

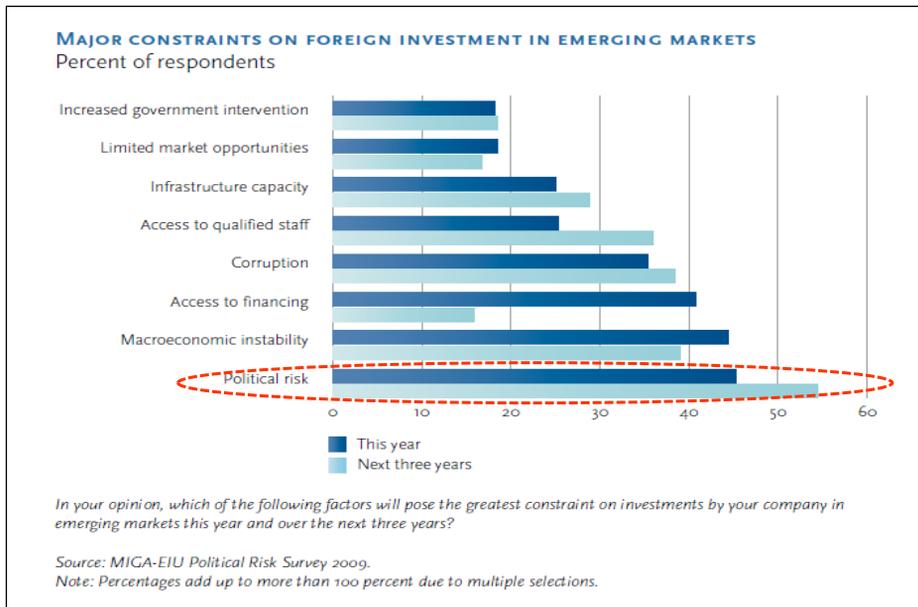
# GLOBAL RISK MANAGEMENT: HOW TACKLING POLITICAL RISK? INTRODUCTION I



CIFE SEMINAR ROMA-BERLIN-NICE 2025-26  
**MICHEL-HENRY BOUCHET**

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## MIGA: THE KEY CHALLENGE OF POLITICAL RISK



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## POLITICAL RISK ASSESSMENT

### ▶ Origins?

**Political risk** stems from the **threat of direct or indirect harm** 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, harm, and losses

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## Political risk materialization

**THREAT**

▶ **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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## A STRUCTURAL SHIFT? MOUNTING VIOLENCE AND SOCIO-POLITICAL TURMOIL WORLDWIDE

The world is experiencing a surge in violence not seen since the post-World War II era. 2024-25 marked a grim new record: the highest number of state-based armed conflicts in over seven decades.

A staggering 61 conflicts were recorded across 36 countries last year, (*PRIO's Conflict Trends: A Global Overview report*)

