED BY MIGA



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MIGA: TYPES OF POLITICAL RISK OF HIGHER CONCERN TO MNCS IN EMCS



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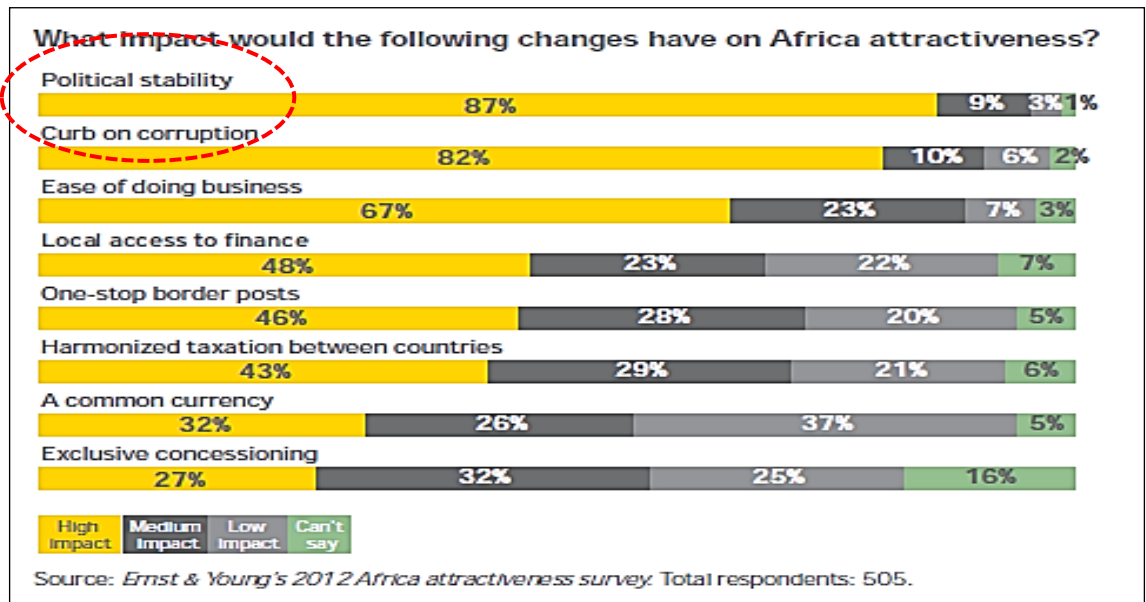
RANKING OF TOP RISKS REPORTED BY FTSE 100 FIRMS (FT)



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BOOSTING FDI IN AFRICA?



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MEASURING SOCIO-POLITICAL RISK

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TOP 20 KIDNAP RANKING



1. South Africa
2. Pakistan
3. Mexico
4. India
5. Nigeria
6. Venezuela
7. Congo
8. Philippines
9. Afghanistan
10. Colombia
11. Iraq
12. Syria
13. Guatemala
14. Yemen
15. Libya
16. Egypt
17. Brazil
18. Kenya
19. Somalia
20. Malaysia

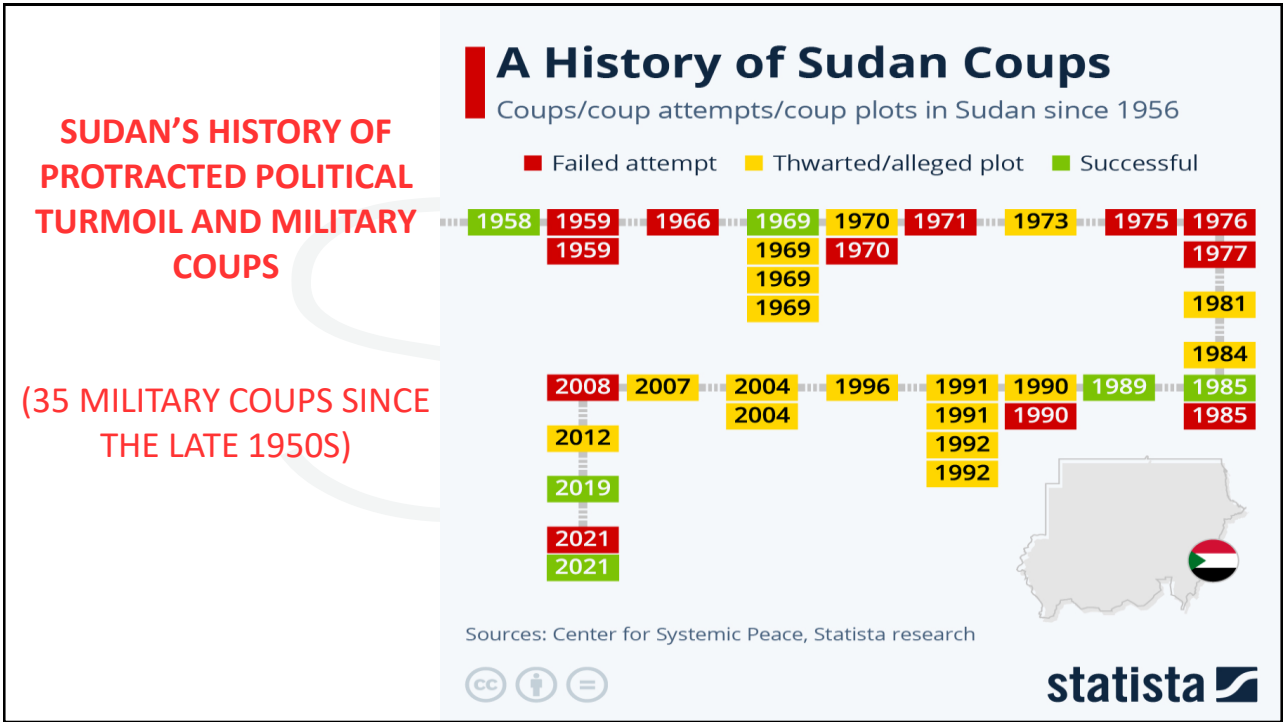
: >7,770 kidnaps for ransom!

