

POLITICAL RISK ASSESSMENT III

NAVIGATING POLITICAL AND SECURITY RISKS



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CIFE SEMINAR ROMA-BERLIN-NICE 2024

1

1

TECHNIQUES TO ASSESS & MEASURE 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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2

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

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

- 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
 - PRS-ICRG
 - TAC (France)
 - Skema-DEFI

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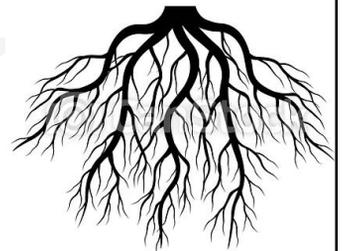
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3

2. POLITICAL RISK ANALYSIS

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

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



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4

4

3. POLITICAL RISK ANALYSIS: PRINCE MODEL

Frost & Sullivan: William D. Coplin and Michael K. O’Leary of the firm Political Risk Services.

PRINCE = Probe, Interact, Calculate, and Execute

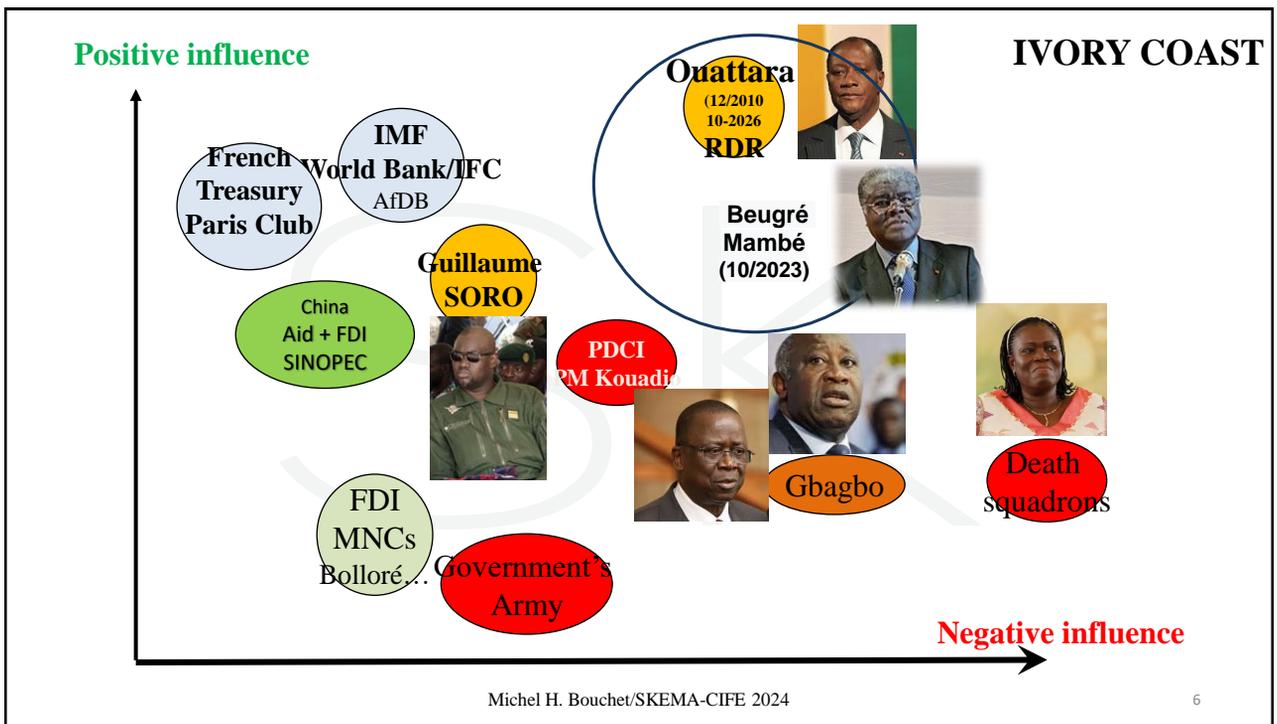
Emphasis on the power structure of a nation by identifying key individuals or groups that can influence a specific risk outcome: destabilization, nationalisation, expropriation...

Political risk forecasting model to produce probability of loss from political instability by relating relative importance in decision-making and relative political orientation towards radical or incremental change (+/-)

DATA= <https://www.cia.gov/library/publications/world-leaders-1/world-leaders-c/cote-divoire.html>

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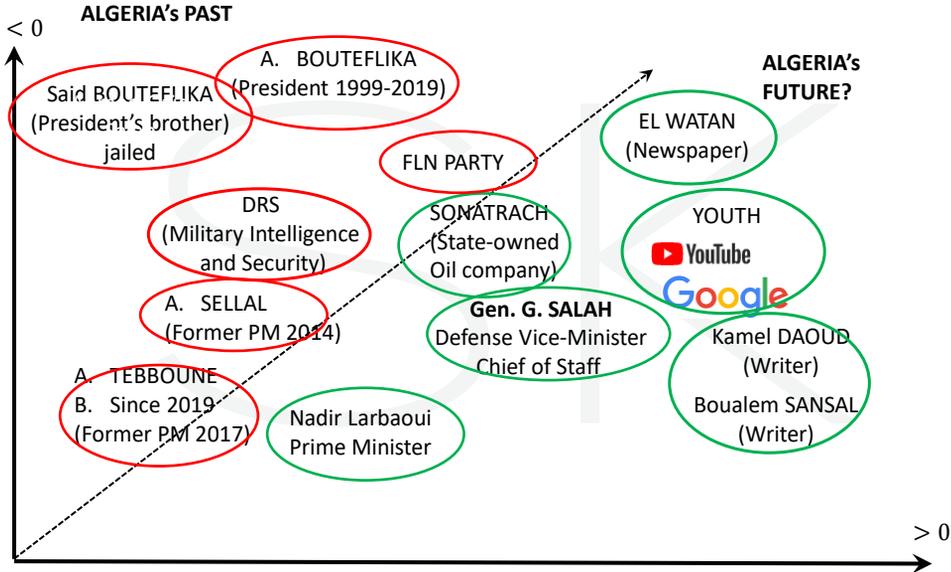


