

GOVERNANCE & COUNTRY RISK MANAGEMENT

« FAILED STATES SEMINAR »

THE CHALLENGE OF NAVIGATING SOCIO-POLITICAL AND SECURITY RISKS

CIFE SEMINAR NICE MAY 15, 2024

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**1. WHAT ARE WEAK STATES, FAILED STATES
AND ROGUE STATES?**

2. WHY DO STATES FAIL?

**3. WHICH COUNTRIES MOST EXEMPLIFY THE FEATURES OF
INSTITUTIONAL WEAKNESSES?**

4. WHAT ABOUT EARLY-WARNING SIGNALS OF STATE FAILURE?



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2014-2024 : THIS TIME, IT'S DIFFERENT!

**Convergent shockwaves on already weak and fragile
countries which cannot withstand :**

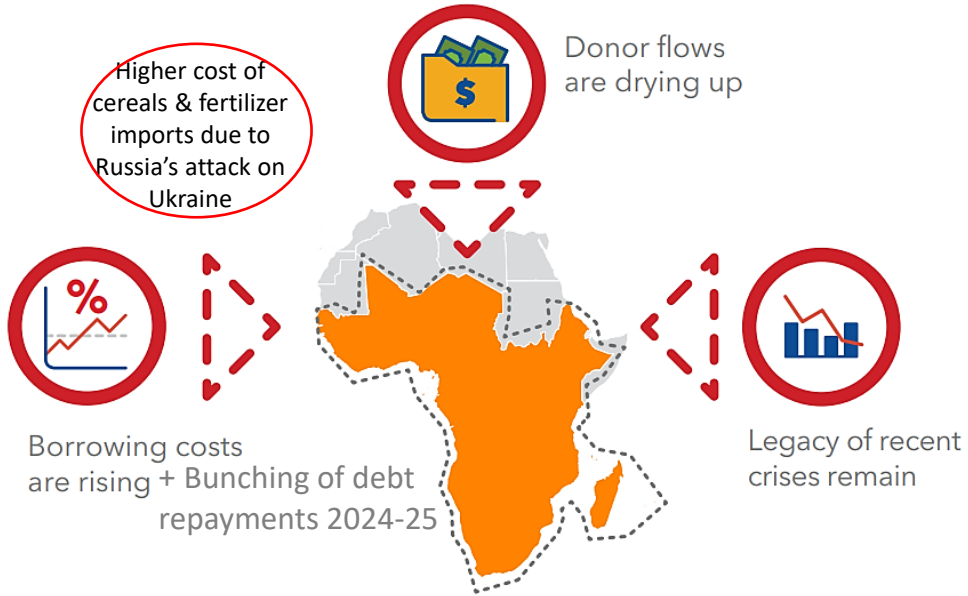
**Σ large debt + high real interest rates + shrinking external
financing + lower trade growth + higher import prices +
wealth gaps and climate change
= state failure ahead!**



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Sub-Saharan Africa facing funding squeeze



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1. What is a « weak » State?

A “WEAK STATE » IS UNABLE OR UNWILLING TO PROVIDE “COMMON GOODS” TO MAINTAIN SOCIAL COHESION THROUGHOUT THE SOCIO-ECONOMIC DEVELOPMENT PROCESS

INSTITUTIONAL WEAKNESSES GENERATE A CRISIS OF SOCIAL MEDIATIONS, HENCE POLITICAL TURMOIL

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► What about common goods?

Crucial for a community to function efficiently and sustainably with a collective sense

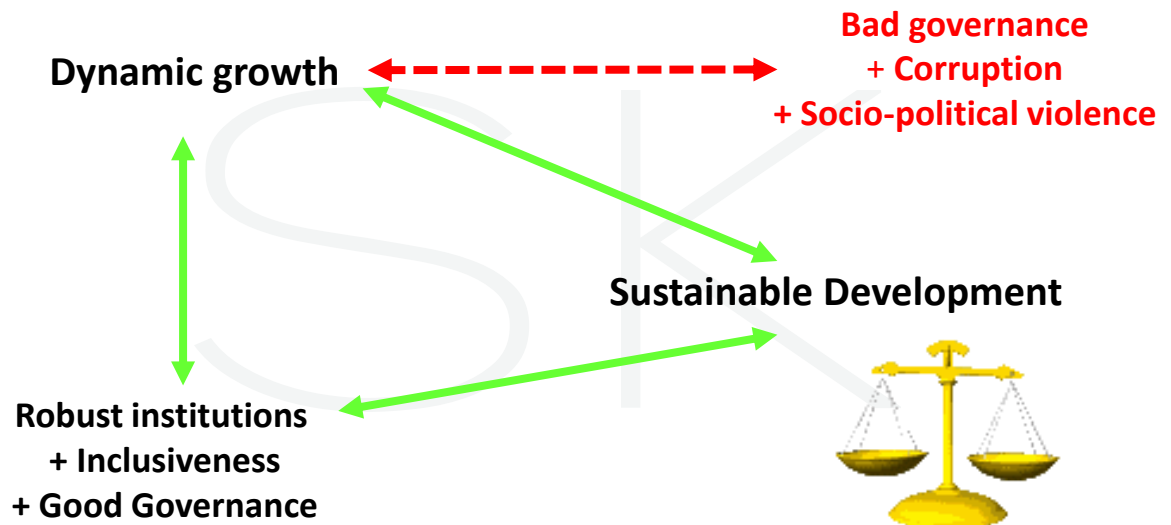


- Health (life expectancy) & social welfare
- Education (and jobs!)
- Gender balance
- Income equality (GINI)
- Security & good governance
- Institutions (social relations + channels of intermediation!)
- Facilities & Public infrastructure
- Nature (Clean water and air)

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TRILEMMA OF GROWTH AND DEVELOPMENT?



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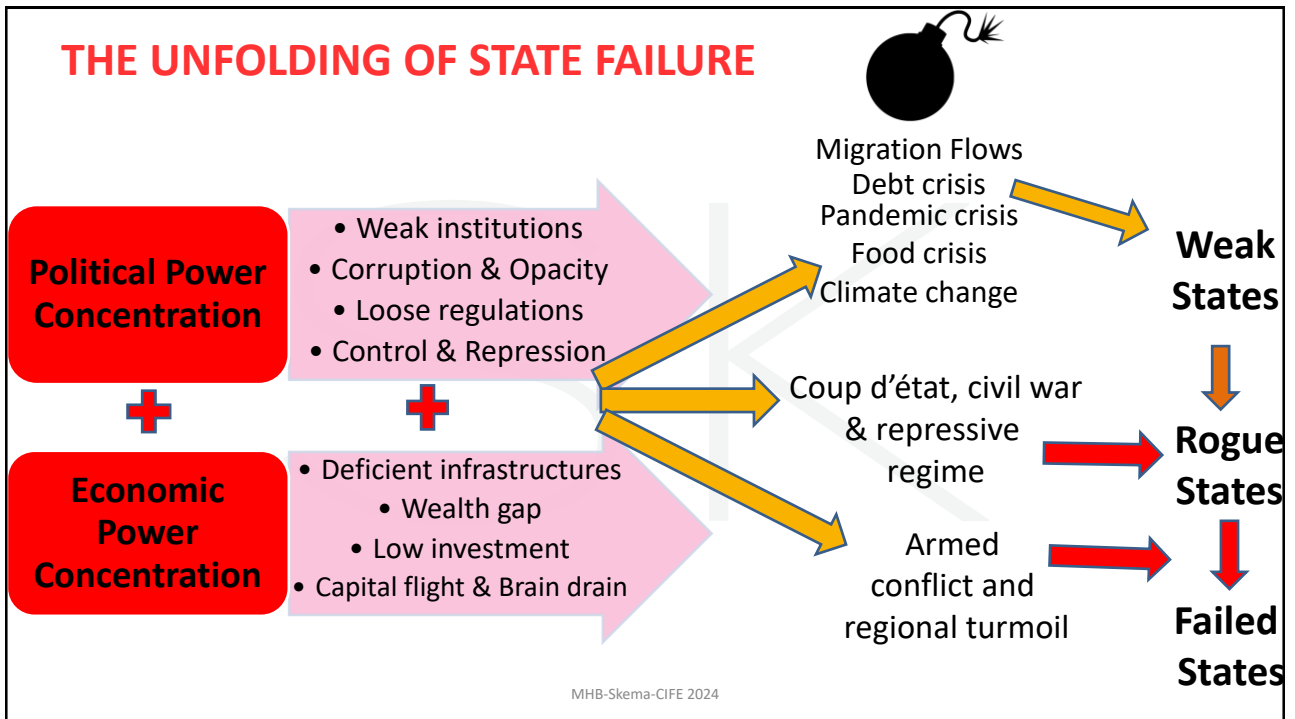
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State failure materialization for both domestic and external residents