Source: Hiscox Group/FT/ AIG

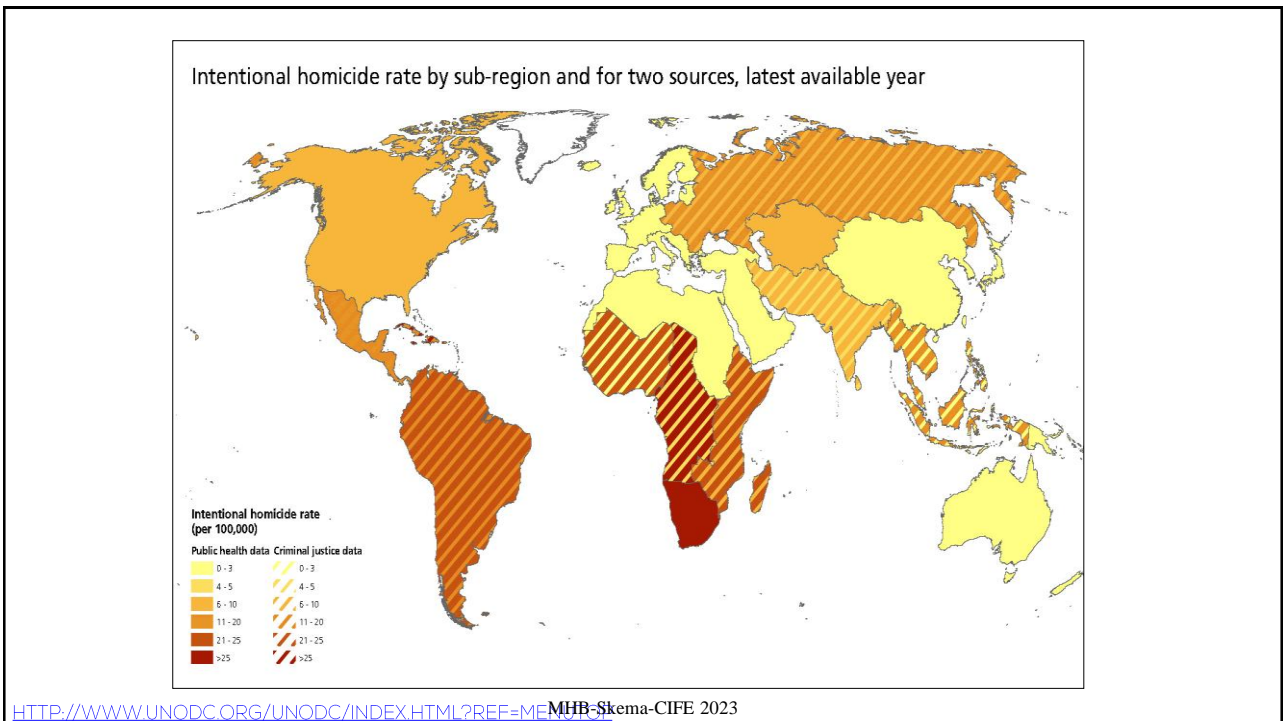


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UNCERTAINTY IN EMCS: SHADOW ECONOMY

Country↓	% GNP Informal Economy
Georgia	67.3
Bolivia	67.1
Panama	64.1
Azerbaijan	60.6
Peru	59.9
Zimbabwe	59.4
Tanzania	58.3
Nigeria	57.9
Thailand	52.6
Ukraine	52.2
Guatemala	51.5
Uruguay	51.1
Honduras	49.6
Zambia	48.9
Belarus	48.1
Armenia	46.3
Russia	46.1
Benin	45.2
Nicaragua	45.2
Moldova	45

Sources: World Bank
Hernando de Soto

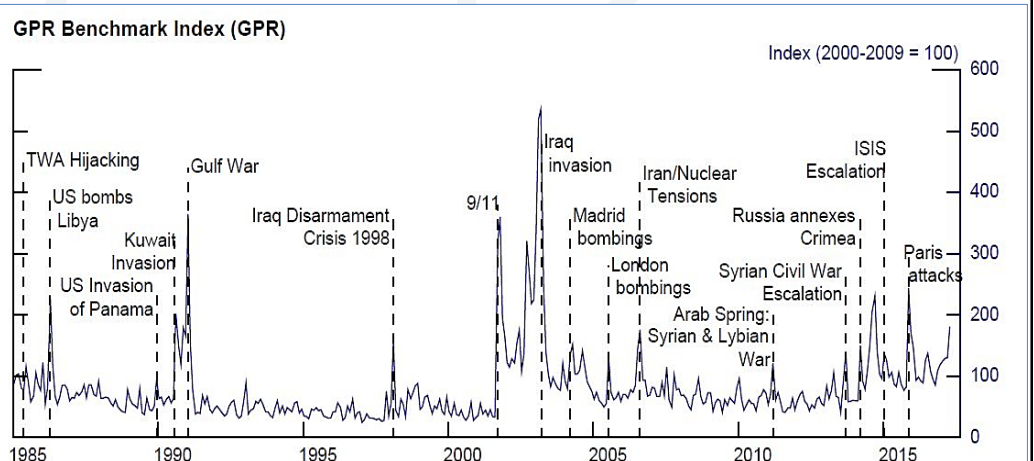
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THE GEOPOLITICAL RISK INDEX

MONTHLY INDEX OF GEOPOLITICAL RISK COUNTING THE OCCURRENCE OF WORDS RELATED TO GEOPOLITICAL TENSIONS IN 11 LEADING INTERNATIONAL NEWSPAPERS. THE INDEX IS NORMALIZED TO AVERAGE A VALUE OF 100 IN THE 2000-2009 DECADE.