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6

THE PRINCE MODEL AND ALGERIA'S POWER STRUCTURE

ALGERIA



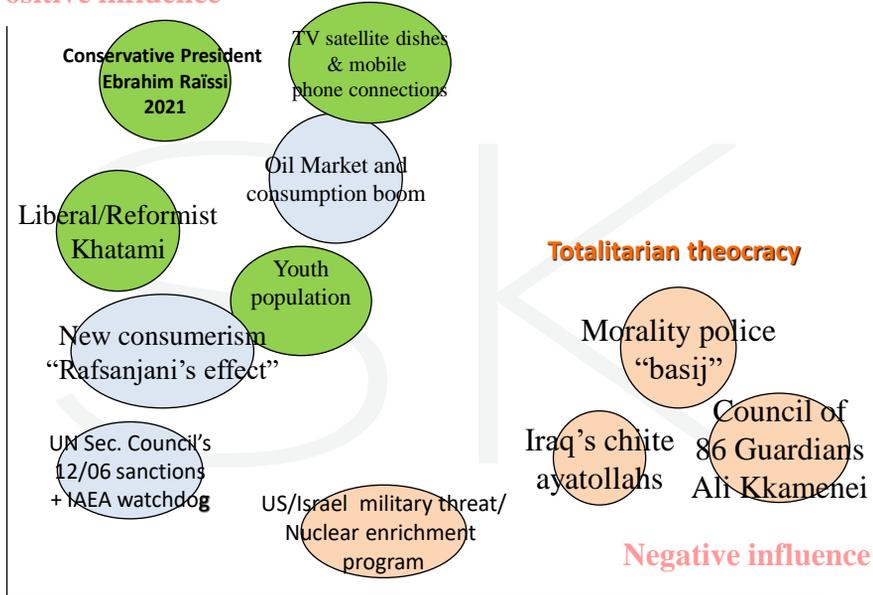
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7

Positive influence

IRAN



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8

8

4. QUANTIFYING COUNTRY RISK

Ratings and Rankings:



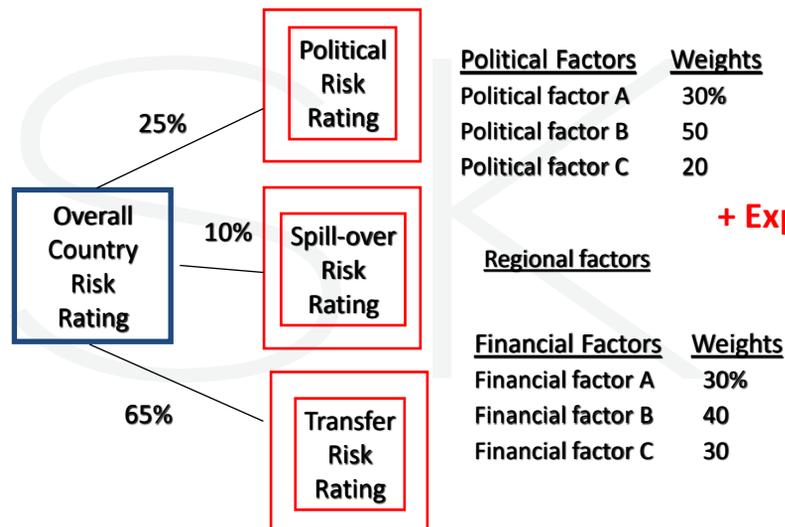
- ▶ Can one boil things down to numerical indices, when dealing with culture, politics, and ethnic tensions?
- ▶ ***Problem of “usability” of rankings: number fetishism leads astray by focusing on statistical Delphi-based analyses that are often subjectively biased, misleading and overly narrow. Lack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

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9

9

QUANTIFYING COUNTRY POLITICAL RISK



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10

10

POLITICAL RISK INDICES

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

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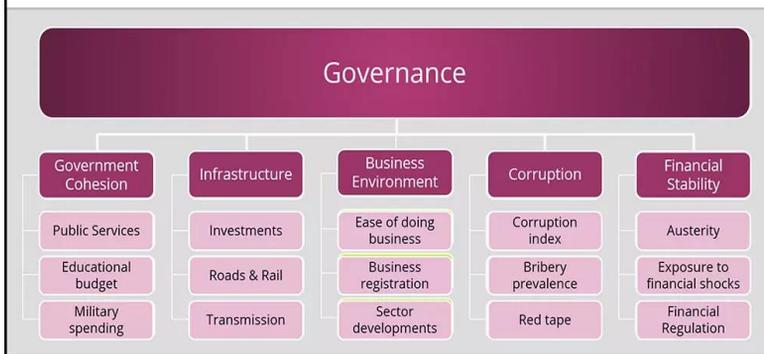
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11

ASSESSING COUNTRY GOVERNANCE AND SUSTAINABILITY?

▶ <https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital>

▶ Governance Index: World Map



Rank	Country
1	Estonia
2	Ireland
3	Czech Republic
4	Finland
5	Germany
6	Japan
7	New Zealand
8	Liechtenstein
9	Iceland
10	Austria
11	Denmark
12	Uzbekistan
13	Spain
14	Slovenia

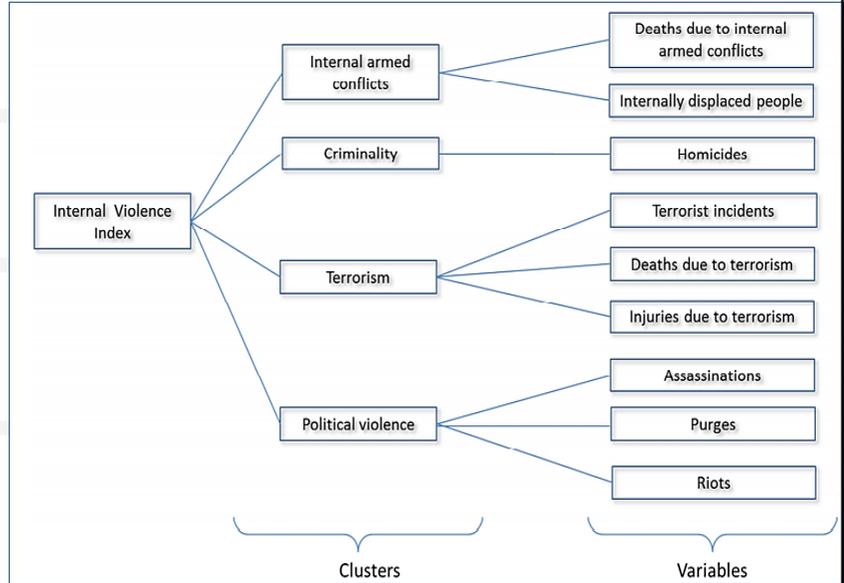
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12

12

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.