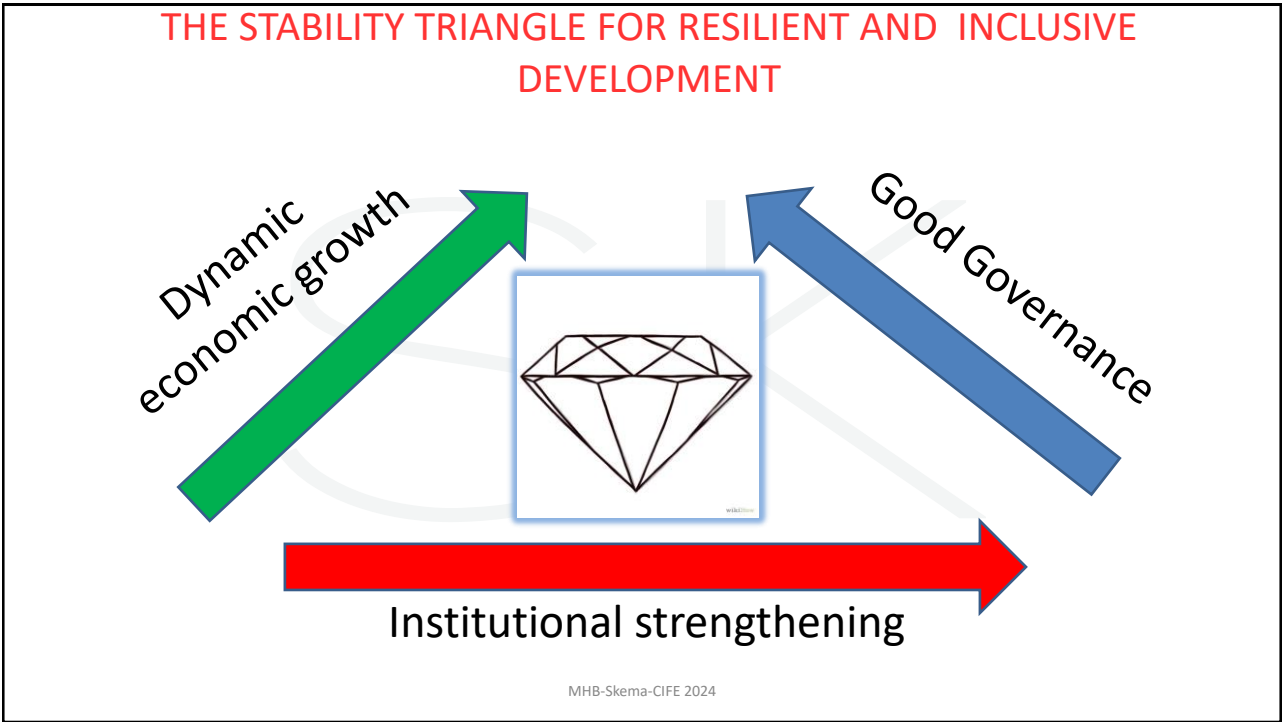
- ▶ Emergence of authoritarian, dictatorial or military rule, ongoing civil violence, corruption, rising wealth gap and poverty, illiteracy, crumbling infrastructures, judicial incompetence, and military interference in politics
- Widespread violation of human rights, contract repudiation, capital controls, currency inconvertibility, bribery, blocked funds, political upheaval, expropriation, insurgency, coup d'état, martial law, revolution, civil strife damage, terrorism, war damage, kidnapping, brain drain & capital flight

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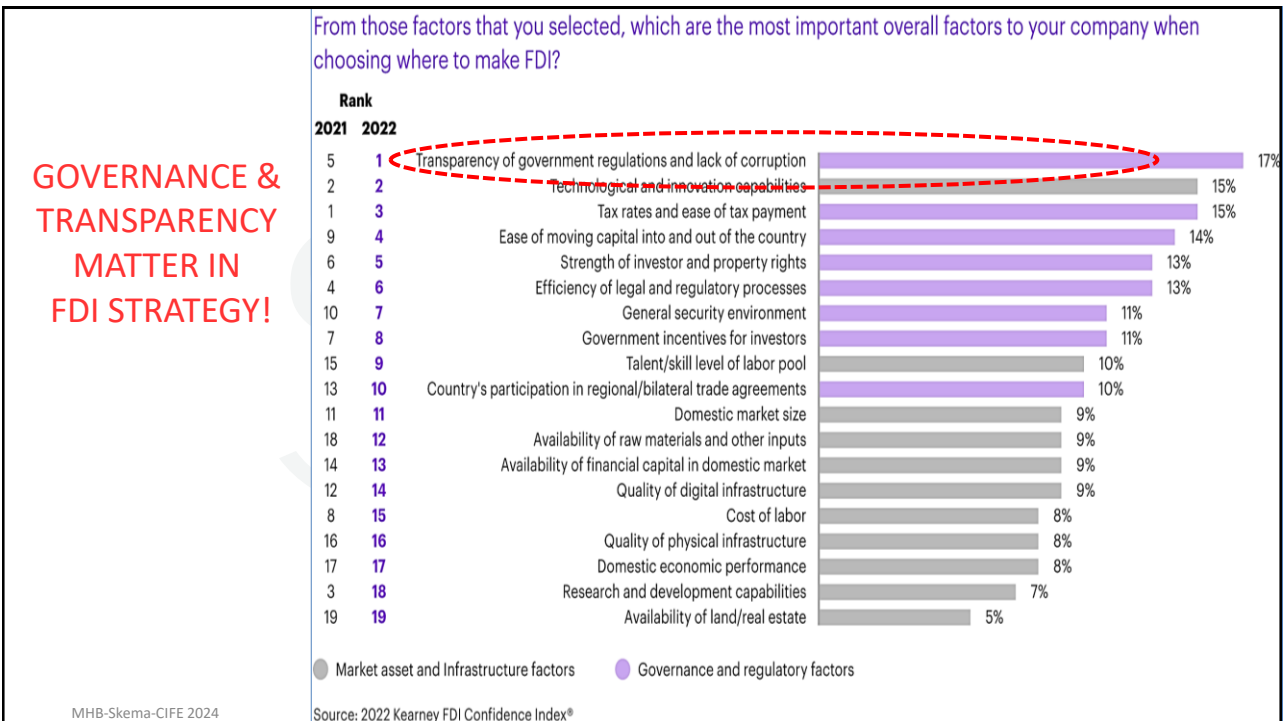
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WHAT IS « GOOD GOVERNANCE »?