KEY INPUTS = GEOPOLITICAL RISK, MILITARY-RELATED TENSIONS, NUCLEAR TENSIONS. WAR THREATS AND TERRORIST THREATS, TERRORIST ACTS OR THE BEGINNING OF A WAR.

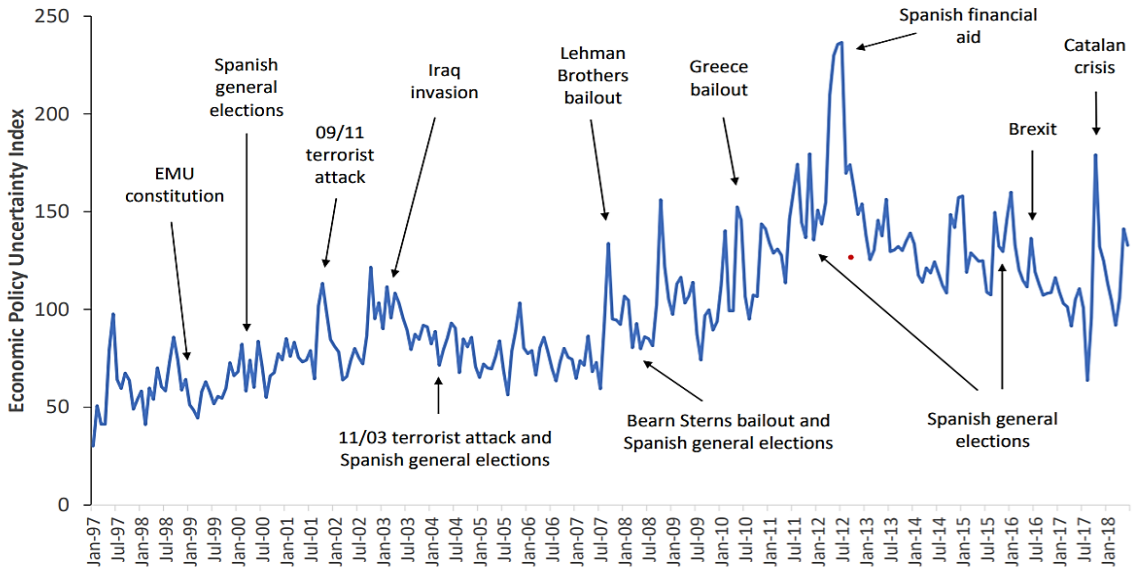


Source: Caldara and Iacoviello (US Federal Reserve Board)

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MEASURING SOCIO-POLITICAL UNCERTAINTY 1997-2021

EPU INDEX FOR SPAIN



EPU index for Spain developed by Corinna Ghirelli, Javier J. Pérez and Alberto Urtasun.

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GLOBAL PEACE INDEX: INSTITUTE FOR ECONOMICS AND PEACE

RANK	COUNTRY	SCORE	CHANGE	RANK	COUNTRY	SCORE	CHANGE	RANK	COUNTRY	SCORE	CHANGE
1	Iceland	1.1	↔	29	Qatar	1.605	↑ 2	57	South Korea	1.877	↓ 12
2	New Zealand	1.253	↑ 1	30	Estonia	1.612	↔	58	Tanzania	1.892	↓ 9
3	Denmark	1.256	↑ 2	31	Spain	1.621	↑ 1	= 59	Malawi	1.909	↑ 6
4	Portugal	1.267	↓ 2	32	Italy	1.652	↓ 3	= 59	Moldova	1.909	↑ 4
5	Slovenia	1.315	↑ 5	33	United Kingdom	1.658	↑ 6	61	Cyprus	1.912	↓ 3
6	Austria	1.317	↓ 2	34	Taiwan	1.662	↔	62	Equatorial Guinea	1.915	↓ 9
7	Switzerland	1.323	↑ 2	35	Latvia	1.686	↔	63	Jordan	1.916	↑ 4
8	Ireland	1.326	↑ 3	36	Kuwait	1.688	↔	64	Panama	1.919	↓ 3
9	Czech Republic	1.329	↓ 1	37	Lithuania	1.689	↓ 6	65	Namibia	1.927	↓ 5
10	Canada	1.33	↓ 3	38	Ghana	1.715	↑ 2	66	Greece	1.932	↓ 10
11	Singapore	1.347	↓ 5	39	Costa Rica	1.735	↓ 1	67	Kazakhstan	1.936	↑ 1
12	Japan	1.373	↔	40	North Macedonia	1.744	↑ 11	68	Argentina	1.945	↑ 3
13	Finland	1.402	↔	41	Botswana	1.753	↑ 2	69	Eswatini	1.955	↑ 12
14	Norway	1.438	↑ 1	= 42	Indonesia	1.783	↑ 2	70	Madagascar	1.963	↔
15	Sweden	1.46	↔	= 42	Mongolia	1.783	↓ 1	71	Zambia	1.964	↓ 24
16	Australia	1.47	↓ 2	44	Serbia	1.797	↓ 3	72	Bosnia and Herzegovina	1.97	↑ 2
= 17	Croatia	1.48	↑ 6	45	Laos	1.809	↑ 3	73	Oman	1.982	↑ 2
= 17	Germany	1.48	↑ 1	46	Sierra Leone	1.813	↑ 10	74	Jamaica	1.992	↓ 1
19	Hungary	1.494	↑ 3	47	Uruguay	1.817	↓ 10	75	Paraguay	1.997	↑ 7
20	Belgium	1.496	↓ 3	48	Albania	1.824	↓ 2	= 76	Kyrgyz Republic	1.998	↑ 20
21	Netherlands	1.506	↓ 2	49	Chile	1.831	↑ 1	= 76	Liberia	1.998	↓ 17
22	Bhutan	1.51	↓ 2	50	Vietnam	1.835	↑ 19	78	Cambodia	2.006	↓ 7
23	Malaysia	1.515	↑ 1	51	Montenegro	1.847	↑ 3	79	Morocco	2.015	↑ 9
24	Poland	1.524	↑ 9	52	United Arab Emirates	1.848	↑ 12	= 80	Angola	2.017	↑ 7
25	Romania	1.53	↓ 4	53	The Gambia	1.853	↑ 13	= 80	Kosovo	2.017	↔
26	Slovakia	1.557	↔	54	Senegal	1.864	↑ 1	82	Dominican Republic	2.024	↓ 5
27	Bulgaria	1.577	↑ 1	55	France	1.868	↑ 7	83	Rwanda	2.028	↓ 4
28	Mauritius	1.592	↓ 3	56	Timor-Leste	1.873	↓ 4				