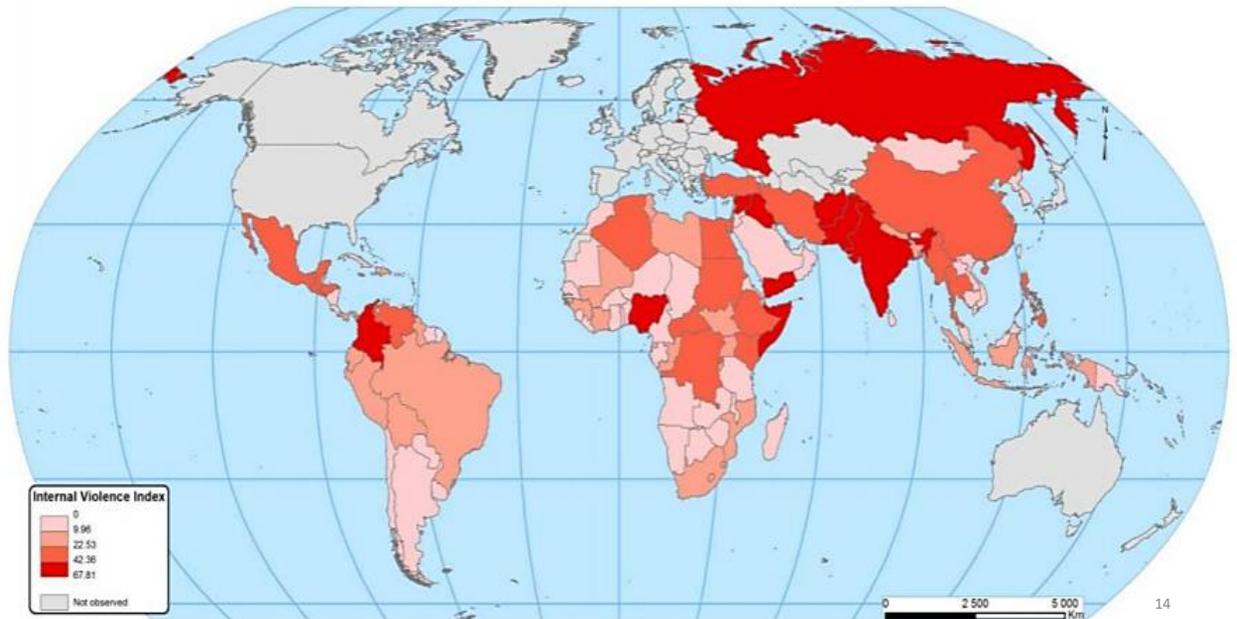
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SOURCE: FERDI April 2016: Feindouno / Goujon /Wagner

13

13

THE INTERNAL VIOLENCE INDEX



14

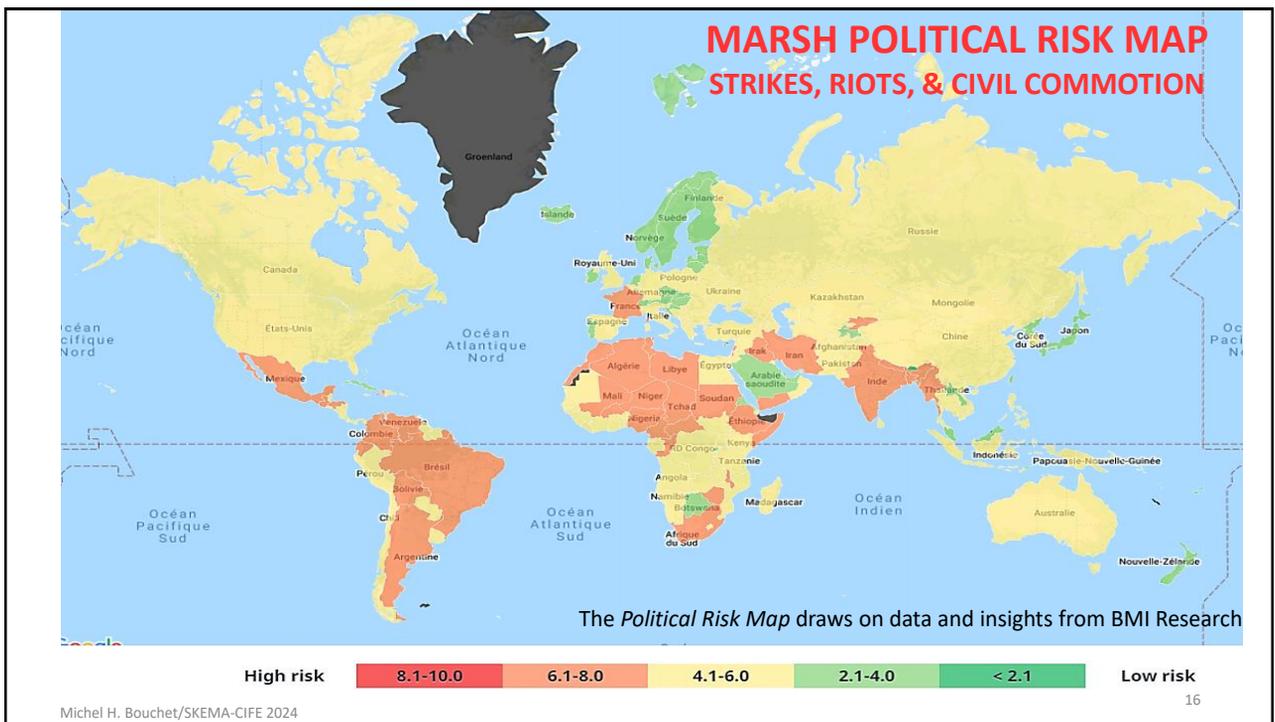
14

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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15



16

16

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...

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17

17

THE HERITAGE FOUNDATION: ECONOMIC FREEDOM INDEX

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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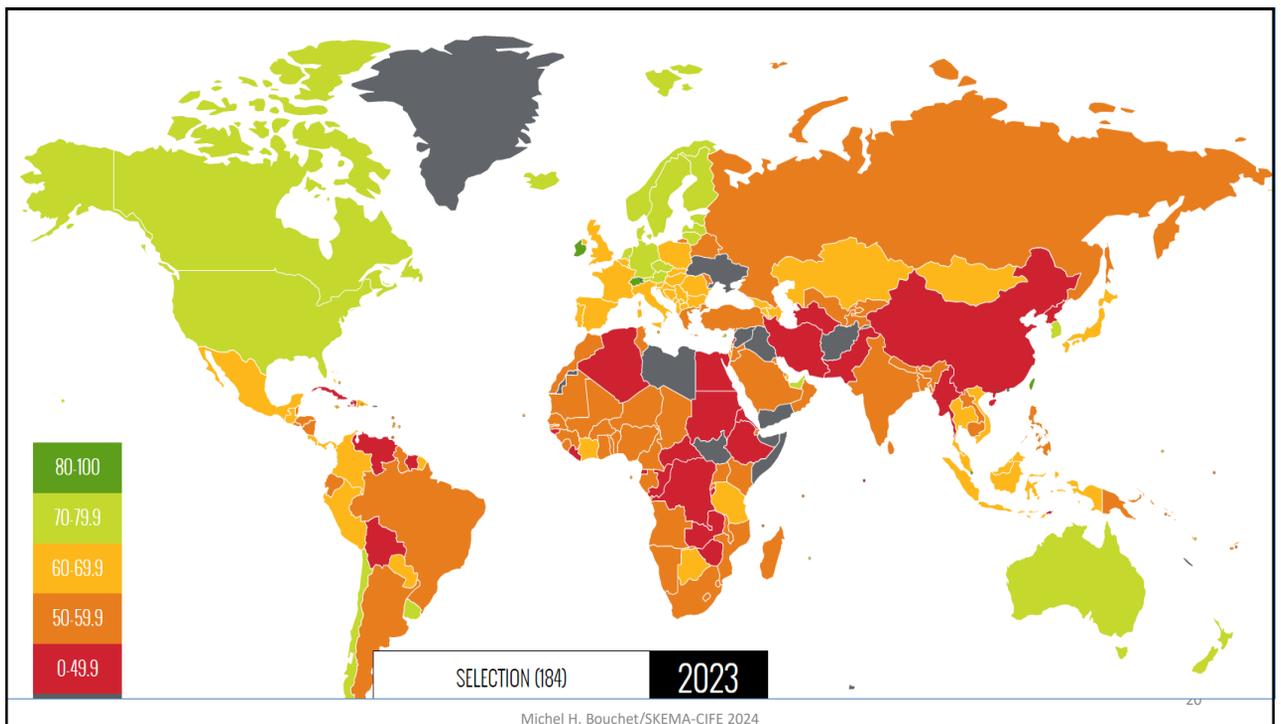
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18

CRITERIA OF ECONOMIC FREEDOM= FREEDOM OF CHOICE!

