



Political Risk Analysis & COUNTRY RISK

Sept-Dec 2013

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Objectives

- ☞ **Defining** political risk
- ☞ Explaining the various features of political risk, i.e., social, cultural, ethnic, military, historical, linguistic...
- ☞ Identifying common factors and indicators used to **measure** a country's political risk
- ☞ Explaining the techniques used to **assess** political risk volatility
- ☞ Assessing the ways and means to **hedge and reduce** exposure to political risk

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Why does **political risk analysis** matter so much?

- ☞ « *During the 1995 Mexico abrupt crisis, reality struck. **Politics**, ignored by money managers, overwhelmed economic considerations. Today investors taking a second shot at higher returns in EMCs would be wise to hire a few **political risk analysts!*** » Business Week 2006
- ☞ *Over the past two years, the **risks of instability and conflict** have increased significantly in the regions of the world where the dangers were already very high!* » Univ of Maryland Center for Conflict Management, 2011-12
- ☞ April 2012: Argentine President Cristina Fernandez de Kirchner took a 51% controlling interest in YPF-- partly owned by REPSOL. This action effectively nationalizes the company, claiming that YPF was not investing enough money in oil and gas development in Argentina.

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Political risk analysis: Why?

- The globalized economy is “hazardous”: no sanctuary!
- Financial institutions and MNCs have engaged in a wholesale reassessment and repricing of cross-border risk. Sharp downturn in the perceived safety of overseas investment.
- Research and surveys suggest that bribery is on the increase: companies are likely to encounter bribery in 66 out of 99 countries surveyed by Wharton School.
- Governance & corruption become key inputs in creditworthiness evaluation and investment decision

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Country Risk Assessment and International Strategy in the Global Economy

☞ *A reminder: What is country risk?*

Country Risk is the possibility that a foreign country may be unable or unwilling to fulfill its obligations towards a foreign lender and/or investor, or exporter.

Country risk is composed of a complex combination of socio-political, economic, financial, and systemic risk.

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Main components of country risk

☞ **Political risk**

- ☞ Economic risk
- ☞ Financial and transfer risk
- ☞ Exchange risk
- ☞ Cultural environment risk
- ☞ Legal and contractual risk (overall environment framework)
- ☞ Regional contamination risk (spill-over effect)
- ☞ Systemic risk (global crisis)



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Political risk... anticipating volatility and turmoil

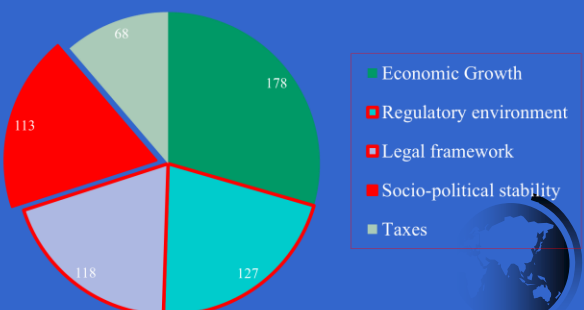
- ☞ Cuban marxist revolution in 1959: US firms lost > 1.5 billion in assets
- ☞ To diversify its activities, US Continental Foods in 1976 picked up San Salvador, two years before political turmoil and guerilla led to the seizure of 120 employees as hostages!
- ☞ 1970 leftist revolution in Chile (Braden and Kenecott, in copper sector)
- ☞ 1979 Islamic revolution in Iran overthrew the Shah: US firms lost > 1 billion \$
- ☞ Ivory Coast in 2002-2011
- ☞ Coup d'Etat in Thailand and wave of terrorist attacks in the Muslim-majority south since 2007
- ☞ 02/2007: Morales threatened to throw Shell out of Bolivia
- ☞ 2008-09: Latin America: Alliance Evo Morales in Bolivia, Chavez in Venezuela, Correa in Ecuador, Ortega in Nicaragua
- ☞ Maghreb: 2010-2013
- ☞ 2010-2013 = turmoil in Iran, Iraq, Venezuela, Tunisia, Egypt, Argentina, Zimbabwe, Pakistan, Lebanon, Palestine,... and in NY, Madrid and Milan!

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The Banker Global Risk Asset Management Survey

Risk criteria



Source: FT October 22, 2012

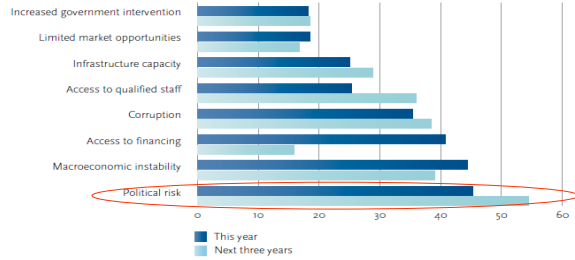
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MIGA: The key challenge of political risk

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.

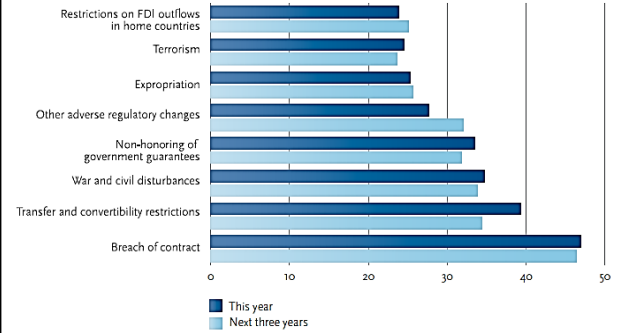
Note: Percentages add up to more than 100 percent due to multiple selections.