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HOW SHADOW STATES THREATEN DEMOCRACIES

Shadow states? Subterranean process that often accompanies Democracy Capture = network of unelected individuals that collude with senior politicians to shape policy in their own interests and block opposition parties from taking power, hence a parallel form of governance.

The façade of the formal or constitutional state is maintained to legitimate the system but real power lies “elsewhere”.

- Congo
- Congo-Kinshasa
- Togo
- Cuba?
- Gabon
- Tanzania
- Venezuela

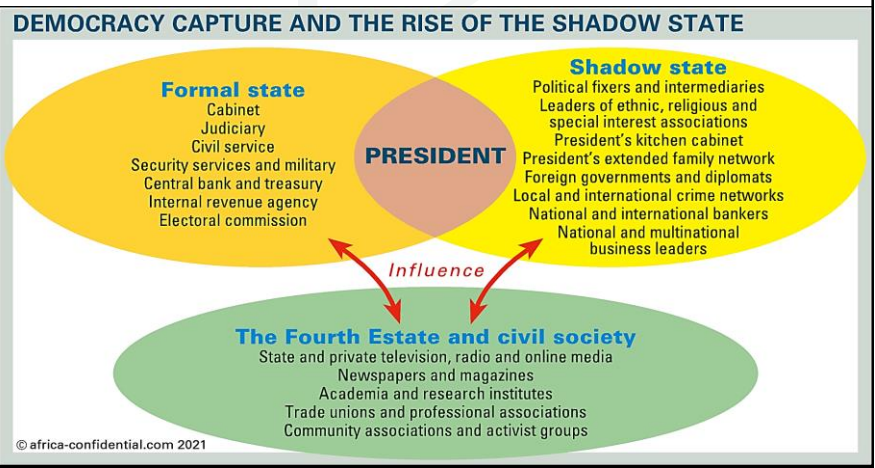
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HOW SHADOW STATES THREATEN DEMOCRACIES: POLITICAL LEADERS ARE SUBVERTING CONSTITUTIONAL RULES AND HANDING POWER TO BUSINESS CRONIES

Democracy capture: process through which the ruling party uses its influence to take over – or at least compromise – checks and balances. This is the classic form of democratic decline = illiberal democracies, elective dictatorships or 'no-party' politics: African political systems are being subverted to respond to a narrow set of private interests rather than the public will.

- Uganda
- Zimbabwe
- Benin
- Ivory Coast
- Senegal
- Zambia
- South Africa under Zouma
- South Africa under Ramaphosa



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POLITICAL RISK MAP 2022 BY MARSH



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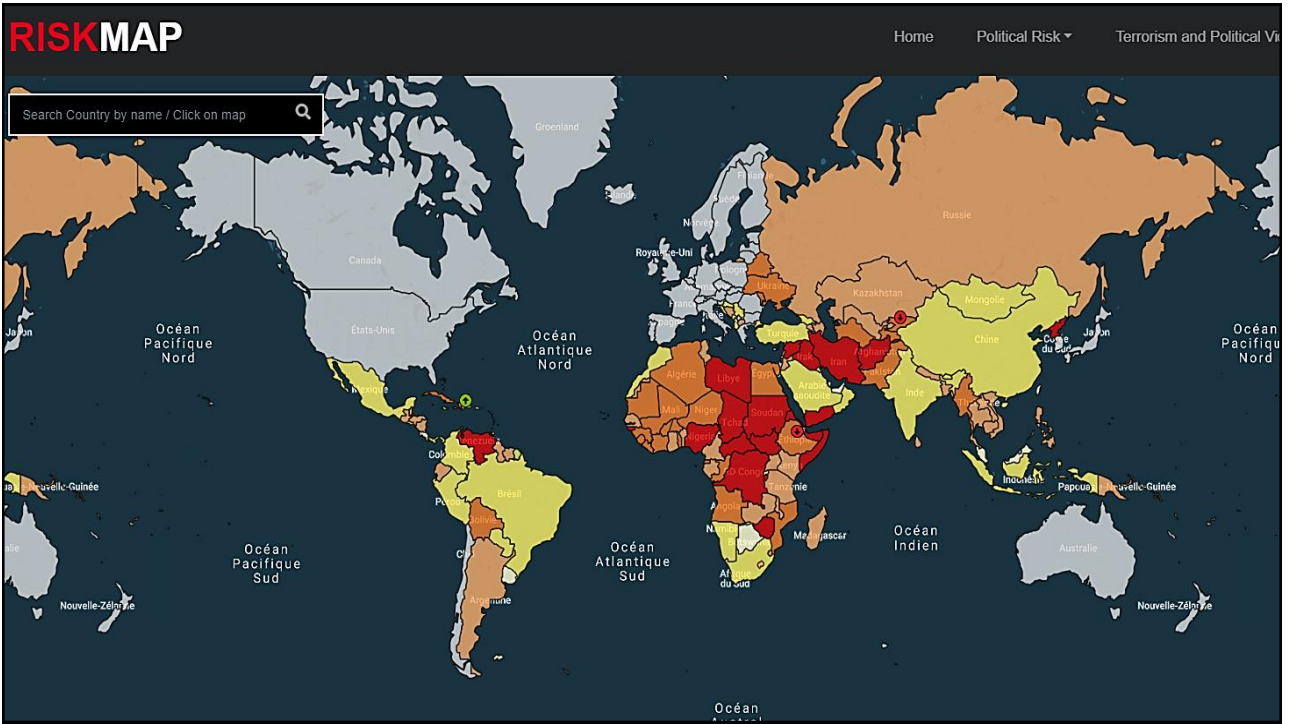
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AON POLITICAL RISK MAP