- ▶ To measure economic freedom and rate each country, the *Index* is based on 50 independent economic variables with 4 pillars and 12 broad categories of economic freedom:
 1. Rule of law (property rights, judicial effectiveness, and government integrity);
 2. Government size (tax burden, government spending, and fiscal health);
 3. Regulatory efficiency (business freedom, labor freedom, and monetary freedom); and
 4. Market openness (trade freedom, investment freedom, and financial freedom).

19



20

INDEX OF ECONOMIC FREEDOM 2024

« THE BEST »

2024 INDEX OF ECONOMIC FREEDOM WORLD RANKINGS

World Rank	Regional Rank	Country	Overall Score	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	1	Singapore	83.5	94.2	58.3	88.3	90.7	89.2	76.0	86.9	77.3	76.3	95.0	90.0	80
2	1	Switzerland	83.0	94.2	98.1	91.3	70.4	64.6	95.7	89.3	60.7	80.8	86.4	85.0	90
3	2	Ireland	82.6	93.5	94.3	83.4	78.0	82.4	91.7	91.3	62.8	74.5	79.2	90.0	70
4	2	Taiwan	80.0	82.2	94.0	73.4	79.2	90.5	90.3	84.9	69.1	80.1	86.4	70.0	60
5	3	Luxembourg	79.2	96.9	95.8	84.9	64.6	40.6	97.6	89.5	57.7	69.1	79.2	95.0	80
6	3	New Zealand	77.8	87.4	93.2	95.9	65.5	46.3	72.4	88.3	70.3	74.6	89.8	70.0	70
7	4	Denmark	77.8	98.6	89.6	97.4	41.8	26.8	98.2	92.7	64.9	74.3	79.2	90.0	80
8	5	Estonia	77.8	92.8	93.4	81.2	80.8	46.8	85.4	83.2	64.2	66.2	79.2	90.0	80
9	6	Sweden	77.5	96.2	95.4	93.2	50.6	28.5	97.1	84.9	65.9	74.4	79.2	85.0	80
10	7	Norway	77.5	98.8	96.7	95.6	61.7	32.1	97.2	87.2	69.4	71.1	84.8	75.0	80

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21

21

INDEX OF ECONOMIC FREEDOM 2024

« THE WORST »