XIV^o century Sienna: **Good Government Allegory** =
Balance between
Wisdom, Justice, Strength, and Peace



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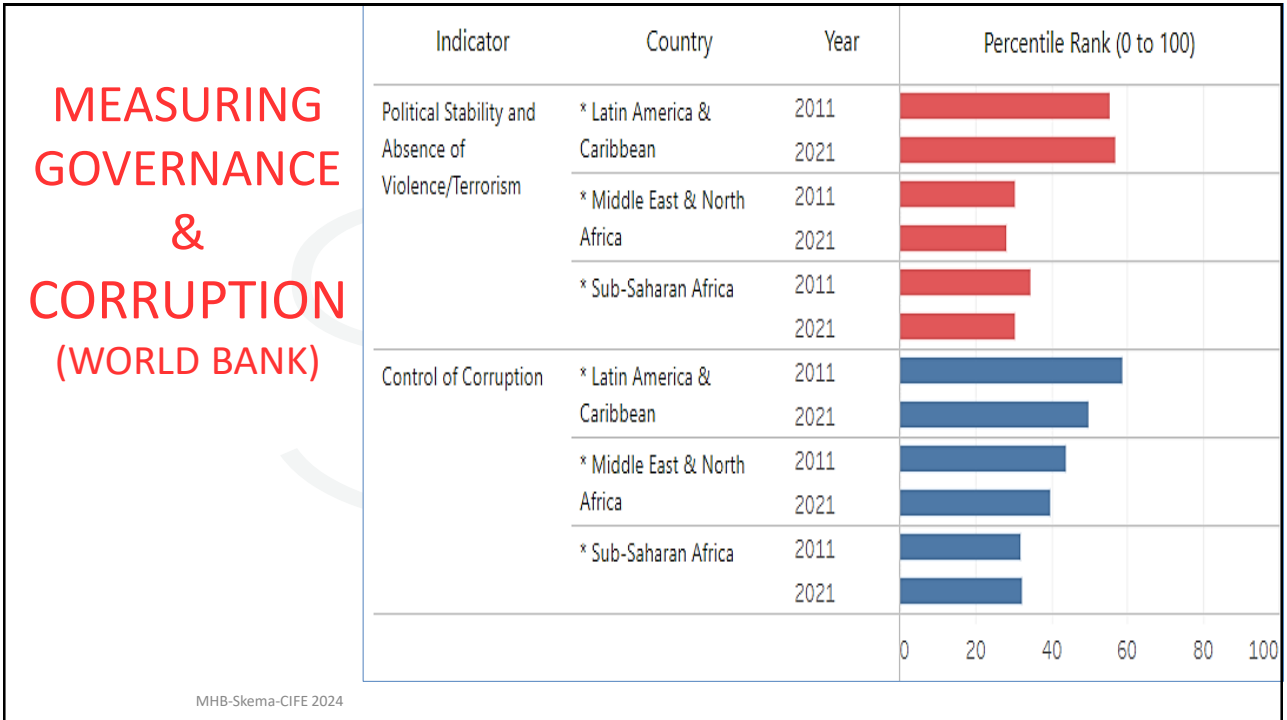
WHAT IS GOVERNANCE IN 2024?

Governance consists of the **quality of institutions**
by which authority is exercised = 
transforming economic growth into development

- Accountability
- Political Stability & Social Peace
 - Government Effectiveness
- Transparency and Regulatory Quality
 - Rule of Law
- Control of Corruption

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ICRG CROSS-COUNTRY GOVERNANCE RISK INDEX

▶ 140 countries

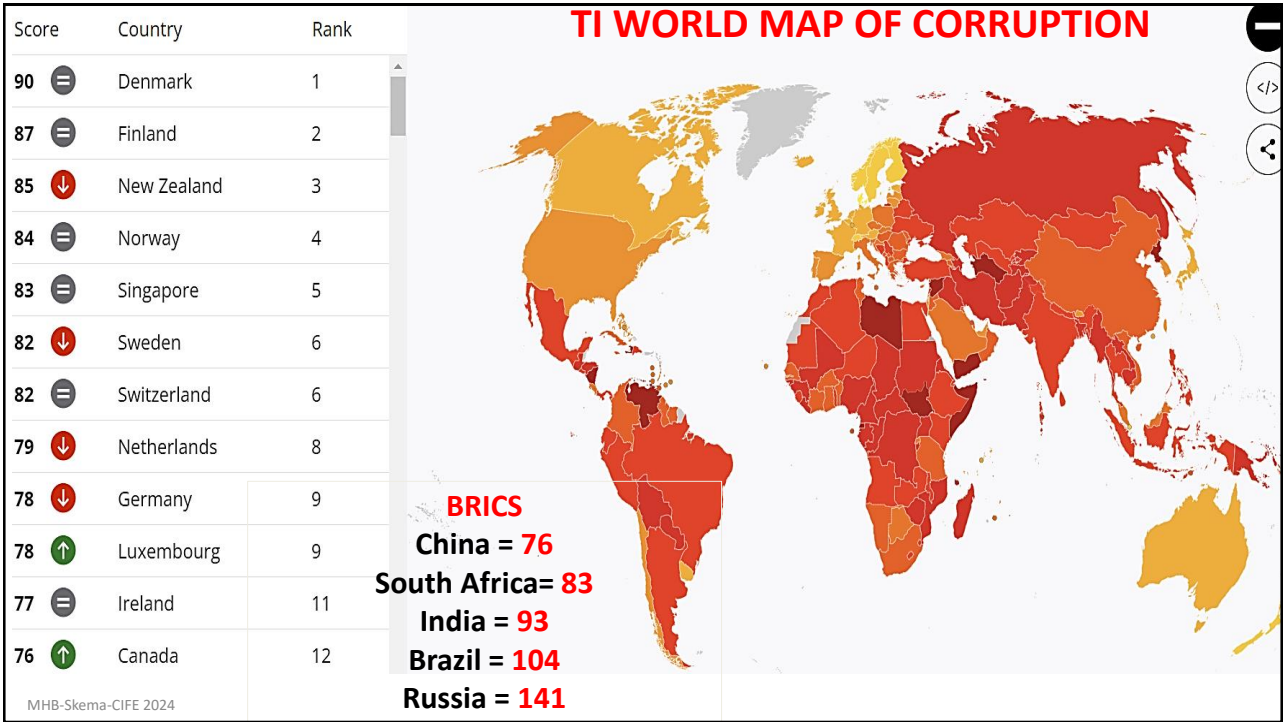
- Composite risk rating
- Monthly rating since 1980
 - 22 variables
- **3 categories:**
 1. Socio-political (100)
 2. Financial (50)
 3. Economic (50)