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MIGA: Types of political risk of higher concern to MNCs in EMCs

Percent of respondents

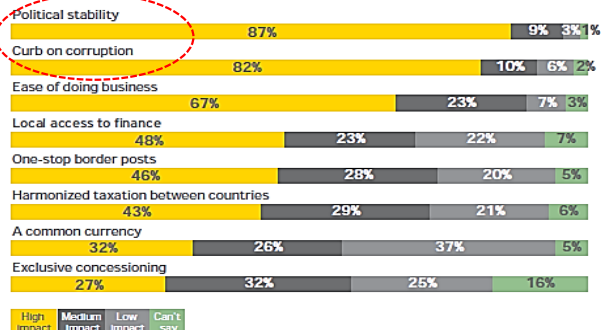


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Boosting FDI in Africa?

What impact would the following changes have on Africa attractiveness?



Source: Ernst & Young's 2012 Africa attractiveness survey. Total respondents: 505.

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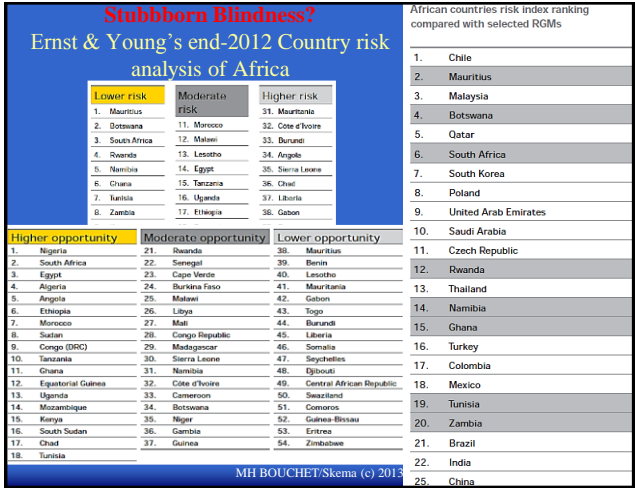
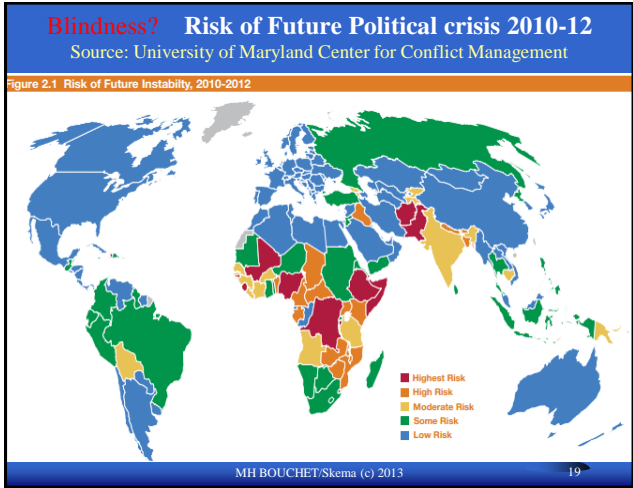
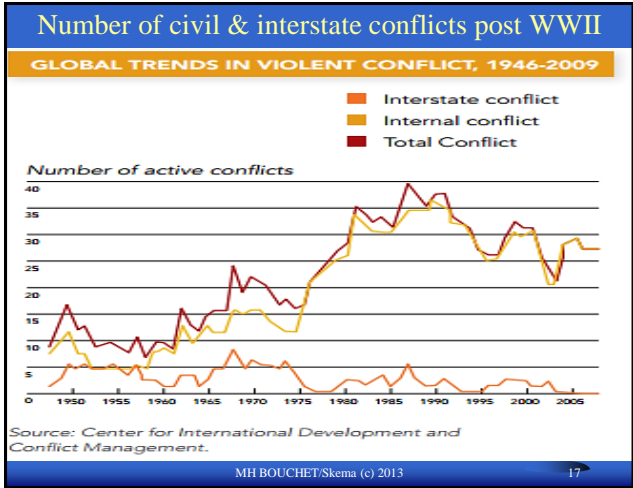
Political Risk: Complex and Costly



- According to a worldwide survey of 7500 MNCs by MIG (Merchant International Group), MNCs have lost more than \$22 billion in "non-conventional risks" every year since 1998.
- Over the last three years, 84% of cross-border operations have not met their financial targets, including 26% that simply failed.
- Over the last eight years, worldwide kidnaps for ransom have risen by 70%, reports Hiscox.
- Reasons: corruption, bureaucracy, local customs, martial law, political upheaval, terrorism...

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Political Risk Assessment in the Global Firm

- ☞ **Origins?** Political risk stems from the overall uncertainty related to the exercise of power by a foreign government and its ramifications, as well as by non-governmental actors in the country.
- ☞ **Impact?** Arbitrary political decisions, conditions, and events in a country will affect the business climate in such a way that investors, exporters or creditors will confront losses.

Where does Political Risk come from?