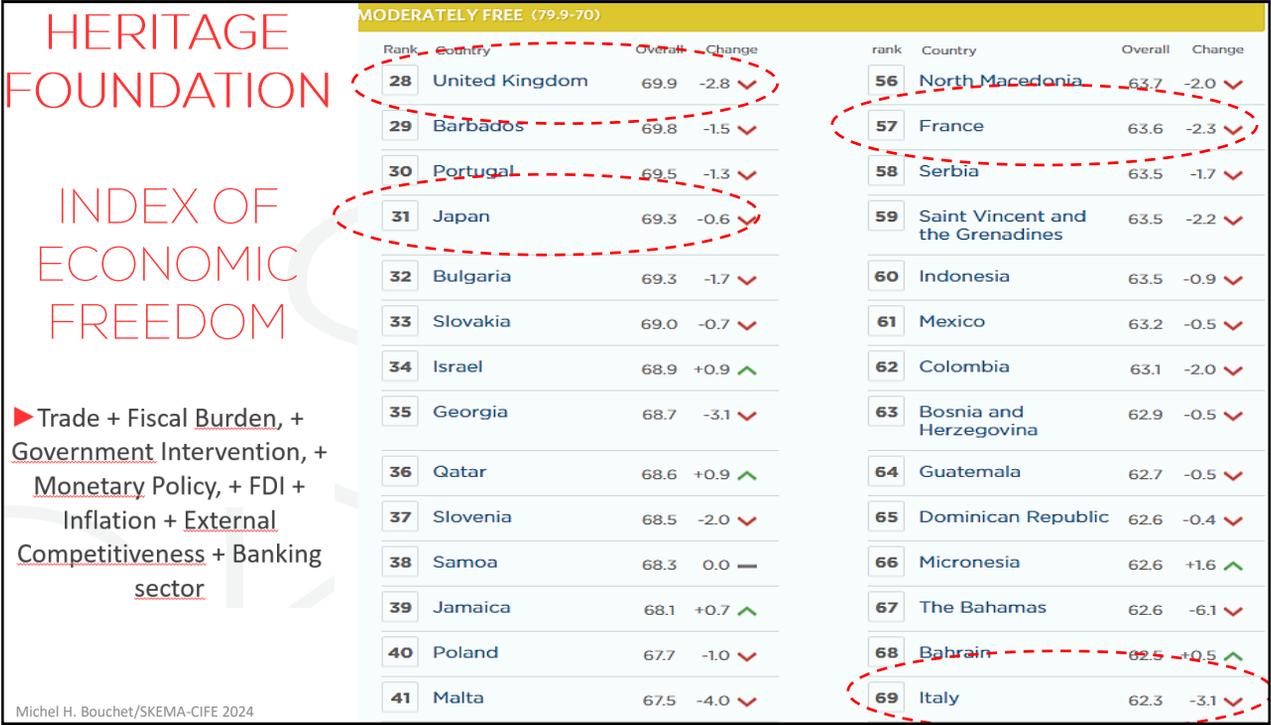
2024 INDEX OF ECONOMIC FREEDOM WORLD RANKINGS

World Rank	Regional Rank	Country	Overall Score	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
170	44	Eritrea	39.5	8.3	4.6	15.0	80.3	62.3	69.0	30.7	51.4	63.8	68.4	0.0	30
171	45	Burundi	38.4	28.2	7.1	12.0	76.0	67.6	10.7	27.7	41.9	60.3	49.6	50.0	20
172	46	Zimbabwe	38.2	20.2	16.0	19.8	74.6	92.1	78.5	39.0	32.8	0.0	50.4	25.0	10
173	47	Sudan	33.9	12.5	4.8	19.5	85.0	95.1	66.5	27.7	41.8	0.0	29.6	5.0	20
174	31	Venezuela	28.1	0.0	3.3	6.4	75.9	96.6	36.5	31.0	35.7	0.0	42.2	0.0	10
175	32	Cuba	25.7	30.1	15.2	36.2	51.9	0.0	0.0	41.5	20.0	20.3	72.8	10.0	10
176	39	Korea, North	2.9	16.0	5.4	3.6	0.0	0.0	0.0	5.0	5.0	0.0	0.0	0.0	0
N/A	N/A	Afghanistan	N/A	4.9	4.9	18.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Iraq	N/A	14.8	7.3	18.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Libya	N/A	5.9	4.2	10.2	93.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Liechtenstein	N/A	92.8	86.0	82.4	N/A	N/A	N/A	88.2	N/A	N/A	86.4	80.0	80.0
N/A	N/A	Somalia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Syria	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	Ukraine	N/A	23.0	30.4	32.5	N/A	N/A	N/A	N/A	N/A	N/A	73.2	N/A	N/A
N/A	N/A	Yemen	N/A	5.7	8.3	6.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

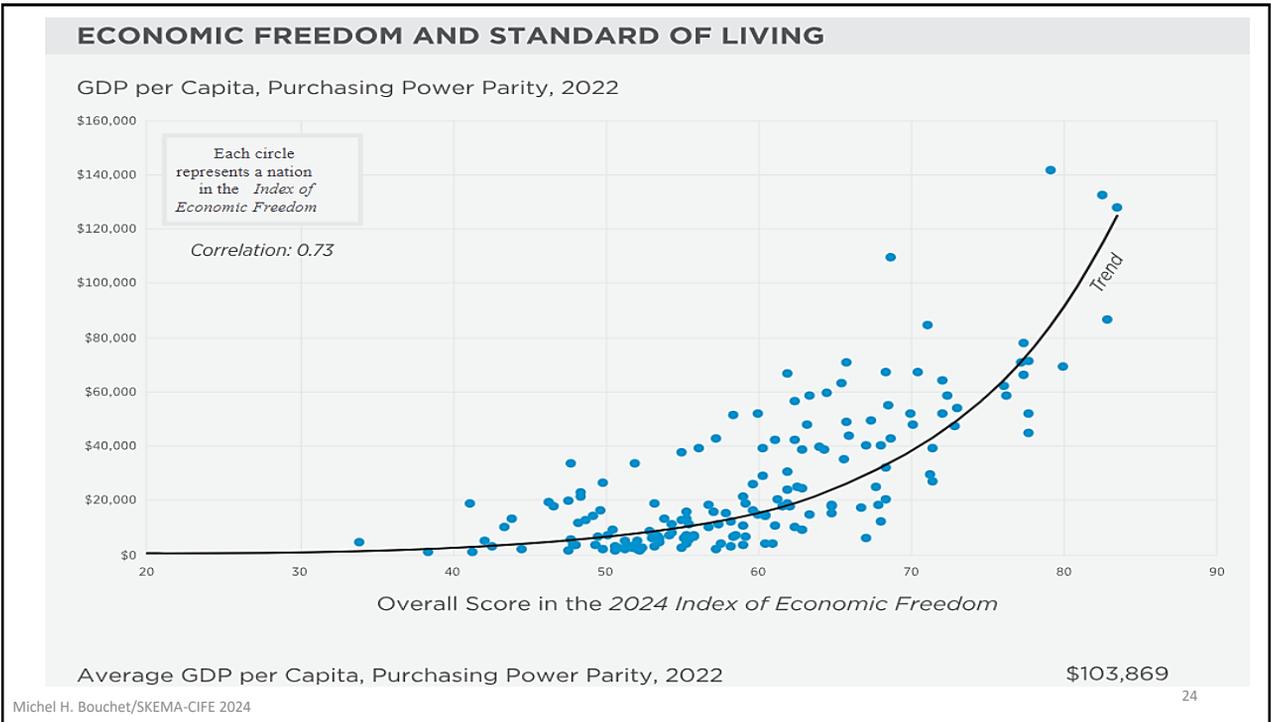
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22

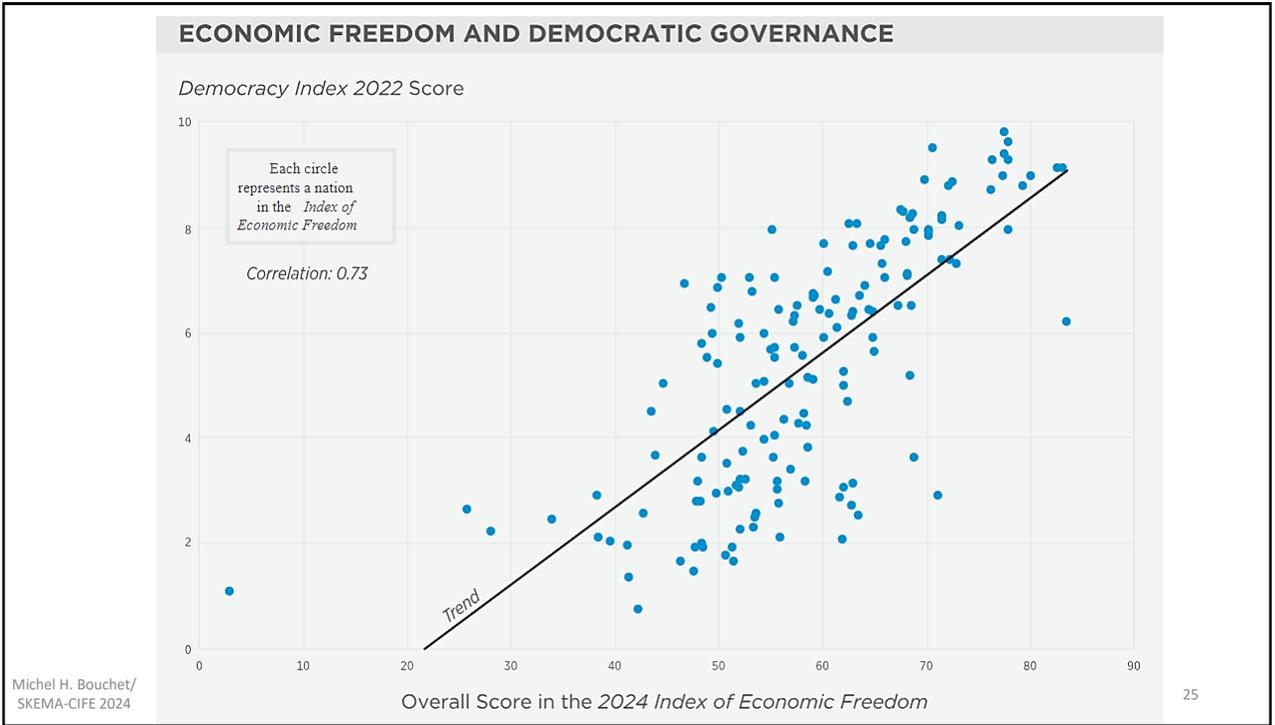
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23