▶ **Political Risk Rating = 12 weighted variables (100)**

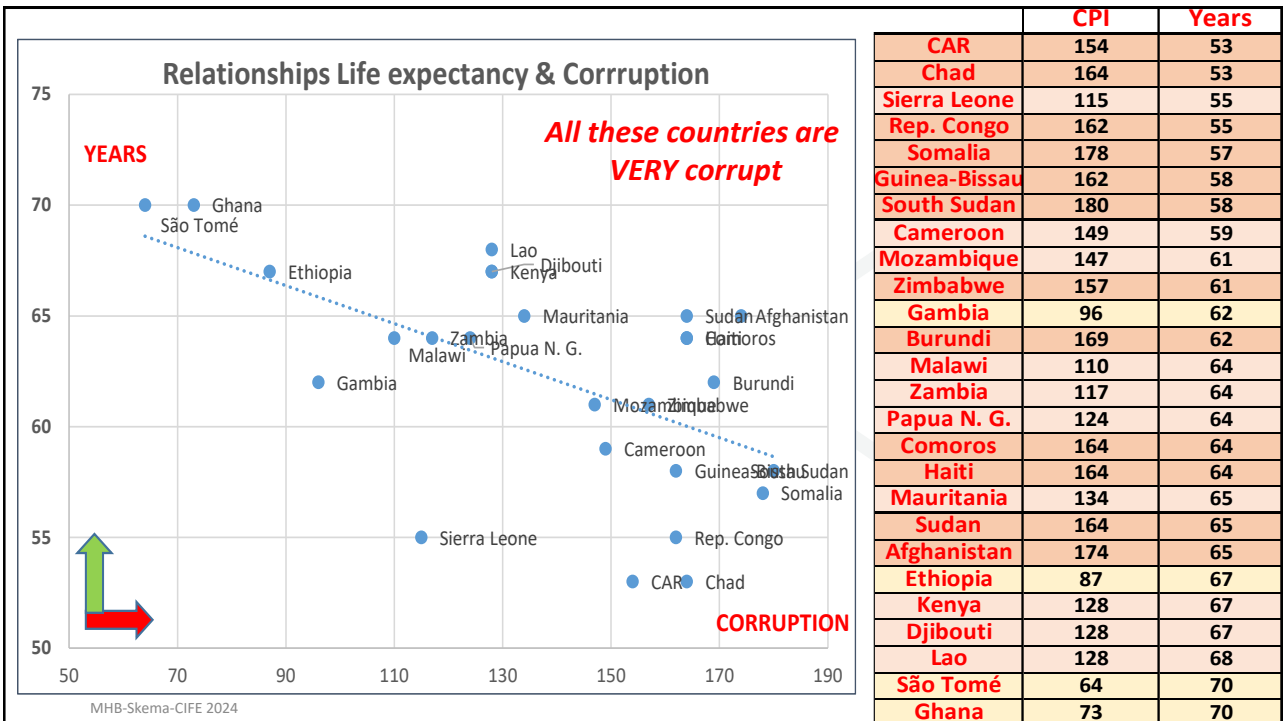
1. Government Stability 12
2. Socioeconomic Conditions 12
3. Investment Profile 12
4. Internal Conflict 12
5. External Conflict 12
6. **Corruption** 6
7. Military in Politics 6
8. Religious Tensions 6
9. Law and Order 6
10. Ethnic Tensions 6
11. Democratic Accountability 6
12. Bureaucracy Quality 4

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MEASURING STATE FRAGILITY FOR CROSS-COUNTRY ASSESSMENT



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SIX KEY INGREDIENTS OF STATE FRAGILITY



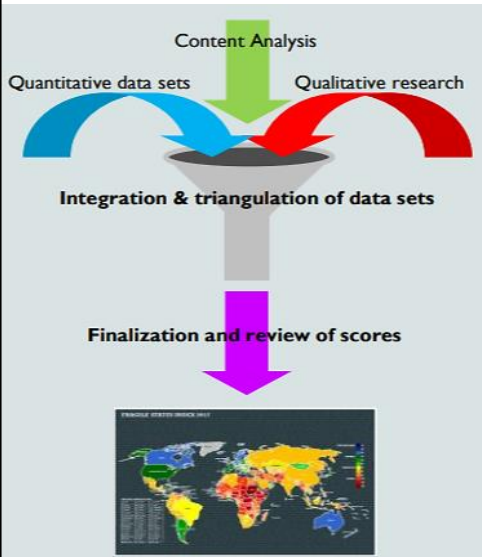
1. Weakness of institutions
2. Bad governance & corruption
3. Income & wealth gaps
4. Trade and debt dependence
(commodity-driven growth)
5. Limited socio-economic freedom
6. Decline in democratization

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THE FUND FOR PEACE : FRAGILE STATES INDEX'S METHODOLOGY

The Fragile States Index = critical tool in highlighting the pressures that can outweigh a states' capacity to manage those pressures.



Annual ranking for 178 countries
12 political, economic and social indicators
 >100 sub-indicators, coupled with qualitative analysis and expert validation:

Economic decline, uneven development, brain drain, state legitimacy, public services, corruption, human rights, demographic pressures, refugees, external intervention, rule of law...

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Sort by Indicator: Hover your mouse at the top of the column you wish to sort and click the sort button:

Alternate	Rank	Total												
Yemen	1st	111.7	9.1	10.0	9.1	9.9	8.0	6.7	9.9	9.9	9.9	9.9	9.9	9.4
Somalia	2nd	110.5	9.4	10.0	8.4	9.1	9.0	8.7	9.5	9.9	8.8	10.0	8.7	9.0
Syria	3rd	108.4	9.5	9.9	9.4	9.3	6.8	8.1	10.0	9.3	9.4	7.3	9.4	10.0
South Sudan	3rd	108.4	9.8	9.2	8.5	8.9	8.7	6.6	9.6	9.8	8.6	9.6	10.0	9.1
Central African Republic	5th	108.1	8.3	9.7	8.4	8.2	9.7	6.5	9.2	10.0	9.4	9.2	9.8	9.7
Congo Democratic Republic	6th	107.3	8.7	9.6	9.3	8.3	8.4	6.7	9.3	9.5	9.3	9.7	9.7	8.8
Sudan	7th	107.1	8.2	9.6	9.6	9.2	8.4	7.8	9.3	8.9	9.1	9.1	9.5	8.4
Afghanistan	8th	105.9	10.0	8.7	8.2	9.3	8.2	8.0	9.2	9.9	8.4	9.1	8.9	8.0
Chad	9th	105.7	8.6	9.5	8.4	8.7	8.8	8.0	9.4	9.7	8.3	9.6	9.1	7.6
Myanmar	10th	100.0	9.0	9.0	9.6	7.5	7.2	6.4	9.1	9.0	9.2	7.3	9.1	7.6
Haiti	11th	99.7	6.3	9.6	5.4	8.6	9.3	8.2	9.8	9.7	7.4	8.7	7.2	9.5
Guinea	12th	99.6	9.0	10.0	9.7	7.9	7.6	6.4	10.0	9.7	7.0	9.1	6.5	6.7
Ethiopia	13th	99.3	8.5	9.2	9.2	6.0	7.0	6.3	8.5	8.6	8.7	9.7	9.2	8.4
Mali	14th	98.6	9.7	7.2	8.2	7.2	7.3	7.8	8.5	8.9	7.2	8.8	8.4	9.4
Zimbabwe	15th	97.8	8.7	9.9	5.8	9.1	7.7	7.0	8.9	8.7	8.1	9.0	7.9	7.0
Nigeria	16th	97.2	8.9	9.3	8.9	8.3	8.0	6.6	8.5	9.1	8.4	9.5	6.3	5.4
Cameroon	17th	96.0	8.4	9.3	8.4	6.5	7.7	7.2	8.7	8.3	7.6	8.8	8.4	6.7
Eritrea	18th	95.9	5.9	8.7	8.6	7.4	8.2	8.5	9.6	8.0	9.0	8.0	7.1	6.9
Burundi	19th	95.4	7.7	8.5	7.0	8.3	7.1	5.5	9.4	7.9	8.9	8.9	8.3	7.9
Niger	20th	95.2	8.6	9.6	7.6	6.5	7.9	6.9	6.8	9.6	7.0	8.8	8.2	7.7
Mozambique	21st	94.3	7.3	6.3	6.9	8.0	9.1	7.4	6.8	9.6	7.5	9.5	7.8	8.1
Libya	21st	94.3	9.3	9.1	7.2	8.6	5.9	5.1	9.4	7.7	8.8	6.2	7.4	9.6
Iraq	23rd	93.8	7.8	9.6	7.9	6.6	5.8	6.4	8.3	8.6	8.1	8.5	8.0	8.2