- ☞ Terrorism
- ☞ Ethnic/linguistic fragmentation
- ☞ Gap between socio-economic and political/institutional evolution
- ☞ Cultural fragmentation (riots, upheaval, government crises, corruption)
- ☞ Internal violence and power struggle (martial law, coup d'état, guerrilla warfare...)
- ☞ Rapid pace of urbanization coupled with religious fundamentalism
- ☞ Regional contamination

Three Sources of Political Risk

- ☞ **Direct:** Nationalization, confiscation and expropriation, crime, terrorism and kidnapping, contract repudiation
- ☞ **Indirect:** Civil unrest, martial law, riots, capital and dividend remittance constraints, ineffective legal and regulatory systems, ideological and cultural opposition, contract frustration, blocked funds
- ☞ **Interactive:** Strikes, corruption, bribery, bureaucracy and weak institutions, pressure groups and hostile NGOs



Need for systematic approach to political risk management

Threat materialization:

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

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**

- ☞ MIG (UK)
- ☞ HISCOX
- ☞ AON
- ☞ Global Risk Assessments
- ☞ EIU
- ☞ COFACE, OPIC & MIGA
- ☞ Howell International
- ☞ Control Risks Group:
www.crg.com

- ☞ Frost & Sullivan
- ☞ US State Department + US CIA
- ☞ WMRC
- ☞ Marsh Crisis Consulting
- ☞ University of Maryland Center for Conflict Management

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2. Political Risk Analysis

Mapping out the **power structure** and identifying the roots of political legitimacy:

- ☞ ideological (North Korea)
- ☞ charismatic (Cuba)
- ☞ economic/financial (Brunei)
- ☞ authoritarian populism (Thailand)
- ☞ ethnic (Ivory Coast, Ghana)
- ☞ religious (Iran)
- ☞ military (Burma)
- ☞ patron-client relationships (Togo)

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Ethics & Society: a popular issue since ... 350 B.C



Aristotle: *Human beings should aim at a life in full conformity with the achievement of virtue and ethics*

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Analyzing the process of social change

Aristotle (384-322): *The Nicomachean Ethics*

- Ethics aims to improve our lives, and therefore its principal concern is the nature of human well-being.
- Aristotle takes the virtues to be central to a well-lived life. Like Plato, he regards the ethical virtues (justice, courage, temperance) as complex rational, emotional and social skills.
- Satisfaction of desires and the acquisition of material goods are less important than the achievement of **virtue**.

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Marxist approach to economic development and class struggle



The developing forces of production give rise to increasing conflict with the existing social relations of production, hence class struggle.

The **state** does not represent the interests of 'the people' or a common 'general will'. Nor is it a force which stands above or beyond the clash of class interests.

The state is essentially an instrument of class rule. The state in capitalist society is a bourgeois state: it is nothing but 'a committee for managing the common affairs of the whole bourgeoisie'.

Capitalism will inevitably lead to increasing class polarisation and class conflict.

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Daniel BELL

- **One of the most important cultural critics of the postwar era** : Sociologist and professor emeritus at Harvard University. Bell was among the original New York Intellectuals, a group of anti-Stalinist left-wing writers. Best known for his contributions to post-industrialism. Masterworks: *The End of Ideology* (1960), *The Cultural Contradictions of Capitalism* (1976) and *The Coming of Post-Industrial Society* (1973)

The post-industrial society:

- Polarization and social tensions between work and consumption pressures: capitalism is inherently **instable**
- Centrality of the new science-based industries
- Rise of new technical elites and the advent of a new principle of stratification

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Ulrich Beck: "World at Risk".

- Modernization challenges the institutions and structures of traditional societies in the name of individual freedom and autonomy. What began to emerge in the late 20th century was a radical shift in the locus of meaning in western societies from a culture where meaning and identity were grounded in loyalty to traditional institutions and structures to one in which meaning and identity are grounded in the self as the primary agent of meaning.
 - The paradox in late modern society is that risk might in fact be increasing due to technology, science and industrialism rather than being abated by scientific and technological progress. This is the **world risk society** full of hazards and insecurities induced by modernization itself:
1. Globalization
 2. Individualization
 3. Gender Revolution
 4. Underemployment
 5. Global risks (ecological crisis and the crash of global financial markets.)

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Ambassador Paul Bremer

(US State Department)

- ☞ 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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Samuel HUNTINGTON



Political order in changing societies
The Clash of Civilization

•<http://markweatherall.wordpress.com/2009/10/12/political-order-in-changing/>

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Where does political turmoil come from?

- ☞ Contrary to the expectations of modernization theory, **violence and instability stem from:**
- 1. **rapid social change**
- 2. mobilization of **new groups into politics**
- 3. **slow development of political institutions.**
- ☞ As societies modernize, they become more complex and disordered. If the process of **socio-economic** modernization is not matched by a process of **political and institutional** modernization with political institutions capable of managing the stress of modernization—the result is violence.

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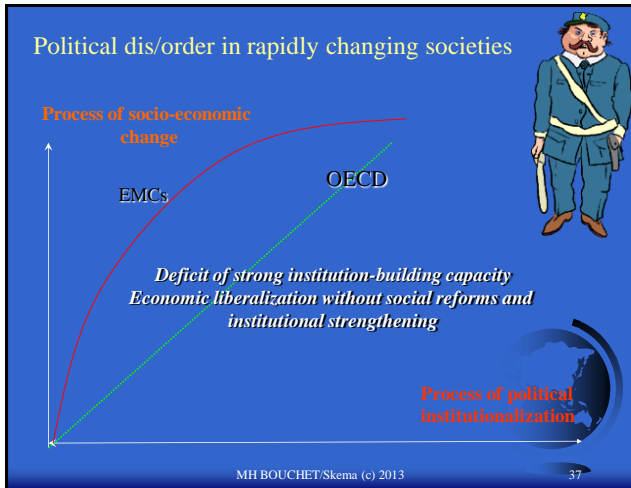
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Samuel Huntington Analyzing the roots of political upheaval

- ☞ Probing the conditions under which societies undergo rapid and disruptive social and political change:
- ☞ The primary problem of politics is the **lag** in the development of **political institutions** behind socio-economic change.
- ☞ Growth extends political consciousness, broadens political participation, and multiplies political demands.
- ☞ Instability = (rapid social change + rising mobilization of new groups into politics) > development of political institutions.