- ▶ **The Aon Political Risk Map measures political risk in 163 locations and territories.**
- ▶ **Risk ratings are standardized across each location, on a six-point scale ranging from low to very high, with all risks updated once per quarter.**
- ▶ **EU and OECD countries are not rated in the map!!**
- ▶ **Political risk is calculated as a simple average of six core risk measures :**
 - 1. • Political Violence**
 - 2. • Exchange Transfer**
 - 3. • Sovereign Non-Payment**
 - 4. • Political Interference**
 - 5. • Supply Chain Disruption**
 - 6. • Legal & Regulatory**

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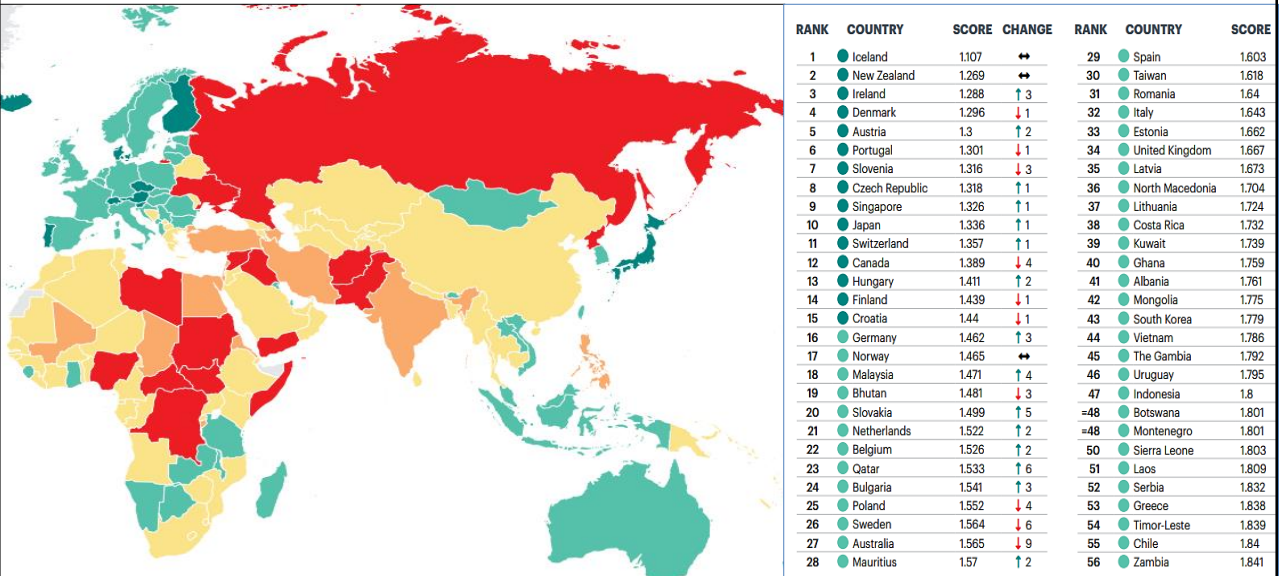


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GLOBAL PEACE AND SECURITY INDEX INSTITUTE FOR ECONOMICS AND PEACE (IEP)

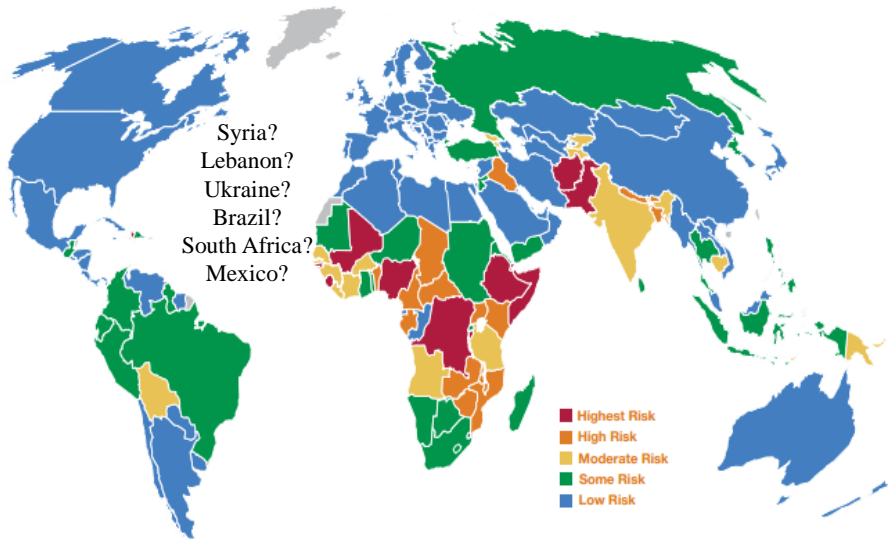


http://www.visionofhumanity.org/sites/default/files/Global%20Peace%20Index%20Report%202016_0.pdf
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BLINDNESS? RISK OF FUTURE POLITICAL CRISIS 2010-12
SOURCE: UNIVERSITY OF MARYLAND CENTER FOR CONFLICT MANAGEMENT