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BROOKINGS INSTITUTE: INDEX OF STATE WEAKNESS IN THE DEVELOPING WORLD

4 “baskets” of key indicators: economic, political, security, social welfare

20 sub-indicators: 141 countries

- Economic: GNI per capita, GDP growth, Income Inequality, Inflation, Regulatory Quality
- Political: Government Effectiveness, Rule of Law, Accountability, Corruption
- Security: Conflict Intensity, Political Stability and Violence, Incidence of Coups, Gross Human Rights Abuses
- Social welfare: Child Mortality, Primary School Completion, Undernourishment, Water Source & Sanitation Facilities, Life Expectancy

Rank	Country	Overall Score	Economic	Political	Security	Social Welfare	GNI Per Capita
1	Somalia	0.52	0.00	0.00	1.37	0.70	226
2	Afghanistan	1.65	4.51	2.08	0.00	0.00	271
3	Congo, Dem. Rep.	1.67	4.06	1.80	0.28	0.52	130
4	Iraq	3.11	2.87	1.67	1.63	6.27	1134
5	Burundi	3.21	5.01	3.46	2.95	1.43	100
6	Sudan	3.29	5.05	2.06	1.46	4.59	810
7	Central African Rep.	3.33	4.11	2.90	5.06	1.25	360
8	Zimbabwe	3.44	1.56	1.56	6.81	3.84	350
9	Liberia	3.64	3.39	3.91	6.01	1.25	140
10	Cote D'Ivoire	3.66	5.23	2.12	3.71	3.56	870
11	Angola	3.72	5.42	2.67	5.32	1.45	1980
12	Haiti	3.76	3.90	2.62	5.21	3.31	480

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GEORGE MASON UNIVERSITY SCHOOL OF PUBLIC POLICY CENTER FOR SYSTEMIC PEACE STATE FRAGILITY INDEX

	Fragility Index	Effectiveness Score	Legitimacy Score	Security Effectiveness	Security Legitimacy	Armed Conflict Indicator	Political Effectiveness	Political Legitimacy	Regime Type	Economic Effectiveness	Economic Legitimacy	Net Oil Production or Consumption	Social Effectiveness	Social Legitimacy	Regional Effects
Dem. Rep. of Congo	24	13	11	■	■	War	■	■	dem	■	■		■	■	Afr
Central African Rep.	23	12	11	■	■	War	■	■	DEM	■	■		■	■	Afr
South Sudan	22	12	10	■	■	War	■	■	SF	■	■	na	■	■	Afr
Sudan (North)	22	11	11	■	■	War	■	■	aut	■	■		■	■	Mus

The State Fragility Matrix scores 167 countries since 2007

2 Criteria: Effectiveness and Legitimacy

4 performance dimensions: Security, Political (Regime/Governance Stability), Economic (GDP...), and Social (Human capital...)

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20 CANDIDATES FOR « WEAK » STATES CATEGORY?

Developed countries?

- **Argentina**
- **Armenia**
- **Serbia**
- **Romania**
- **Colombia**
- **Montenegro**
 - **Tunisia?**
- **Paraguay**

Developed countries?

- ✓ **Russia**
- ✓ **Brazil**
- ✓ **Kazakhstan**
- ✓ **Algeria**
- ✓ **Kuwait**
- ✓ **Indonesia**
- ✓ **Saudi Arabia**
- ✓ **Belarus**
- ✓ **South Africa**
- ✓ **Egypt**



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30 CANDIDATES FOR FAILED STATES CATEGORY?

Developing countries

- **Tajikistan**
- **Eritrea**
- **Mozambique**
- **Madagascar**
 - **Haiti**
- **Afghanistan**
- **Equatorial Guinea**
- **Guinea Bissau**
- **North Korea**
 - **Yemen**
- **South Sudan**
 - **Syria**
 - **Somalia**
 - **Burundi**
 - **CAR**

Developing countries

- ✓ **Iraq**
- ✓ **Gabon**
- ✓ **Cameroun**
- ✓ **Venezuela**
- ✓ **Libya**
- ✓ **Uzbekistan**
- ✓ **Zimbabwe**
- ✓ **Cambodia**
- ✓ **DR Congo**
- ✓ **Turkmenistan**
- ✓ **Angola**
- ✓ **Chad**
- ✓ **Congo**
- ✓ **Sudan**



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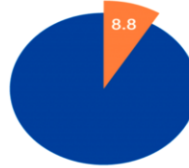
IN AFRICA, LARGE NUMBER OF RICH COUNTRIES WITH POOR PEOPLE!

COMMODITY-DRIVEN GROWTH ENCOURAGES STATE CAPTURE AND CORRUPTION

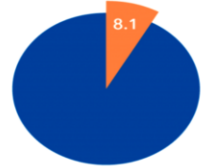
A big piece of the pie

Mining plays a key role in the economies of resource intensive sub-Saharan African countries, but tax revenues remain limited. (2009-19, percent)

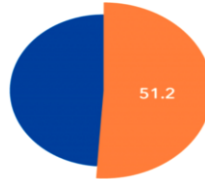
GDP (Percent of total GDP)



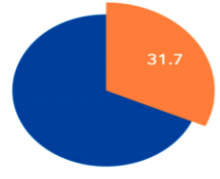
Revenues (Percent of domestic revenues)



Exports (Percent of total exports)



FDI (Percent of total FDI)