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Political modernization in China?

☞ Shenzhen = spiritual home to economic reform in China?

PM Wen Jiabao: « Political reform is a necessary companion to economic modernization: without the safeguard of political reform, the fruits of economic reform would be lost » (August 2010)

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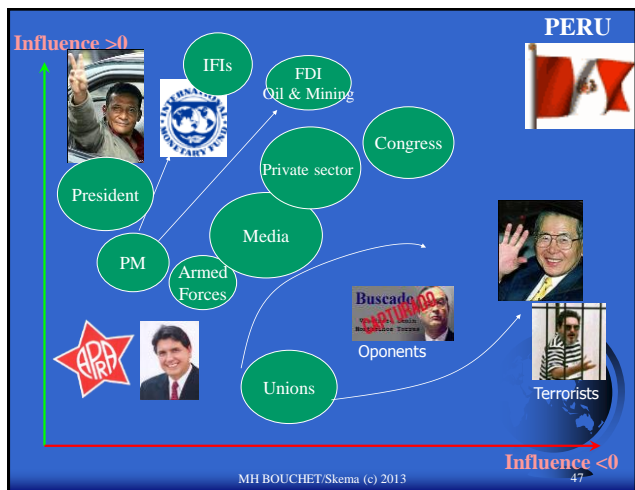
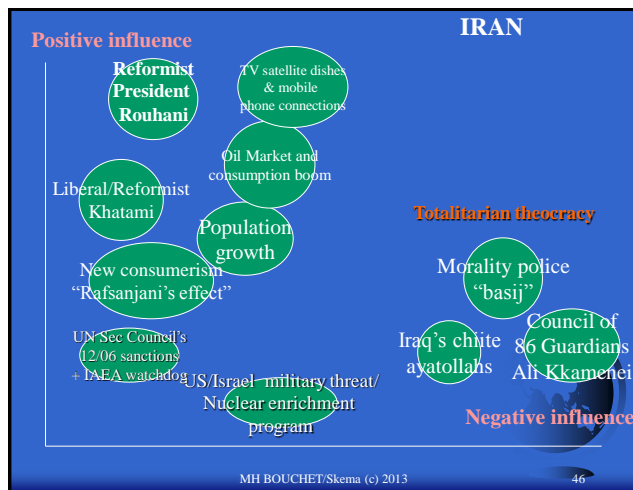
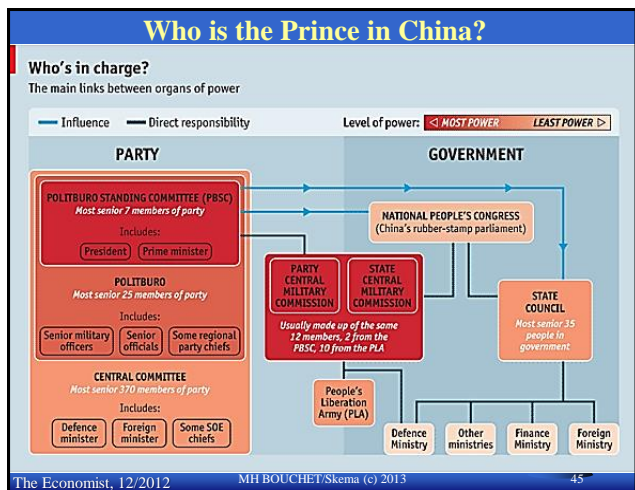
Institutional strengthening, economic development and political stability: Challenging triangle!

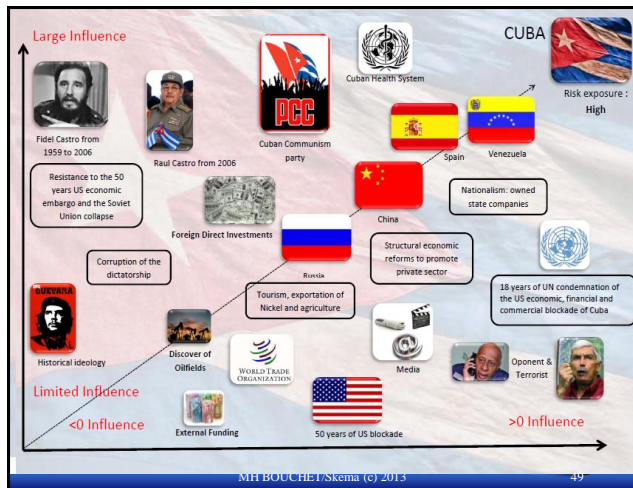
☞ **Chile's President Bachelet:**
links between democratic strengthening, economic growth and social protection

☞ *In Latin America , there are countries where people are uneasy about the process of economic liberalization, because structural economic reforms were not accompanied by the social policies that were necessary! The problem has not been with open economies per se but rather the lack of action in addressing poverty and social injustice*