24



25

ECONOMIC FREEDOM

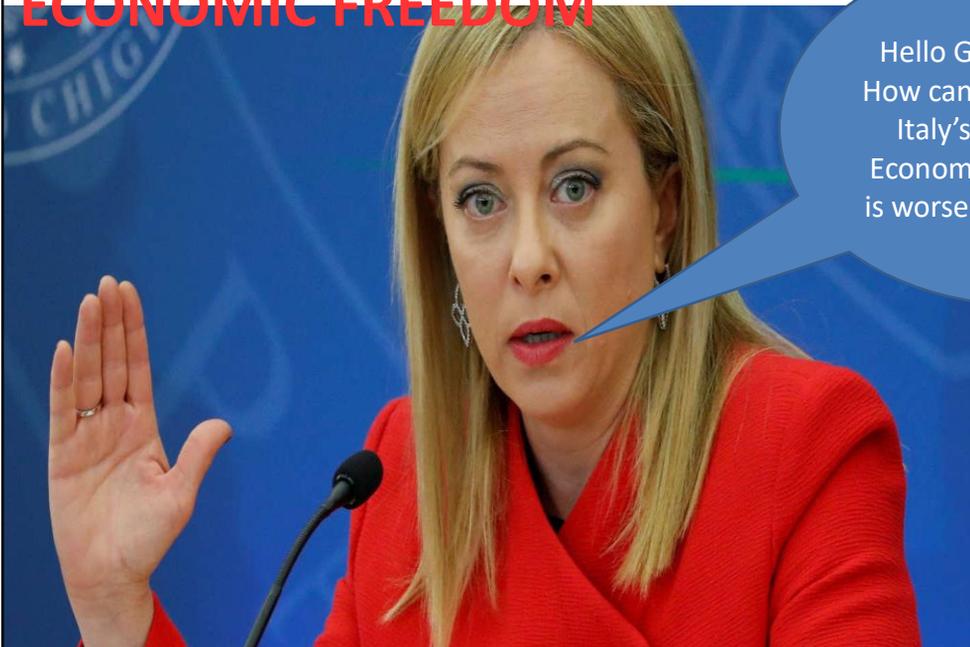
Hello GEGPA students!
How can you explain that the 2024 US Economic Freedom Index #25 is worse than Chile!

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26

26

ECONOMIC FREEDOM



Hello GEGPA students!
How can you explain that
Italy's 2024 Index of
Economic **Freedom #81**
is worse than Mongolia!!

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27

27

FREEDOM HOUSE: POLITICAL FREEDOM

- ▶ 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).

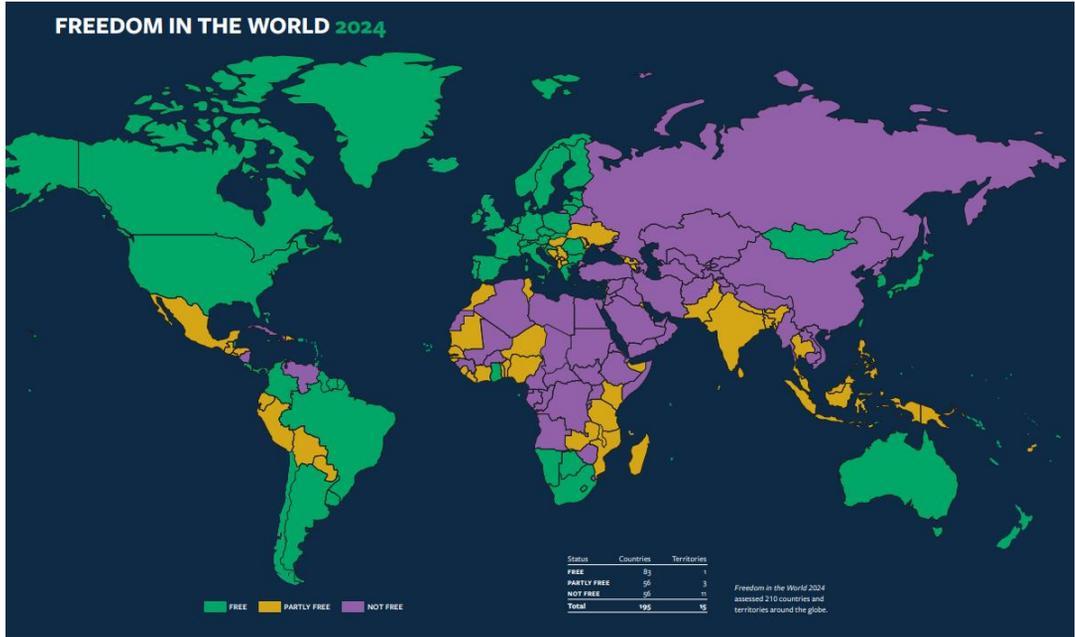
<http://www.freedomhouse.org/ratings/index.htm>

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28

28

FREEDOM HOUSE: ANNUAL POLITICAL FREEDOM INDEX



29

29

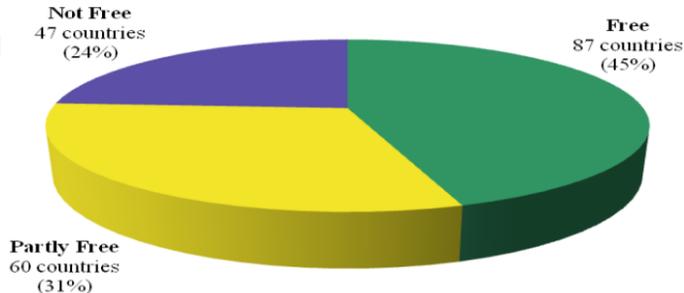
Free countries (87)

- ▶ Australia, Finland
- ▶ Malta, Slovenia
- ▶ Uruguay, Bulgaria
- ▶ Chile, Costa Rica
- ▶ Mauritius, Poland
- ▶ Indonesia, Benin
- ▶ Botswana, Brazil

Not Free countries (47)