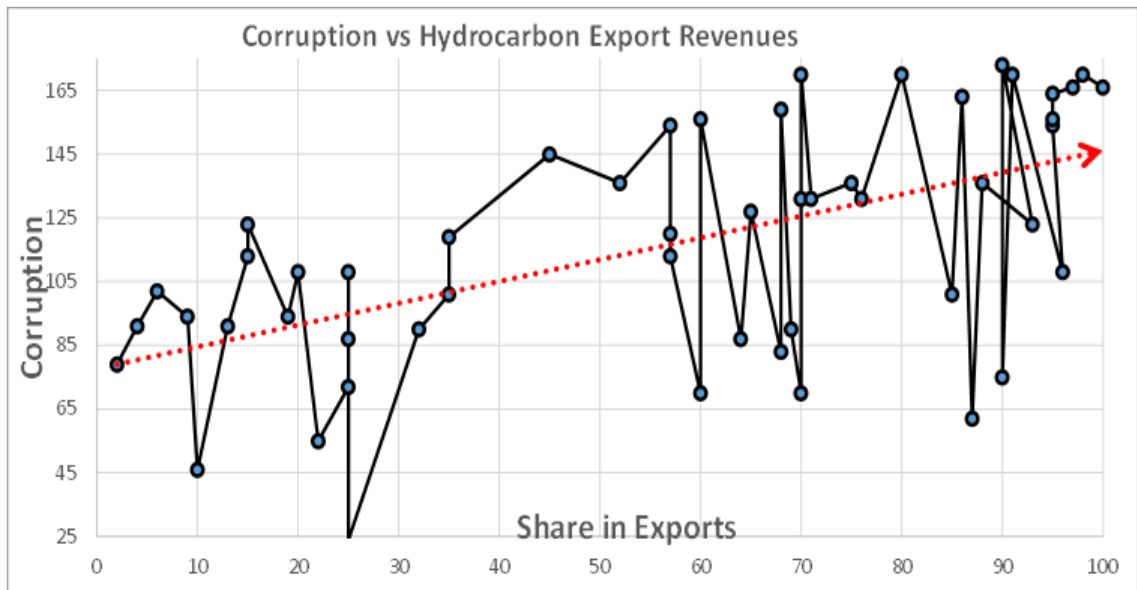
Sources: Country authorities; FAD Resource Revenue Tax Database; FDI markets; and IMF staff estimates.



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OIL-BASED GROWTH LEADS TO POWER AND WEALTH CONCENTRATION, AND CORRUPTION



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Where does the risk of institutional weakness come from?

Managing the stress of modernization!

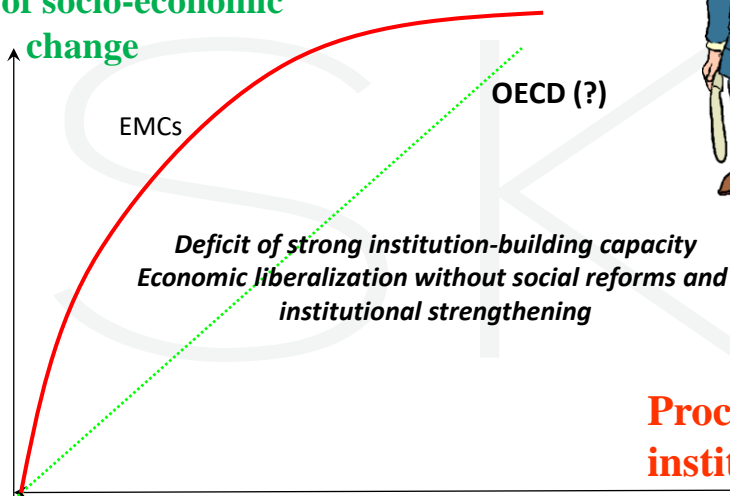
1. How **resilient** is the political system?
2. Is there a tradition of **peaceful transitions** of power?
3. How robust are the institutions as **social shock absorbers** that provide buffers between citizens and governments?

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POLITICAL DIS/ORDER IN RAPIDLY CHANGING SOCIETIES

Process of socio-economic change



Process of political institutionalization

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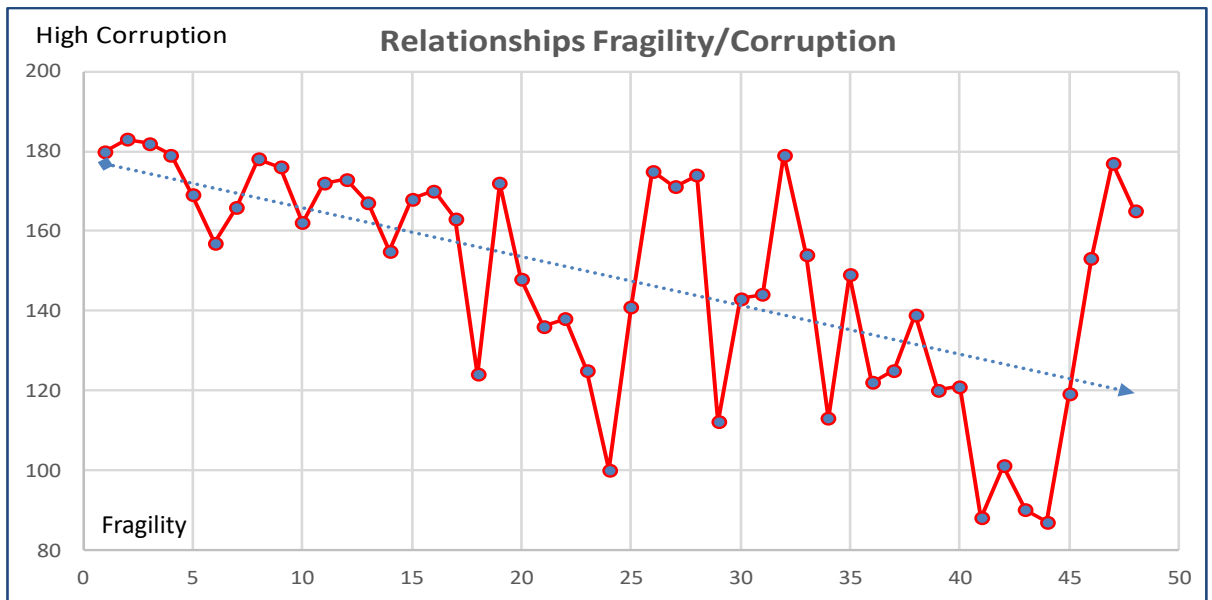
A DEFICIT IN INSTITUTION-BUILDING ALWAYS LEADS TO SOCIAL UPHEAVAL



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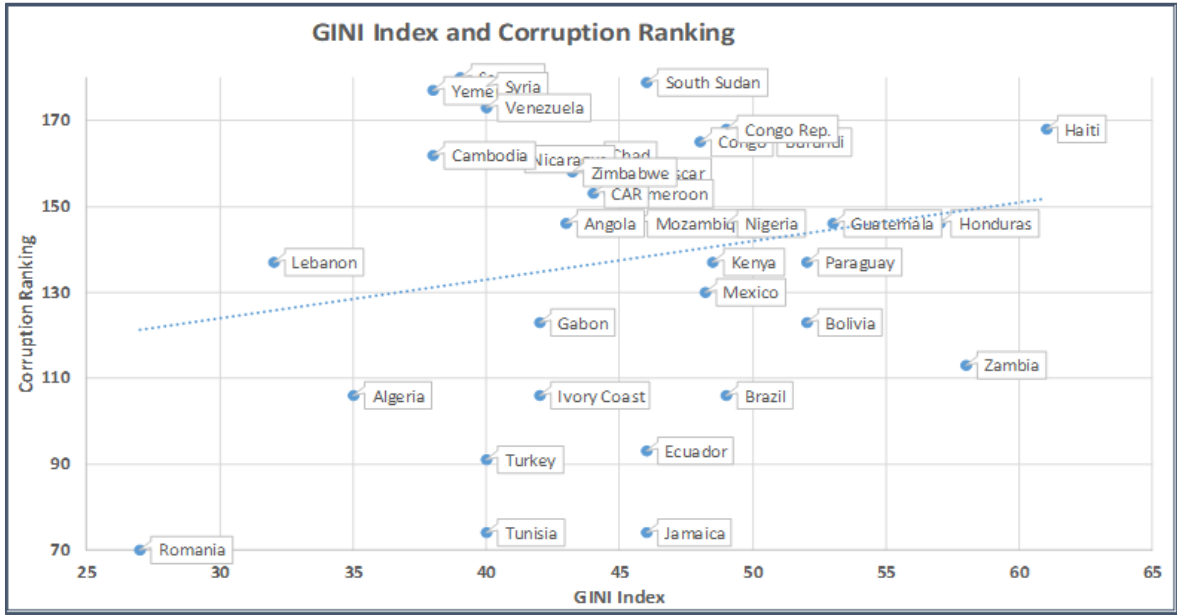
STATE FRAGILITY IS STRONGLY LINKED TO CORRUPTION