Interview by McKinsey Quarterly, 2007

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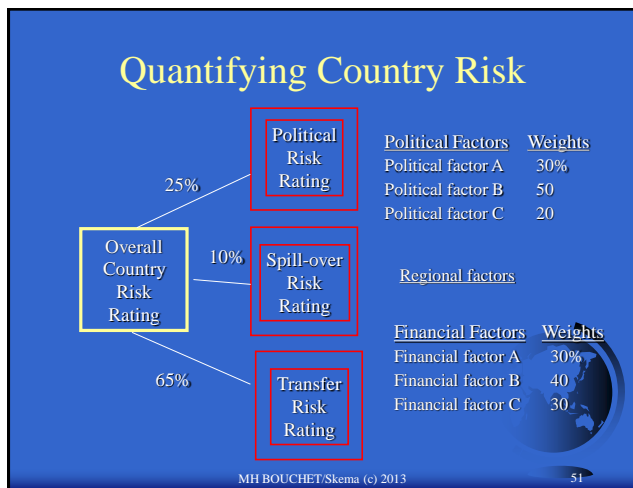
3. Quantifying Country Risk

☞ **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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- ### Political risk indices
- ☞ Heritage Foundation
 - ☞ Freedom House
 - ☞ Cato Institute
 - ☞ Transparency International CPI
 - ☞ PWCs: Opacity Index
 - ☞ LB: Legsi
 - ☞ Asiarisk
 - ☞ World Bank (Governance)
 - ☞ Euromoney (25%)
 - ☞ Institutional Investor
 - ☞ IMD
 - ☞ ICRG-PRS
 - ☞ MIG
 - ☞ WMRC
 - ☞ University of Maryland
 - ☞ Ibrahim Index of Governance
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World Markets Research Center

WMRC Global Terrorism Index

WMRC has used its country risk modelling skills to produce a Ratings Methodology based on five components: Motivation, Presence, Scale, Efficacy and Prevention.

The individual rating scores for the five separate factors range from 1 to 10 (1=lowest risk, 10=highest risk), with each variable having a separate weighting depending on its significance.

The report is backed up by WMRC's reputation as a leading provider of enhanced country intelligence and as an advisor to businesses and governments. WMRC helps companies monitor and assess risk, make informed decisions, and seize business opportunities.

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Risk Analysis and Project Evaluation

Recommended Framework

Political risk. *International Country Risk Guide*

	Points	% of Individual Index	% of Composite
Political			
Economic expectations vs. reality	12	12%	6%
Economic planning failures	12	12%	6%
Political leadership	12	12%	6%
External conflict	10	10%	5%
Corruption in government	6	6%	3%
Military in politics	6	6%	3%
Organized religion in politics	6	6%	3%
Law and order tradition	6	6%	3%
Racial and nationality tensions	6	6%	3%
Political terrorism	6	6%	3%
Civil war	6	6%	3%
Political party development	6	6%	3%
Quality of the Bureaucracy	6	6%	3%
Total Political Points	100	100%	50%

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DBRS's political risk analysis methodology

(Canada's risk rating agency since 1976)

- Key focus of Political analysis: How strong and stable is the government's commitment to maintain its creditworthiness?
- Key issues: legitimacy, appropriateness and robustness of political institutions and their capability to resolve issues in an orderly and timely fashion without damaging the country's commitment to service its debt (including the government's openness and accountability, its institutional strength, the effectiveness of governance and the inclusion of minority interests in the political structure)
- Conflict among stakeholders? The political system's responsiveness to social divisions along lines of income distribution, race, religion and region is taken into consideration.
- Key inputs: legal structure of the country, including enforceability of contracts, strength of property rights, and independence and integrity of judicial processes.

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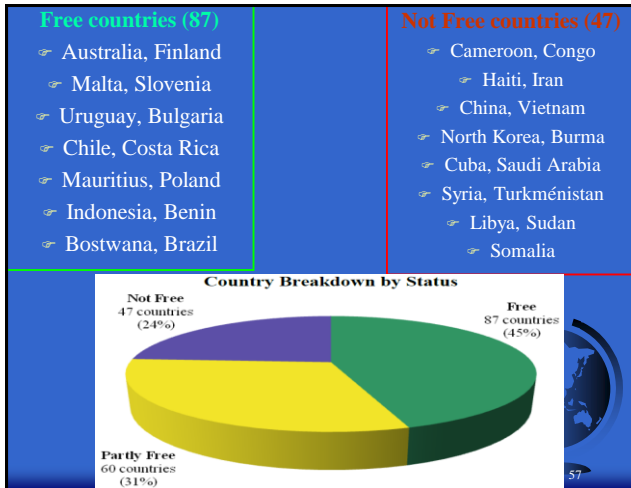
Freedom House:

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>

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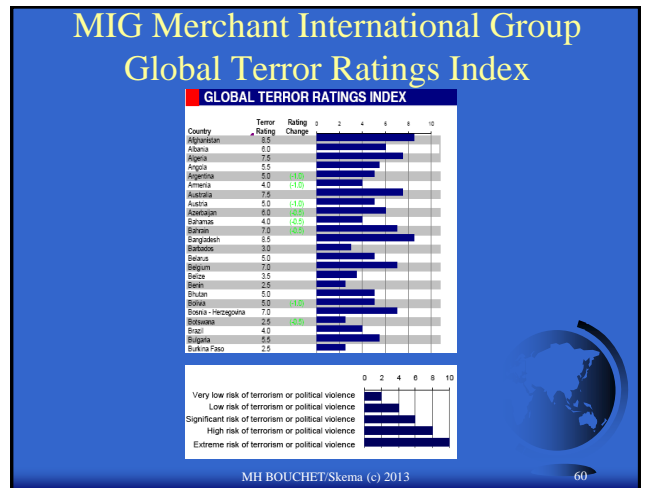
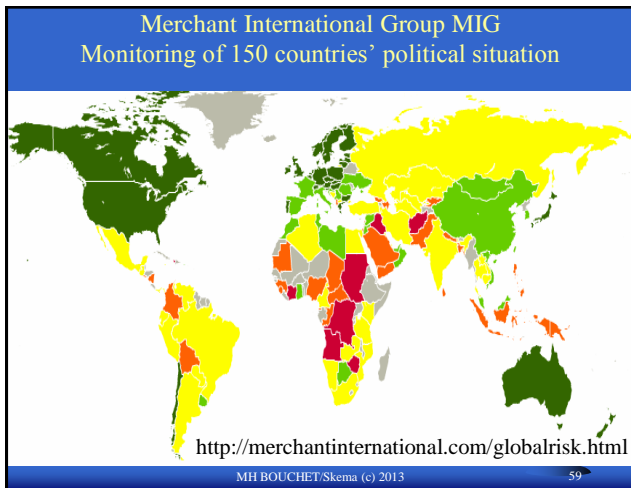
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Merchant International Group

- 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

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The highest political risks worldwide according to the MIG Survey

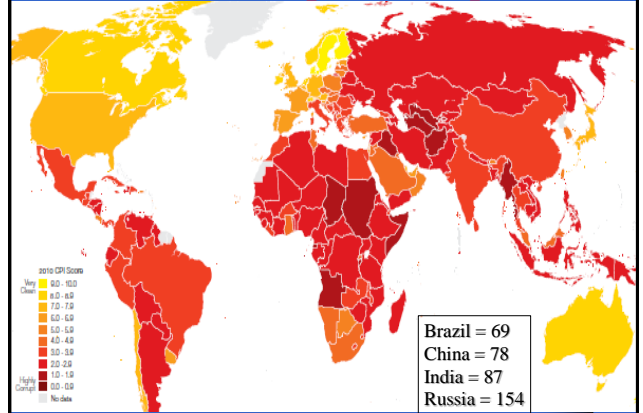
- ✦ Pakistan
- ✦ Indonesia
- ✦ Russia
- ✦ Colombia
- ✦ Bielorussia
- ✦ Ukraine
- ✦ India
- ✦ Algeria
- ✦ Vietnam
- ✦ Azerbaijan
- ✦ Cameroon



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TI World Map of Corruption



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162	Angola
162	Congo Brazzaville
162	Democratic Republic of Congo
162	Guinea-Bissau
162	Kyrgyzstan
162	Venezuela
168	Burundi
168	Equatorial Guinea
168	Guinea
168	Haiti
168	Iran
168	Turkmenistan
174	Uzbekistan
175	Chad
176	Iraq
176	Sudan
178	Myanmar
179	Afghanistan
180	Somalia

Measuring corruption in >185 countries since 1993
Transparency International's (2012 Survey)

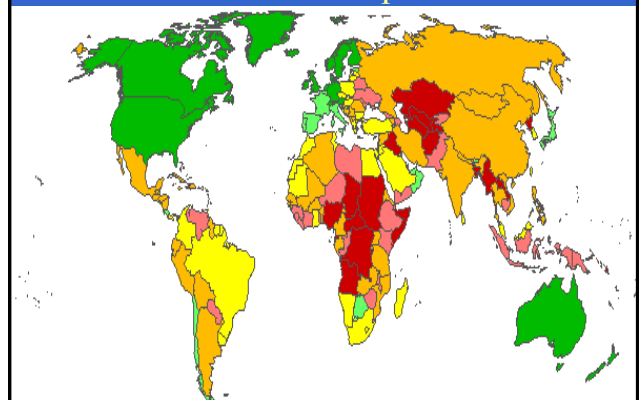
- Brazil: 69
- China: 78
- India: 87
- Mexico: 90
- Vietnam: 116
- Nigeria: 134
- Russia: 154



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World Bank's World map of Governance

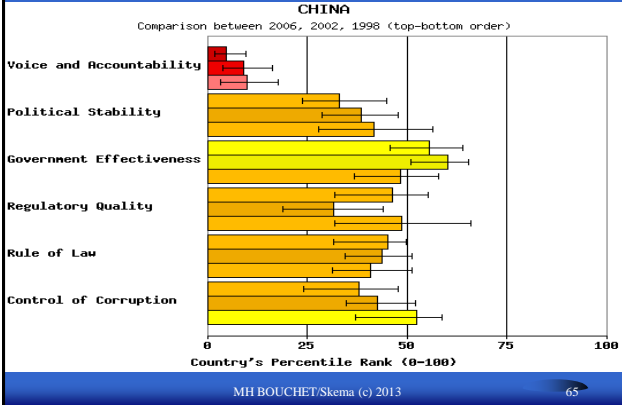


Source: Kaufman, World Bank

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World Bank assessment of Governance in China