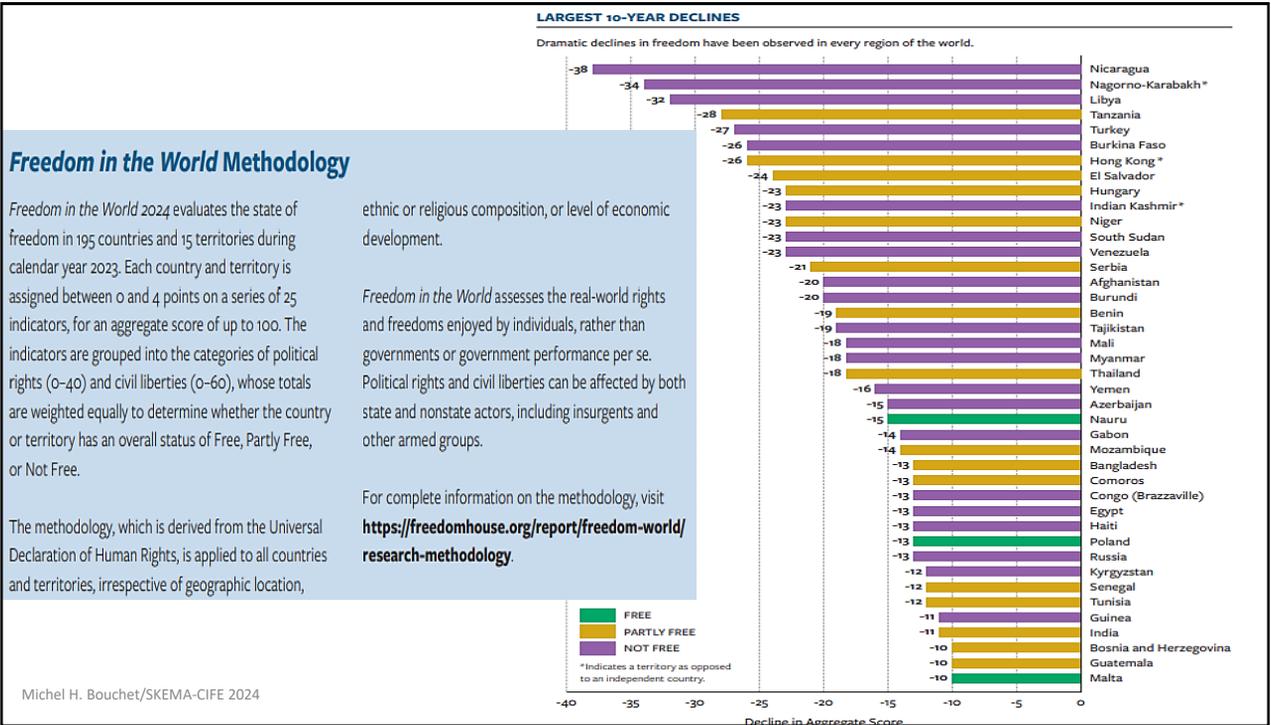
- ▶ Cameroon, Congo
- ▶ Haiti, Iran
- ▶ China, Vietnam
- ▶ North Korea, Burma
- ▶ Cuba, Saudi Arabia
- ▶ Syria, Turkmenistan
- ▶ Libya, Sudan
- ▶ Somalia

Country Breakdown by Status



30

30



31

FRASER INSTITUTE- ECONOMIC FREEDOM

- ▶ Since 1975, annual Indices of Economic & Human 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...
- ▶ **The Economic Freedom Annual Report** is the measurement of **economic freedom**, ranking countries based on five areas: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. The report compares 165 countries and territories

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32

32

FRASER INSTITUTE'S ECONOMIC FREEDOM WORLD MAP



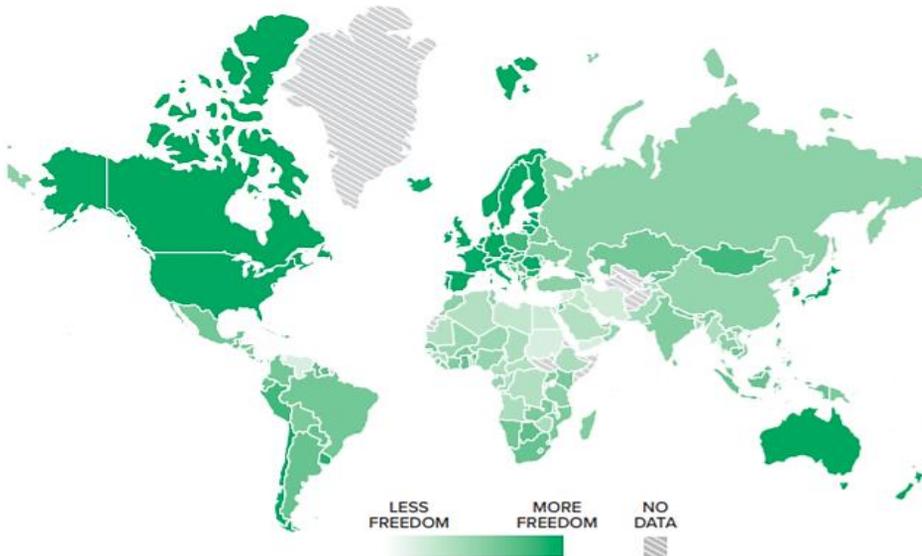
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33

33

FRASER & CATO INSTITUTE: HUMAN FREEDOM INDEX

The index ranks 165 countries and jurisdictions based on 79 indicators of personal, civil and economic freedoms (joint project with the Cato Institute in the U.S. and Germany's Friedrich Naumann Foundation for Freedom)



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34

34

GLOBAL CONFLICT RISK INDEX

DRMKC - Disaster Risk Management Knowledge Centre

The GCRI covers 22 variables in 6 dimensions (social, economic, security, political, geographical/environmental, demographic) reflecting structural conditions correlated to the occurrence of violent conflict.

The GCRI uses historical data since 1991 to forecast conflict risk in the next 1-4 years.

Conflict risk scores relate to 4 types of conflict: (1) Any conflict, (2) State-based conflict, (3) Non-state conflict and (4) One-sided violence.

Variable	Relative Score (0-100)
DEMOCRACY	~45
STATE CAPACITY	~85
REPRESSION	~75
CORRUPTION	~55
RECENT INTERNAL CONFLICTS	~80
YEARS SINCE LAST CONFLICT	~95
NEIGHBORING CONFLICT	~90
HOMICIDE RATE	~50
FEMALE EMPOWERMENT	~65
ETHNIC EXCLUSION	~85
TRANSNATIONAL ETHNIC TIES	~90
FOOD SECURITY	~80
UNEMPLOYMENT	~70
GDP PER CAPITA	~65
INCOME INEQUALITY	~55
TRADE OPENNESS	~60
OIL EXPORTS	~85
DROUGHTS	~75
TEMPERATURE CHANGE	~85
POPULATION	~70
YOUTH BULGE	~80
CHILD MORTALITY	~85

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THE MISERY INDEX =

SUM OF INFLATION AND UNEMPLOYMENT RATES; A CRUDE METRIC OF PAIN FOR THE AVERAGE CITIZEN

PROTESTS HAVE MANY DRIVERS (INEQUALITY, CORRUPTION, POLITICAL EXCLUSION) BUT HIGH MISERY INCREASES THE RISK OF PROTESTS

MISERY INDEX LEVEL SHOULD BE CONSIDERED RELATIVE TO RECENT HISTORIC PEAKS

Misery index in EM: Absolute metric for protest risk

Inflation rate plus unemployment rate (2022f, %)

Country	Misery Index (2022f, %)
Europe	12
US	9
Turkey	64
Argentina	59
South Africa	41
Iran	40
Russia	33
Jordan	27
Nigeria	25
Tunisia	25
Sri Lanka	22
Ghana	21
Brazil	20
Iraq	20
Pakistan	20
Colombia	19
Georgia	18
Egypt	18
Jamaica	17
Mauritius	16
Morocco	16
Greece	15
Hungary	15
Kenya	14
India	14
Kazakhstan	13
Peru	13
Romania	13
Chile	13
Iceland	12
Poland	11
Bangladesh	11
Mexico	10
Indonesia	10
Saudi	10
Philippines	10
Tanzania	9
Bahrain	9
Ivory Coast	8

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UNDP HUMAN DEVELOPMENT INDEX

► What is development?