Figure 2.1 Risk of Future Instability, 2010-2012

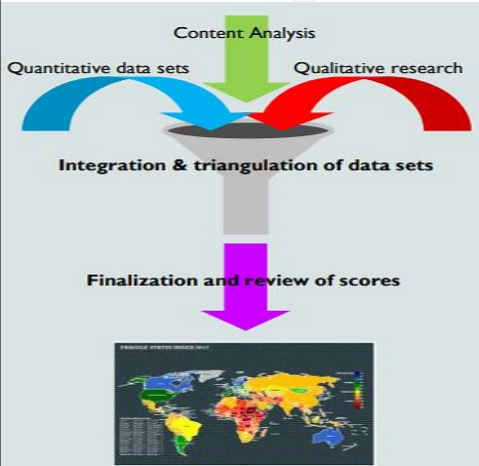


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THE METHODOLOGY BEHIND THE FRAGILE STATES INDEX

The Fragile States Index (Fund for Peace) = critical tool in highlighting not only the **normal pressures** that all states experience, but also in identifying when those pressures are outweighing a states' **capacity to manage** those pressures.



Annual ranking for 178 countries with 12 political, economic and social indicators and >100 sub-indicators, coupled with qualitative analysis and expert validation:
 Economic decline, uneven development, brain drain, state legitimacy, public services, human rights, demographic pressures, refugees, external intervention, rule of law...

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KEY FEATURES OF FAILED AND FRAGILE STATES

	n/178	Index TI/180	UNDP/188	Index **	WEF 140	KF/GDP%	human flight **	%	% (3 year av.)	
Weak States	Ranking	Corruption **	HDI **	GINI	Competitiv.	Capital flight	& Brain drain	Unempl.	Invest/GDP	Ext Debt/GDP%
Yemen	1	176	178	38	139	2%	7,3	35	12	30%
Somalia	2	180	188	39	139	1%	9,5	6	10	75%
Syria	4	178	155	36	130	3%	8,4	50	10	16%
Congo DR	5	165	176	49	135	39%	7	15	12	20%
CAR	6	149	188	44	139	4%	7,1	7	13	36%
Chad	7	165	186	43,3	140	2%	8,5	6	16	27%
South Sudan	8	178	187	35	139	1%	6,5	15	11	111%
Zimbabwe	10	160	156	43	128	5%	7,6	10	12	77%
Haiti	12	161	168	61	138	3%	8,4	15	25	30%
Nigeria	14	144	157	49	115	3%	6,9	23	15	70%
Uganda	20	149	162	42	117	3%	7,3	5	24	40%
Pakistan	23	117	150	33,5	107	1%	6,8	6	16	31%
Libya	28	170	108	42	130	22%	6,3	20	15	20%
Côte d'Ivoire	29	105	170	42	114	2%	7,3	5	16	37%
Venezuela	32	168	78	40	127	23%	6,1	35	14	33%
Angola	35	165	147	43	137	11%	6,9	9	24	57%
Lebanon	44	138	80	32	80	17%	5,6	9	20	200%
Tunisia	95	73	95	40	87	5%	5,9	16	21	90%
Peru	99	105	89	44	63	5%	7,1	10	21	35%

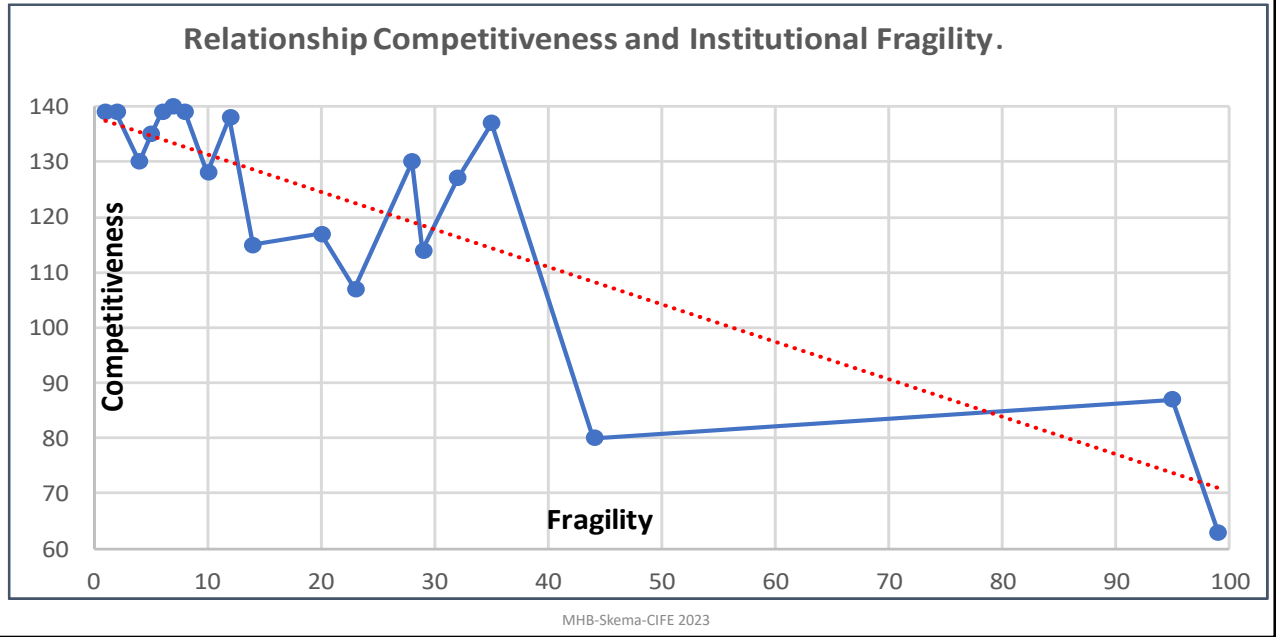
* Nonbank private deposits in international banks/BIS A6-1