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.moibrahimfoundation.org/en/section/the-ibrahim-index>
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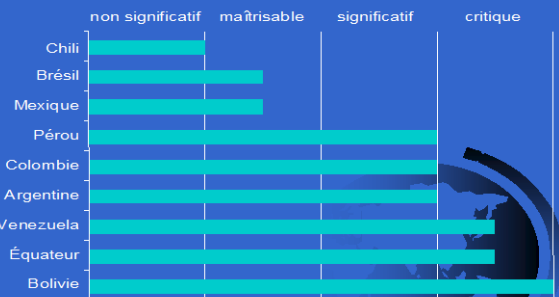
2010 Ibrahim Index of Good Governance in Africa

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	64,6	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	32,9
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	44,2	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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Institutional Weakness and Governance quality (estimates by Coface)

LATIN AMERICA



5. Conclusion: Hedging Political Risk

- ☞ How to manage risk?
- ☞ Information & Intelligence gathering
- ☞ National and international private and public insurance agencies: OPIC, MIGA, Lloyds, Berne Union (ECAs), Hiscox, COFACE... provide insurance coverage against political risk

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Political Risk Insurance

- ☞ It is estimated that investors have lost \$20 billion in Argentina following the 2001 economic collapse. Many have brought claims against Argentina before the ICSID, to get compensation by reference to « creeping expropriation » due to the early 2002 emergency legislation measures!
- ☞ August 2000: ICSID's arbitral tribunal found that a number of measures taken by Mexico's government against Metalclad boiled down to expropriation due to incidental interference!

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ICSID: International Center for the Settlement of investment disputes

- ☞ Autonomous international institution established under the Convention on the Settlement of Investment Disputes
- ☞ 155 signatory States
- ☞ The ICSID Convention is a multilateral treaty formulated by the Executive Directors of the International Bank for Reconstruction and Development (the World Bank). It entered into force on October 14, 1966.
- ☞ The Convention sought to remove major impediments to the free international flows of private investment posed by non-commercial risks

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COFACE

- ☞ Created in 1946
- ☞ AA (stable outlook) Fitch Ratings
- ☞ Coface operates subsidiaries or branch offices in 93 countries, staffed by more than 6,000 employees serving 105,000 clients. It offers local services in 93 countries through its partners in the CreditAlliance network
- ☞ Insurance: **Customer insolvency, bad debts, overdue accounts, commercial risks and political risks**

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COFACE

- ☞ 140 countries
- ☞ Country rating definition:
 - ☞ **Investment grade**
 - ☞ A1= steady economic and political situation
 - ☞ A2= weak default probability
 - ☞ A3= adverse circumstances may lead to worsening payment record
 - ☞ A4= patchy 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

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OPIC

- ☞ Overseas Private Investment Corporation
- ☞ *Independent US Federal government agency in Washington, D.C., that provides political risk insurance to encourage and assist US private investment in developing nations (risks of currency inconvertibility, expropriation, political violence...)*

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The Overseas Private Investment Corporation (OPIC)

- ☞ OPIC was established as a development agency of the U.S. government in 1971. OPIC helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, complements the private sector in managing the risks associated with foreign direct investment, and supports U.S. foreign policy.
- ☞ By expanding economic development in host countries, OPIC-supported projects can encourage political stability, free market reforms and U.S. best practices. OPIC projects also support American jobs and exports—over 280,000 new U.S. jobs and \$65 billion in exports since 1971. Because OPIC charges market-based fees for its products, it operates on a self-sustaining basis at no net cost to taxpayers.

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The WB's guarantee authority and its support of Private sector investment

- ☞ **MIGA** (established in 1988) New investment insurance affiliate to promote the flow of capital and technology into developing countries: provides political risk insurance against **non-commercial risks** (currency transfer restriction, expropriation, breach of contract, war and civil disturbance) and technical assistance.
- ☞ Members: 175 (o/w 125 EMCs)
- ☞ Capital stock of \$2 billion (K increase approved in 1999)
- ☞ Source of funds: member capital
- ☞ Cumulative guarantees issued: US\$16 billion with >1000 guarantee contracts in 92 countries
- ☞ Estimated FDI facilitated: > 30 billion
- ☞ MIGA offers guarantees for up to 15-20 years

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MIGA and political risk insurance

☞ Currency transfer restrictions

☞ **Expropriation:** loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment.

☞ **War and civil disturbance:** loss due to the destruction, disappearance, or physical damage to tangible assets caused by politically motivated acts of war or civil disturbance, including revolution, insurrection, and coups d'état.

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MIGA and political risk insurance

☞ **Breach of contract** coverage protects against losses arising from the host government's breach or repudiation of a contractual agreement with the investor.

☞ The investor must be able to invoke a dispute resolution mechanism (e.g., arbitration) set out in the underlying contract and obtain an award for damages. The investor may file for a claim if, after a specified period of time, payment is not received.

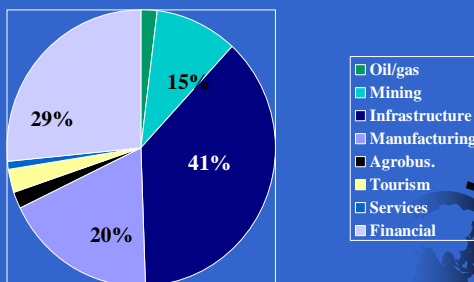
☞ Technical assistance

☞ Dispute mediation

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MIGA's Outstanding Guarantee Portfolio by Sector



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MIGA's Guarantee Process

☞ Only **new** investments and new contributions towards the expansion, privatization, or modernization of existing enterprises are eligible. MIGA must obtain approval from the host government to offer a guarantee to the investor.