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

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► Σ life expectancy, education, health, infrastructure, institutions, governance...

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37

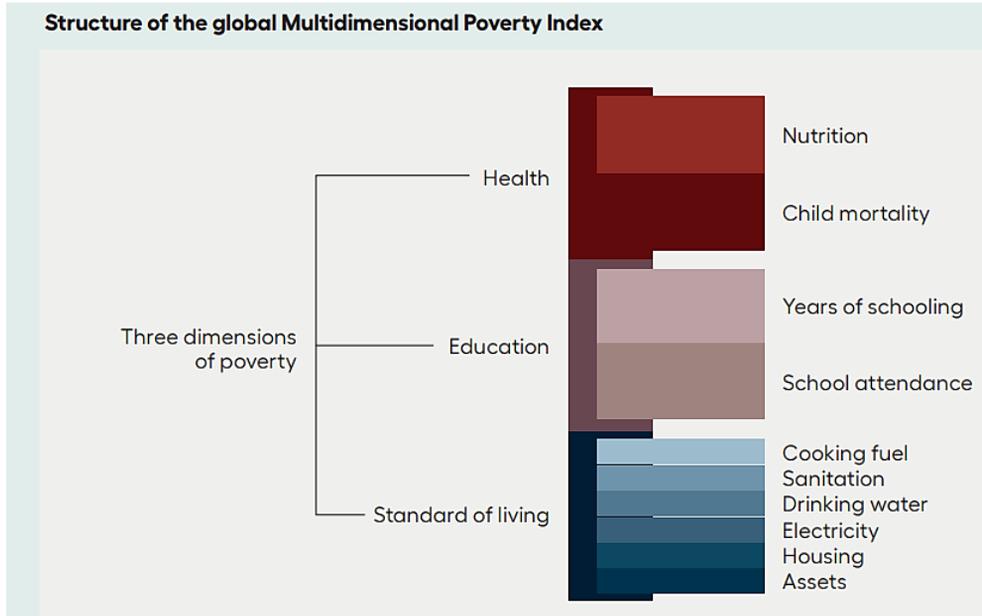
37

HDI RANK	Value		Value		
	2019				
Very high human development			Low human development		
1	Norway	0.957	157	Mauritania	0.546
2	Ireland	0.955	158	Benin	0.545
2	Switzerland	0.955	159	Uganda	0.544
4	Hong Kong, China (SAR)	0.949	160	Rwanda	0.543
4	Iceland	0.949	161	Nigeria	0.539
6	Germany	0.947	162	Côte d'Ivoire	0.538
7	Sweden	0.945	163	Tanzania (United Republic of)	0.529
8	Australia	0.944	164	Madagascar	0.528
8	Netherlands	0.944	165	Lesotho	0.527
10	Denmark	0.940	166	Djibouti	0.524
11	Finland	0.938	167	Togo	0.515
11	Singapore	0.938	168	Senegal	0.512
13	United Kingdom	0.932	169	Afghanistan	0.511
14	Belgium	0.931	170	Haiti	0.510
14	New Zealand	0.931	170	Sudan	0.510
16	Canada	0.929	172	Gambia	0.496
17	United States	0.926	173	Ethiopia	0.485
18	Austria	0.922	174	Malawi	0.483
19	Israel	0.919	175	Congo (Democratic Republic of the)	0.480
19	Japan	0.919	175	Guinea-Bissau	0.480
19	Liechtenstein	0.919	175	Liberia	0.480
22	Slovenia	0.917	178	Guinea	0.477
23	Korea (Republic of)	0.916	179	Yemen	0.470
23	Luxembourg	0.916	180	Eritrea	0.459
25	Spain	0.904	181	Mozambique	0.456
26	France	0.901	182	Burkina Faso	0.452
27	Czechia	0.900	182	Sierra Leone	0.452
28	Malta	0.895	184	Mali	0.434
29	Estonia	0.892	185	Burundi	0.433
29	Italy	0.892			
31	United Arab Emirates	0.890			
32	Greece	0.888			
33	Cyprus	0.887			
34	Lithuania	0.882			
35	Poland	0.880			

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38

UNDP: HDI AND THE GLOBAL MULTIDIMENSIONAL POVERTY INDEX



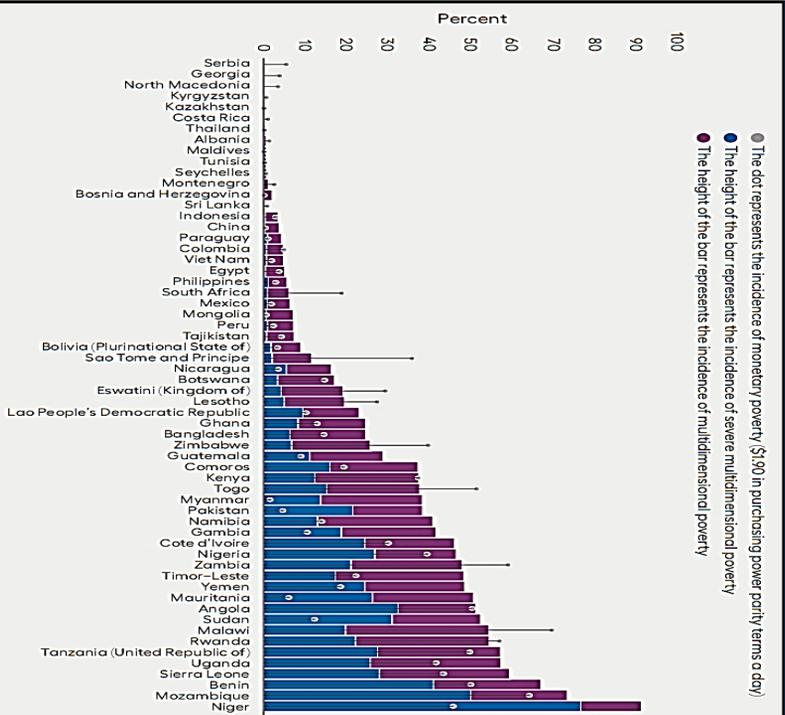
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39

39

INDEX OF MULTIDIMENSIONAL POVERTY

THE POOREST OF THE POOREST COUNTRIES ARE ALSO THE MOST CORRUPT AND INSTITUTIONALLY FRAGILE: FAILED STATES AHEAD!



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40