



SKEMA BUSINESS SCHOOL
Political Risk Analysis
-II-
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- ▶ *Political risk analysis is both an art and a science but many types of risk are amenable to rigorous analysis:*
- ▶ *How resilient is the political system? Is there a tradition of peaceful transitions of power? How robust are the social shock absorbers that provide buffers between individual citizens and governments?*




Harvard Business School Review, 2002

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TECHNIQUES TO ASSESS POLITICAL RISK

1. Economic intelligence: in-depth socio-political analysis
2. Checklist approach
To examine key political factors that affect a country's risk: the **Prince Model**
3. Delphi technique
 - establish surveys
 - collect information and independent opinions
 - analyze results and make predictions
4. Ratings
5. Consultants on political risks

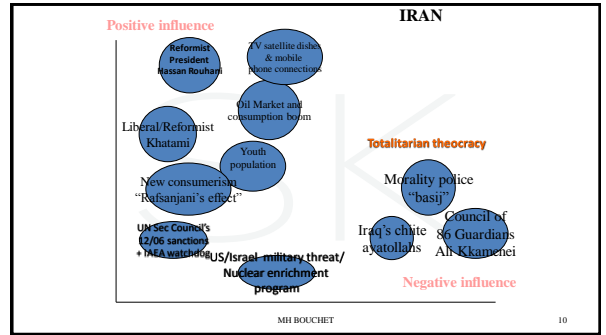
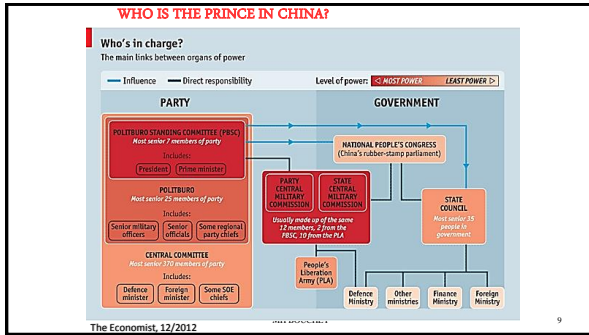


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**1. INFORMATION SOURCES ON POLITICAL RISK:
KEY ROLE OF ECONOMIC INTELLIGENCE**

<ul style="list-style-type: none"> ▶ MIG (UK) ▶ HISCOX ▶ PLATUS ▶ AON ▶ Global Risk Assessments <ul style="list-style-type: none"> ▶ EIU ▶ COFACE, OPIC & MIGA, EULER ▶ Howell International ▶ Control Risks Group: www.crg.com ▶ WMRC 	<ul style="list-style-type: none"> ▶ Frost & Sullivan ▶ US State Department + US CIA ▶ Marsh Crisis Consulting ▶ University of Maryland Center for Conflict Management ▶ Muir Analytics (Threat Watch, Threat Report, Threat Survey) ▶ NYA International
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4. QUANTIFYING COUNTRY RISK

► Ratings and Rankings:

- Can one boil things down to numerical indices, when dealing with culture, politics, and ethnic tensions?
- **Problem of "usability" of rankings: number fetishism leads astray by focusing on statistical Delphi-based analyses that are often subjectively biased, misleading and overly narrow. Lack of insight and qualitative research?** (www.useit.com Jakob Nielsen's website)

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QUANTIFYING COUNTRY POLITICAL RISK

The flowchart shows that the Overall Country Risk Rating is composed of 25% Political Risk Rating, 10% Spill-over Risk Rating, and 65% Transfer Risk Rating.

Political Factors		Weights
Political factor A		30%
Political factor B		50%
Political factor C		20%

Regional factors		
Financial Factors		Weights
Financial factor A		30%
Financial factor B		40%
Financial factor C		30%

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POLITICAL RISK INDICES

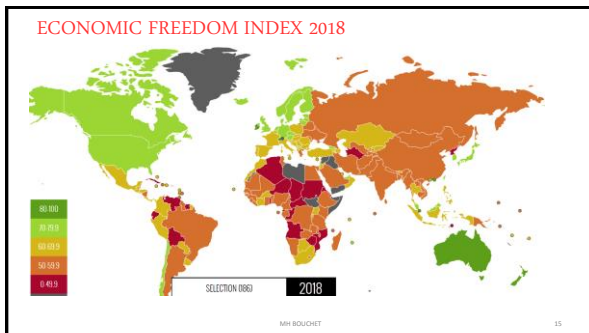
- ▶ Heritage Foundation
- ▶ Freedom House
- ▶ Cato Institute
- ▶ Transparency International CPI
- ▶ PWCs: Opacity Index
- ▶ LB: Legsi
- ▶ Asiarisk
- ▶ Marsh
- ▶ World Bank (Governance)
- ▶ Euromoney (25%)
- ▶ Institutional Investor
- ▶ IMD
- ▶ ICRG-PRS
- ▶ MIG
- ▶ WMRC
- ▶ University of Maryland
- ▶ Ibrahim Index of Governance