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** the higher, the worse

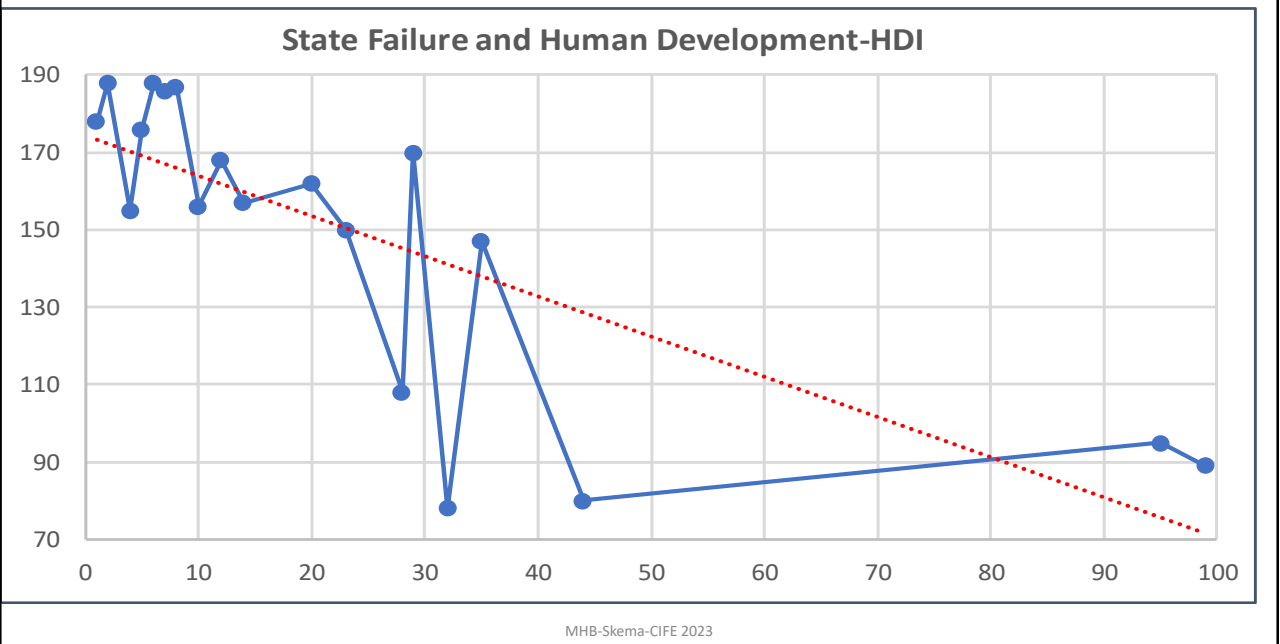
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INSTITUTIONAL FRAGILITY AND COMPETITIVENESS (WEF)



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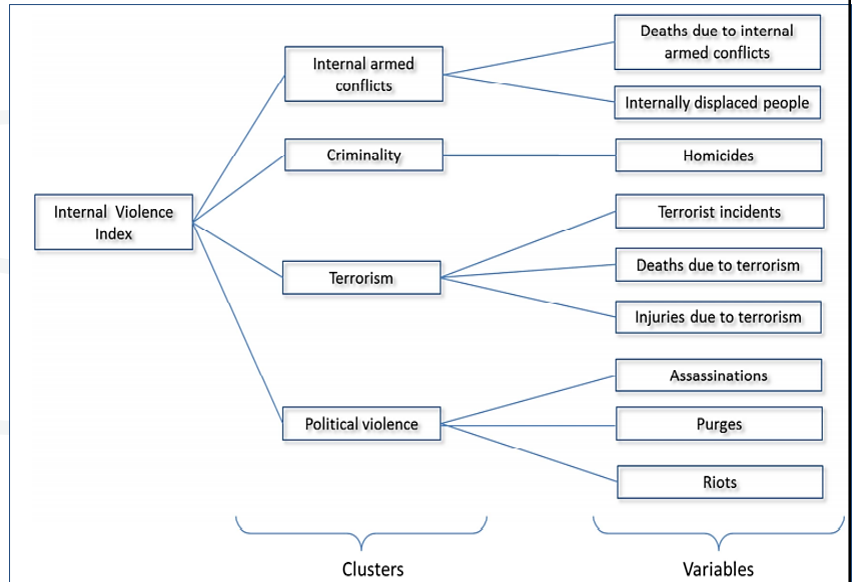
INSTITUTIONAL FRAGILITY AND HUMAN DEVELOPMENT (UNDP)