☞ MIGA's legal department undertakes a range of mediation activities to encourage the amicable settlement of disputes between investors and host countries, to forestall the need for formal international arbitration.

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A few facts



1. Political regimes have **no impact on GDP growth rate**
2. **Economic growth does not breed democracy**
3. Economic growth provides legitimacy to dictatorships (while increasing demand for political change)
4. **Per capita income grows faster under democracy** (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, ACHVU - Ruchip Sharma 09/2012

<p>Business Environment Risk Intelligence (BERI) provides a Political Risk Index assessing the social and political environment of a country. It is built on the opinion and scores provided by a hundred experts with a diplomatic or political science background. Governance quality is included into political risk analysis along with government effectiveness and social indicators.</p> <p>http://beri.com</p>	<p>Political Risk Services (PRS). The PRS analyses cover a hundred countries and are updated on a quarterly basis. International Country Risk Guide measures and tracks corruption perception in government, law and order, expropriation risk, as well as the quality of bureaucracy. These measures stem from the subjective assessment of experts around the world.</p> <p>http://prsgroup.com</p>	<p>Thanks to its unique policy dialogue with more than 180 countries, the World Bank has developed a comprehensive database of composite governance indicators, measuring perceptions of voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption.</p> <p>www.worldbank.org/wbi/governance/</p>
<p>The London-based Economist Intelligence Unit (EIU) provides a comprehensive 6-year forecasting country risk analysis on some 100 EMCs, on a quarterly basis. The EIU method flows from expert's answers to a series of 77 predetermined qualitative and quantitative questions.</p> <p>http://eiu.com</p>	<p>To look upon governance and corruption, Moody's takes into consideration the structures of social interaction, social and political dynamics, as well as the economic fundamentals. Moody's relies on the judgment of a group of credit risk professionals to weigh the various risk factors as well as the impact of each of these factors upon business prospects.</p> <p>http://moody.com</p>	<p>Standard and Poor's rating approach is both quantitative and qualitative. It is based on a checklist of 10 categories, including governance and political risk. The political risk factors gauge the impact of politics on economic conditions, as well as the quality of governance and the degree of government support in the population. S&P assigns short term and long-term ratings.</p> <p>http://www.standardandpoors.com</p>
<p>EuroMoney publishes ratings of some 180 countries since 1982 on a semi-annual basis. The methodology is built from a blend of quantitative criteria and qualitative factors coming from surveys with about 40 political analysts and economists. Political risk receives a 25% weighting, as much as economic performance. Countries are graded on scale from 0 (worst) to 100 (best).</p> <p>www.euromoney.com</p>	<p>Institutional Investor's ratings are published twice a year since 1979 to assess the creditworthiness of about 150 countries, based on a survey of some 100 international bankers' perception of creditworthiness, including economic, financial and socio-political stability criteria. The resulting score scales from zero (very high chance of default) to 100 (least chance of default).</p> <p>www.institutionalinvestor.com</p>	<p>Transparency International, a non-profit non-governmental organization in Berlin, provides an annual survey of corruption practices in nearly 90 countries since 1995. The Corruption Perception Index is based on a wide network of information sources with local NGOs, domestic and foreign corporations, investors, and business contacts.</p> <p>www.transparency.org</p>

<p>Heritage Foundation established since 1985, in partnership with the WSI, an economic freedom index for some 160 countries, both industrialized and developing. The ranking is based on various socio-political and economic criteria, including political stability, state interference, regulatory framework, institutional strength, and corruption scope.</p> <p>www.heritage.org</p>	<p>PricewaterhouseCoopers's Opacity Index measures the lack of clear, accurate, formal and widely accepted practices in a country's business environment. As such, it focuses on the relative state of corrupt business practices, the transparency of the legal system and the regulatory framework. It represents a quantitative approach to measuring opacity and its resulting extra risk premium that stems from the additional business and economic costs.</p> <p>www.opacityindex.com/</p>	<p>The Institute for Management Development's World Competitiveness Report analyses 49 industrialized and emerging economies around the world based on a far-reaching survey since 1989. Its analysis of the institutional framework addresses issues such as state efficiency, transparency of government policy, public service's independence from political interference, bureaucracy as well as bribery and corruption.</p> <p>www.imd.ch</p>
<p>Freedom House focuses since 1972 on corruption levels in a number of developing and transition economies around the world. FH publishes an annual assessment of state of freedom in various countries on the base of political rights and civil liberties. Political stability and civil liberties are ranked on a scale of 1 (best) to 7 (worst).</p> <p>www.freedomhouse.org/ratings/index.html</p>	<p>The Political and Economic Stability Index of Lehman Brothers and Eurasia measures relative stability in around 20 EMCs by integrating political science theories with financial markets developments. The monthly evaluation uses both quantitative and qualitative criteria, including institutional efficiency, political legitimacy, economic performance, and government effectiveness.</p> <p>www.lehjs.com</p>	<p>Political and Economic Risk Consultancy (PERC) specializes in strategic business information and analysis in East and Southeast Asia, with emphasis on corruption and business costs. Annual risk reports survey over 1,000 senior expatriates living in to obtain their perceptions of corruption, labor quality, intellectual property rights risks and other systemic shortcomings.</p> <p>www.perc.com</p>