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CROSS-COUNTRY POLITICAL RISK MEASURE BY ICRG

Weights	ICRG's Political Risk Assessment Criteria
12	Government Stability
12	Socio-Economic conditions
12	Investment Profile
12	Internal Conflict
12	External Conflict
6	Corruption
6	Military in Politics
6	Religious Tensions
6	Law and Order
6	Ethnic Tensions
6	Democratic Accountability
4	Bureaucratic Quality
100	Total number of points for weighted influence

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THE HERITAGE FOUNDATION: ECONOMIC FREEDOM INDEX 2018

Q.3. How do you measure economic freedom?

We measure economic freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:

1. Rule of Law (property rights, government integrity, judicial effectiveness)
2. Government Size (government spending, tax burden, fiscal health)
3. Regulatory Efficiency (business freedom, labor freedom, monetary freedom)
4. Open Markets (trade freedom, investment freedom, financial freedom)

Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight being given to each. More information on the grading and methodology can be found in the appendix.


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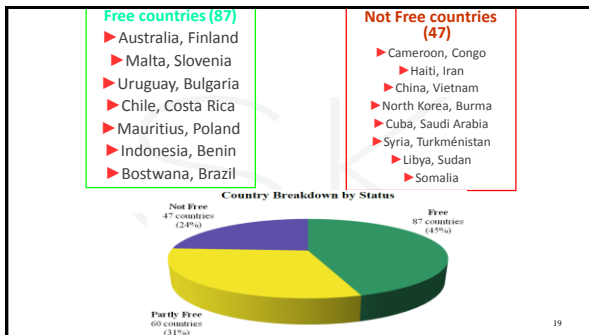
INDEX OF ECONOMIC FREEDOM 2018

Top 10 Countries			REPRESSED (49.9-40)		
RANK	COUNTRY	OVERALL CHANGE	RANK	COUNTRY	OVERALL CHANGE
1	Hong Kong	90.2 0.4 ▲	160	Niger	49.5 -1.3 ▼
2	Singapore	88.8 0.2 ▲	161	Sudan	49.4 +0.6 ▲
3	New Zealand	84.2 0.5 ▲	162	Chad	49.3 +0.3 ▲
4	Switzerland	81.7 0.2 ▲	163	Central African Republic	49.2 -2.6 ▼
5	Australia	80.9 -0.1 ▼	164	Angola	48.6 +0.1 ▲
6	Ireland	80.4 3.7 ▲	165	Ecuador	48.5 -0.8 ▼
7	Estonia	78.8 -0.3 ▼	166	Suriname	48.1 +0.1 ▲
8	United Kingdom	78.0 1.6 ▲	167	Timor-Leste	48.1 +1.8 ▲
9	Canada	77.7 -0.8 ▼	168	Togo	47.8 -5.4 ▼
10	United Arab Emirates	77.6 0.7 ▲	169	Turkmenistan	47.1 -0.3 ▼
			170	Mozambique	46.3 -3.6 ▼
			171	Djibouti	45.1 -1.6 ▼
			172	Algeria	44.7 -1.8 ▼
			173	Bolivia	44.1 -3.6 ▼
			174	Zimbabwe	44.0 0.0 —
			175	Equatorial Guinea	42.0 -3.0 ▼
			176	Eritrea	41.7 -0.5 ▼
			177	Republic of Congo	38.9 -1.1 ▼
			178	Cuba	31.9 -2.0 ▼
			179	Venezuela	25.2 -1.8 ▼
			180	North Korea	5.8 +0.9 ▲

FREEDOM HOUSE:
FREEDOM IN THE WORLD ANNUAL REPORT (1972-2015)