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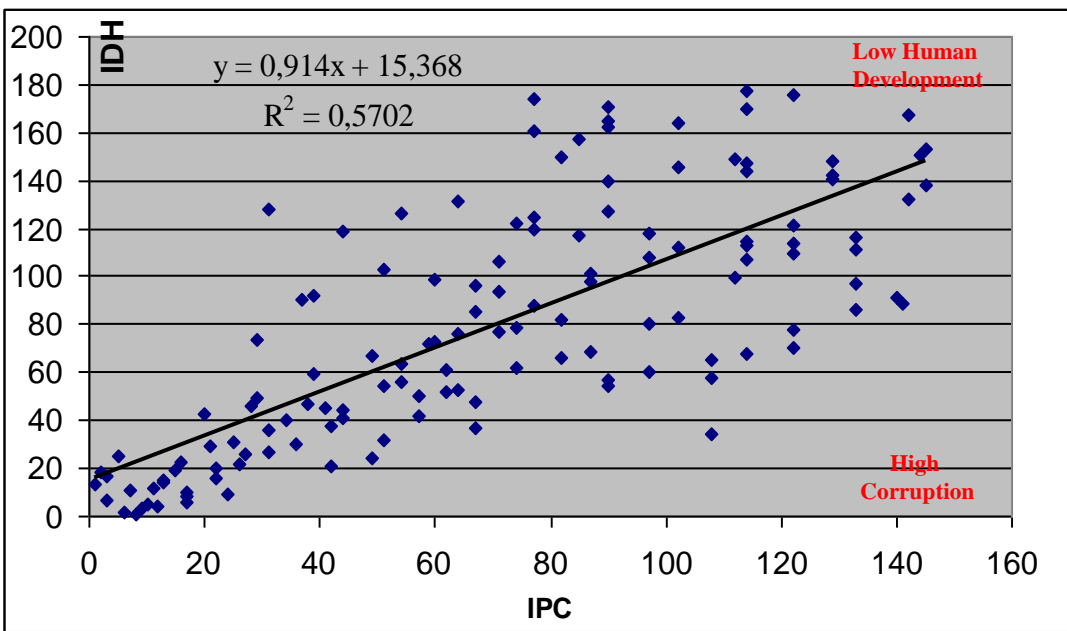
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CORRUPTION IS STRONGLY RELATED TO LARGE INCOME AND WEALTH GAPS



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LARGE CORRUPTION IS STRONGLY RELATED TO LOW DEVELOPMENT SCORE



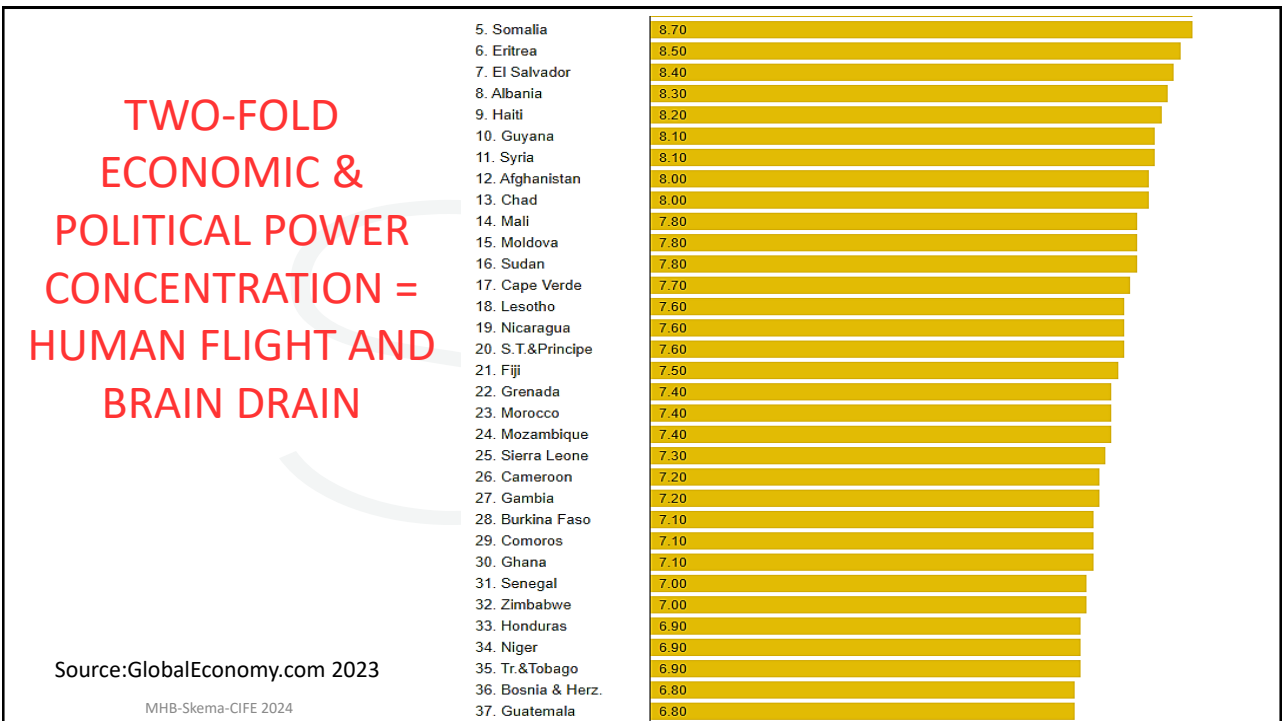
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WHY DOES CAPITAL FLIGHT DESERVE MORE ATTENTION?