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THE INTERNAL VIOLENCE INDEX

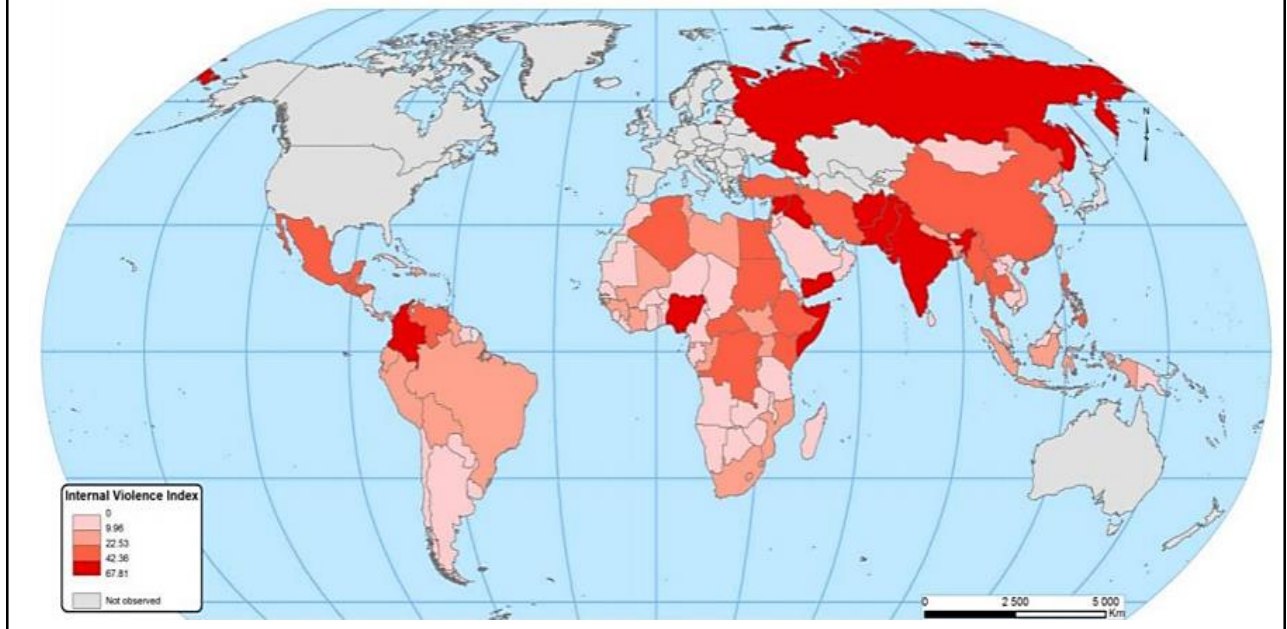
The composite index measures a narrow concept of fragility for 130 developing countries through their level of violence in its many different forms: internal armed conflicts, criminality, terrorism, and political violence: Iraq, Pakistan, Afghanistan, Yemen, Syria, and Nigeria.




MHB-Skema-CIFE 2023 SOURCE: FERDI April 2016: Feindouno / Goujon /Wagner

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THE INTERNAL VIOLENCE INDEX



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BETTER OFF IN TUNISIA OR IN ALGERIA ?




TUNISIA	ALGERIA
<ul style="list-style-type: none"> ▶ GDP Per capita = \$10500 ▶ HDI= 97 ▶ Life expectancy f = 77 ▶ Infant mortality= 13/1000 ▶ Gender inequality: 0,28 ▶ Doing Business= 78 ▶ Corruption = 75 ▶ Peace Index= 85 	<ul style="list-style-type: none"> ▶ GDP Per capita=13500 ▶ HDI= 83 ▶ Life expectancy= 75 ▶ Infant mortality= 22/1000 ▶ Gender inequality: 0,43 ▶ Doing Business= 157 ▶ Corruption = 108 ▶ Peace Index= 109/163
Peace Index Vietnam= 44	Peace Index Brazil= 130

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Redefining for a better future.

ESKOM CASE STUDY



Mr Mpho Makwana - Chairperson



André de Ruyter - Group Chief Executive

We are currently **LOAD SHEDDING** in **STAGE 5** in some areas due to high demand or urgent maintenance being performed at certain power stations

Power Alert: 06 March 2023

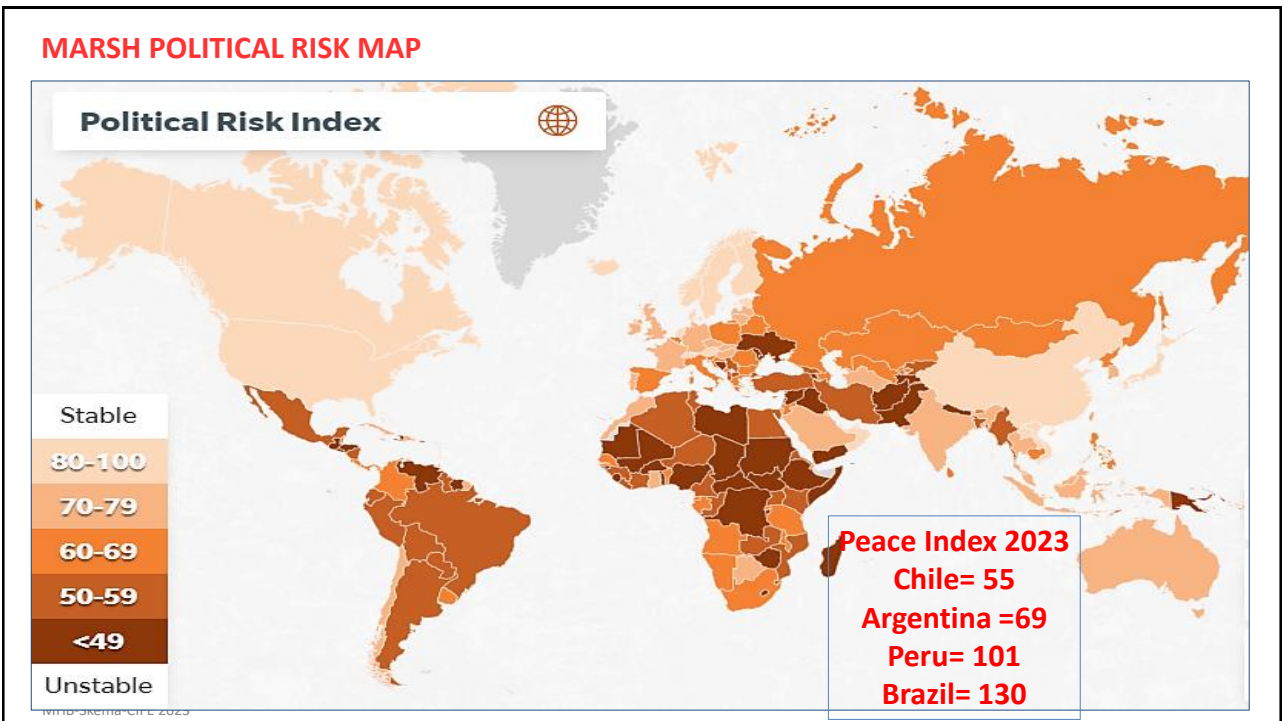
<https://emalm.com/?v=blWrt>

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