- ▶ 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>

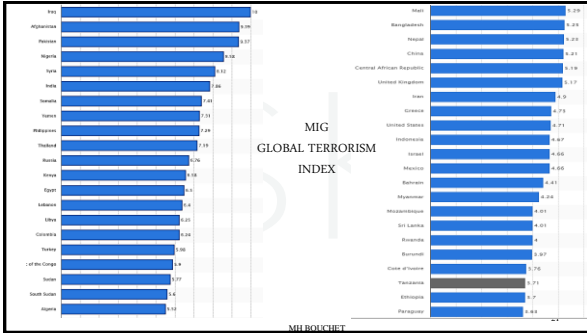




MERCHANT INTERNATIONAL GROUP

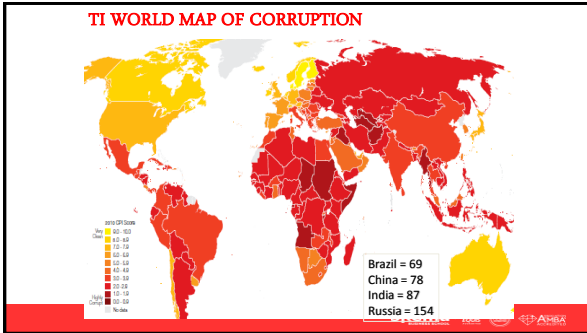
- ▶ Founded in 1982, it specializes in strategic research and corporate intelligence, focusing on risks and threats that confront companies worldwide.
- ▶ MIG operates in over 100 countries.
- ▶ www.merchantinternational.com





POLITICAL TURMOIL AND CORRUPTION

In 2018, public anger and legal action over corruption have toppled political leaders in Malaysia, Peru, Slovakia, South Africa, and other countries. More than 10 percent of nations around the world have experienced corruption-fueled political change in the last five years (Carnegie, 2018). In many countries, corruption has fueled terrorist recruitment and sparked violent insurgencies. The World Bank estimates \$1.5 trillion in bribes are paid every year, squandering business capital and stymying development.

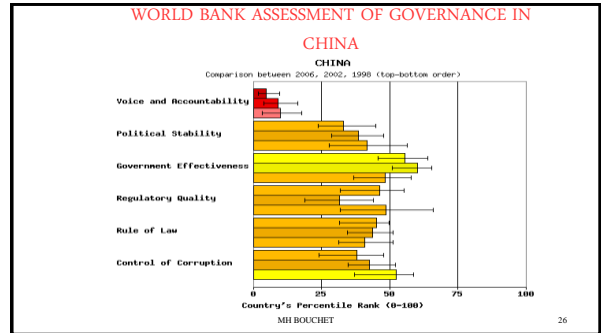


MEASURING CORRUPTION?
TRANSPARENCY INTERNATIONAL CPI

1	New Zealand	162	Guinea-Bissau
2	Denmark	162	Kyrgyzstan
3	Singapore	162	Venezuela
3	Sweden	168	Burundi
5	Switzerland	168	Equatorial Guinea
6	Finland	168	Guinea
6	Netherlands	168	Haiti
8	Australia	168	Iran
8	Canada	168	Turkmenistan
8	Iceland	174	Uzbekistan
11	Norway	175	Chad
12	Hong Kong	176	Iraq
12	Luxembourg	176	Sudan
14	Germany	178	Myanmar
14	Ireland	179	Afghanistan
16	Austria	180	Somalia

France = 22
Brazil = 72
China = 80
India = 94
Russia = 133

STOP CORRUPTION



IBRAHIM INDEX OF GOVERNANCE IN AFRICA

The Index groups governance and political freedom indicators into four main categories:

1. Safety and Rule of Law,
2. Participation and Human Rights,
3. Sustainable Economic Opportunity,
4. and Human Development.

Source: <http://www.mohammedibrahimfoundation.org/en/section/the-ibrahim-index>

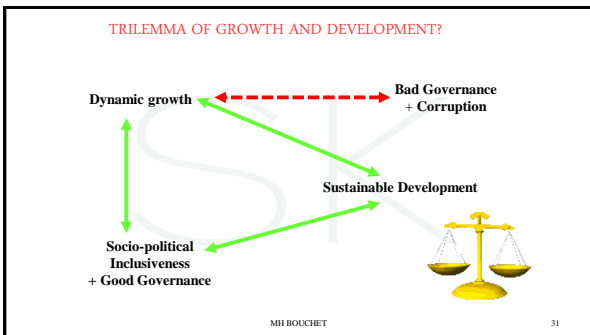
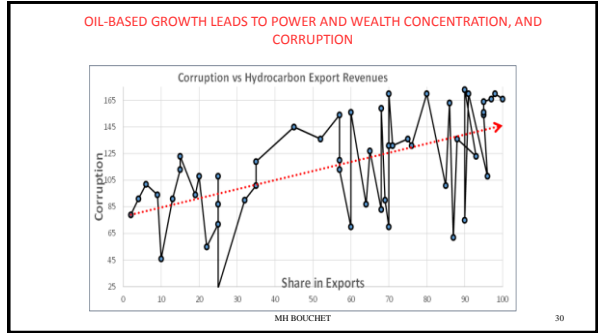
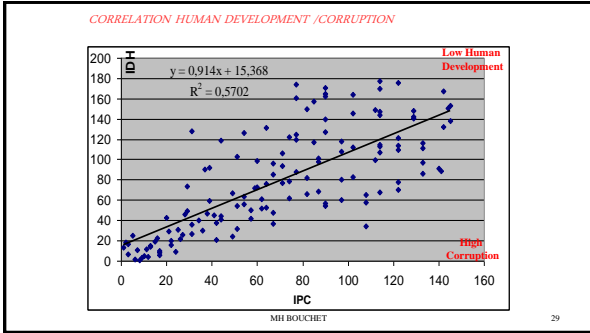
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IBRAHIM INDEX OF GOOD GOVERNANCE IN AFRICA