- Macroeconomic consequences: increase S-I gap
- Symptom of institutional weakness (banking system, savings mobilization)
- Push & Pull forces
- Recycling of external debt and development aid?
- **Reflection of bad governance and corruption?**

New research and policy focus of IFIs (Lessard/Williamson, Dooley, Cuddington, Bouchet/Gros Lambert, Collier, Cerra, Boyce/Ndikumana, Bouchet/Seto, & Bouchet/Feki)

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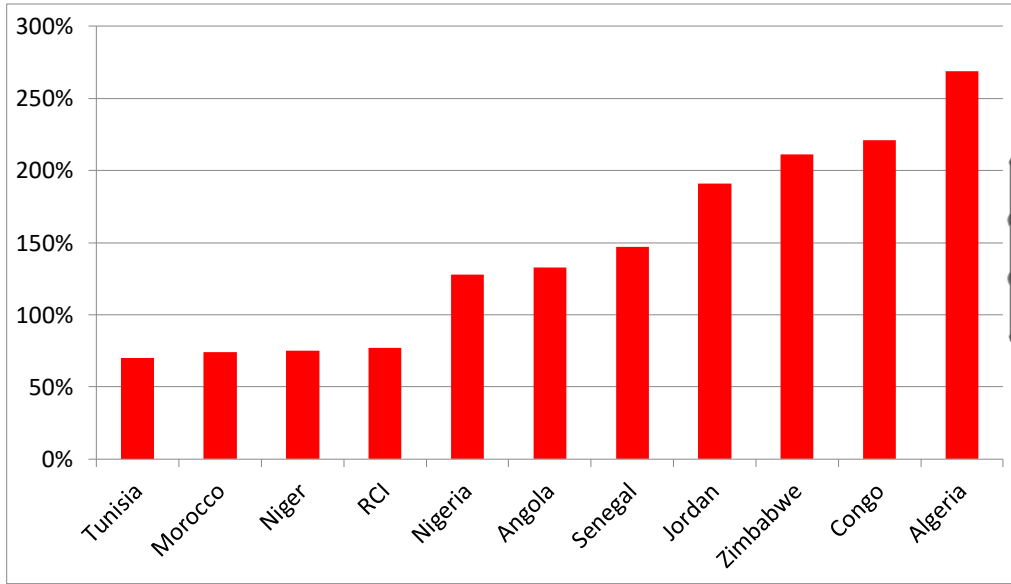
WEAK STATES AND CAPITAL FLIGHT

- Sanitary and socio-economic disaster in fragile states = political and social disorder
- Q1 2024 = net **\$100 billion** has left 12 leading EMCs, including Brazil, Argentina, Turkey, Mexico, Peru, Ecuador, and South Africa (stark contrast to inflows of \$80 billion in 2019)

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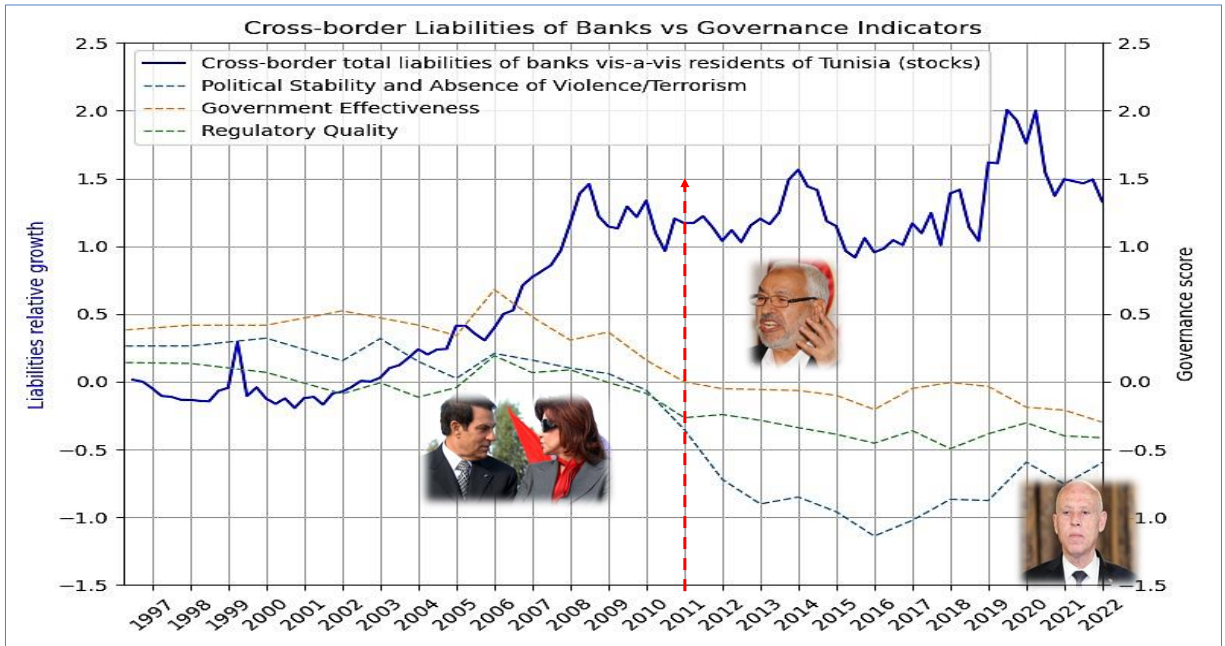
RATIO OF PRIVATE EXTERNAL DEPOSITS TO PRIVATE BORROWING



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TUNISIA: PRIVATE DEPOSITS IN INTERNATIONAL BANKS



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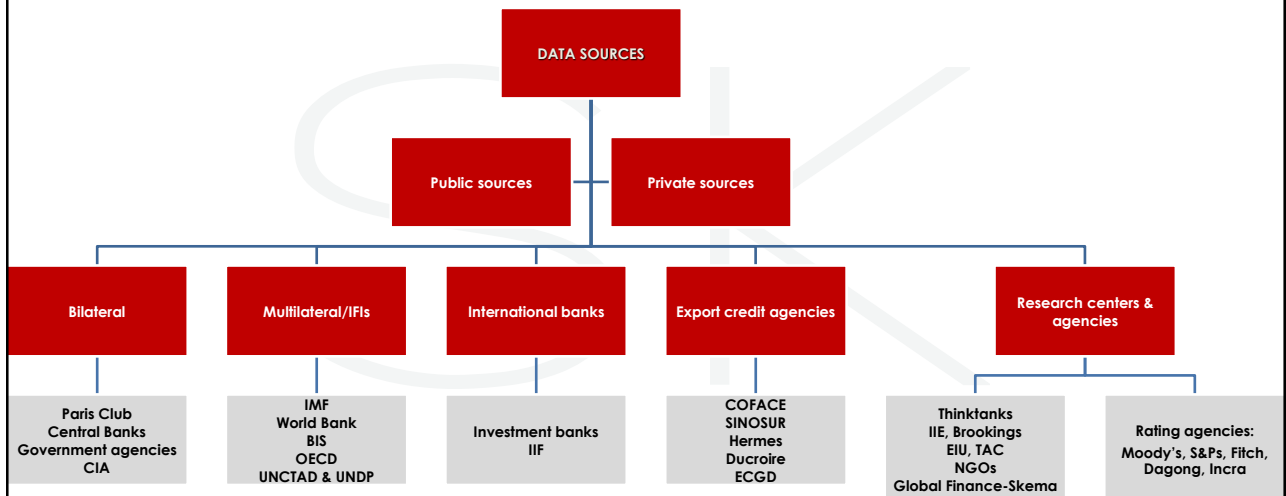
KEY ROLE OF GOVERNANCE & INSTITUTIONAL VARIABLES

- ✓ a 1% increase in **Governance** (quality of government) will reduce by 1.45% the flow of expatriated savings to GDP, on 99% level of confidence
- ✓ a 1 % increase in **Civil Liberty** is associated with 0.9% decrease in capital flight
- ✓ A 1% increase in **External debt** (capital inflows) leads to a 2,1% rise in capital flight (revolving door & recycling syndrome)
- ✓ A 1% increase in **conditional development aid** leads to a 0,2% reduction in capital flight

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MAJOR SOURCES OF COUNTRY RISK INTELLIGENCE



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