1 Mauritius	83.0	19 Mali	52.9	37 Nigeria	43.3
2 Seychelles	78.5	20 Mozambique	52.1	38 Liberia	43.2
3 Botswana	75.9	21 Burkina Faso	51.9	39 Togo	42.6
4 Cape Verde	75.5	22 Malawi	51.7	40 Niger	42.3
5 South Africa	71.5	23 Libya	51.5	41 Congo	42.0
6 Namibia	67.3	24 Uganda	50.8	42 Angola	39.3
7 Ghana	64.4	25 Swaziland	50.8	43 Guinea-Bissau	39.1
8 Tunisia	62.1	26 Kenya	50.5	44 Côte d'Ivoire	36.8
9 Egypt	60.5	27 Gabon	50.1	45 Guinea	35.6
10 Lesotho	60.1	28 Madagascar	48.7	46 Equatorial Guinea	34.7
11 São Tomé and Príncipe	58.2	29 Comoros	48.5	47 Sudan	33.9
12 Benin	56.6	30 Djibouti	48.5	48 Central African Republic	32.7
13 Morocco	56.6	31 Rwanda	47.2	49 Zimbabwe	32.7
14 Senegal	56.3	32 Sierra Leone	46.0	50 Eritrea	31.8
15 Algeria	55.2	33 Burundi	44.7	51 Congo, Democratic Rep.	31.1
16 Tanzania	55.0	34 Cameroon	44.3	52 Chad	28.8
17 Zambia	54.9	35 Ethiopia	43.5	53 Somalia	7.9
18 Gambia	53.0	36 Mauritania	43.4		

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DEVELOPMENT = ECONOMIC GROWTH + KEY CONDITIONS THAT MAKE IT SUSTAINABLE!

	CHILE	COSTA RICA	RUSSIA	GABON
GDP/per capita	\$15,000	\$11,000	\$15,000	\$14,000
Life Expectancy	79	80	67	61
HDI Rank	40	62	55	106

	ARMENIA	SRI LANKA	CONGO	ANGOLA
GDP per capita	\$5000	\$5000	\$5000	\$5000
Life expectancy	74	75	57	51
HDI Rank	87	97	142	148

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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 ▶ Gender inequality: 0,28 ▶ Doing Business= 77 ▶ Corruption = 75 	<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= 156 ▶ Corruption = 108

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A FEW FACTS REGARDING DEMOCRACY AND DEVELOPMENT

1. Political regimes have **little** impact on **GDP growth rate**
2. **GDP per capita growth does breed democracy**
3. Economic growth provides legitimacy to dictatorships (while increasing demand for political change)
4. **Per capita income grows faster under democracy** (due to human capital and because population rises less fast than under dictatorships)
5. Growth is influenced less by the type of regime than by regime instability: **Democracy provides a stable political environment, hence a positive impact on sustainable growth!**

Since 1980, of the 124 EMCs that have managed to sustain a 5% growth rate for a full decade, 52 % were democracies. What matters is not the implementation of key reforms for growth and development.

Feng, Y. Cambridge, 1997- Przeworski, A/ NYU- Ruchir Sharma 09/2012 34

HOW MOVING FROM GROWTH TO SUSTAINABLE AND INCLUSIVE DEVELOPMENT?

Assumption n°1	Assumption n°2
<ul style="list-style-type: none"> ▶ Primacy of human capital for both growth and democratization: human and social capital shape both institutional and productive capacities of a society. ▶ Growth in income and human capital causes institutional improvement with better political institutions even with pro-market dictators: policy choices matter while institutional quality rises as a country grows richer. ▶ Economic growth and human capital accumulation cause institutional improvement, rather than the other way around 	<ul style="list-style-type: none"> ▶ Democracy and other checks on government are the key mechanisms for securing property rights and boosting growth ▶ Good and stable institutions will enhance the pace and quality of economic growth ▶ Robust institutions and good governance matter!

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