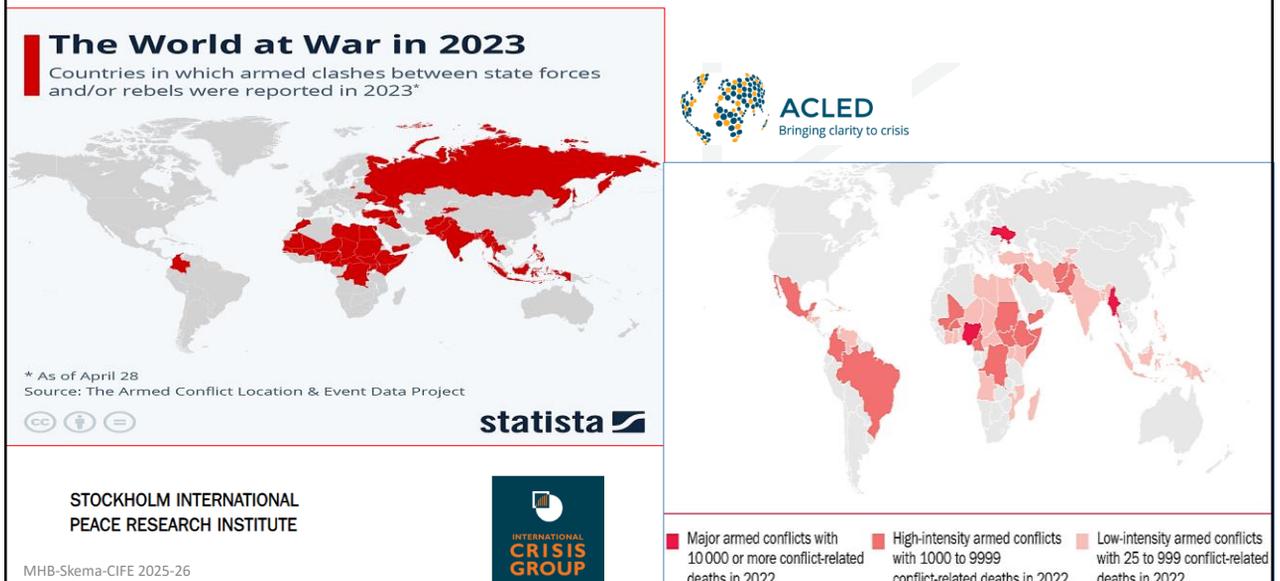
What is increasingly alarming is the multiplication of conflicts within individual countries. More than half of all conflict-affected states now face two or more separate state-based conflicts, which are internal conflicts where the government is one of the warring parties.

In nine countries, there are three or more state-based conflicts. This reflects a deepening complexity in global conflict dynamics – where state fragility, transnational actors and local grievances feed into overlapping crises that are harder to contain, let alone resolve!

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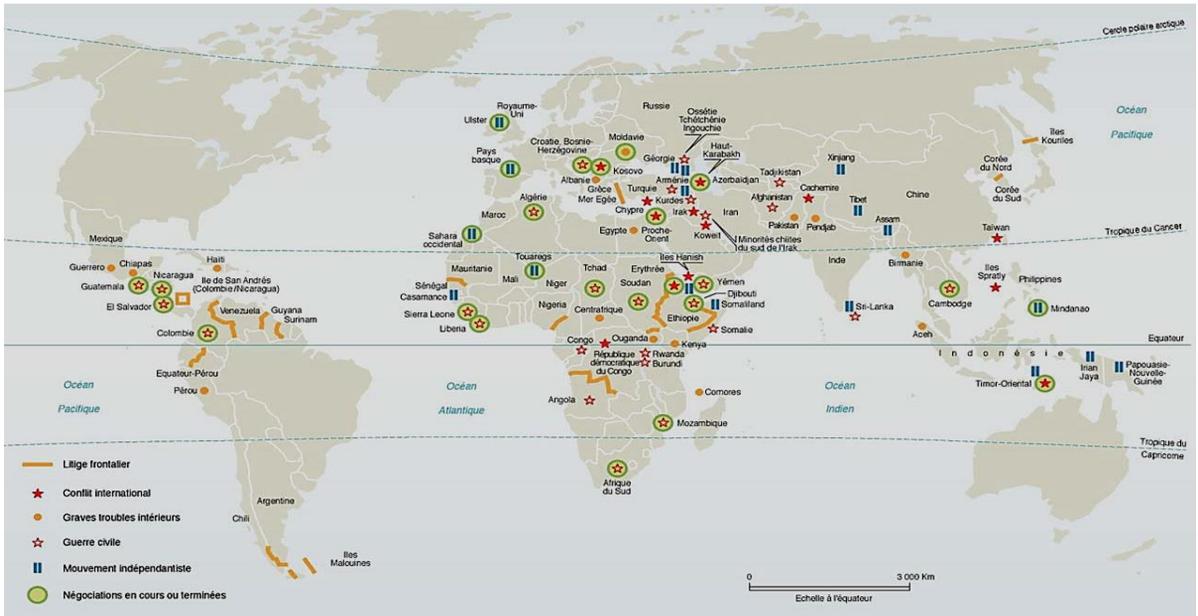
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## MAJOR CURRENT ARMED CONFLICTS WORLDWIDE: BETWEEN 56 AND 115 (DEPENDING ON THE DEFINITION!)



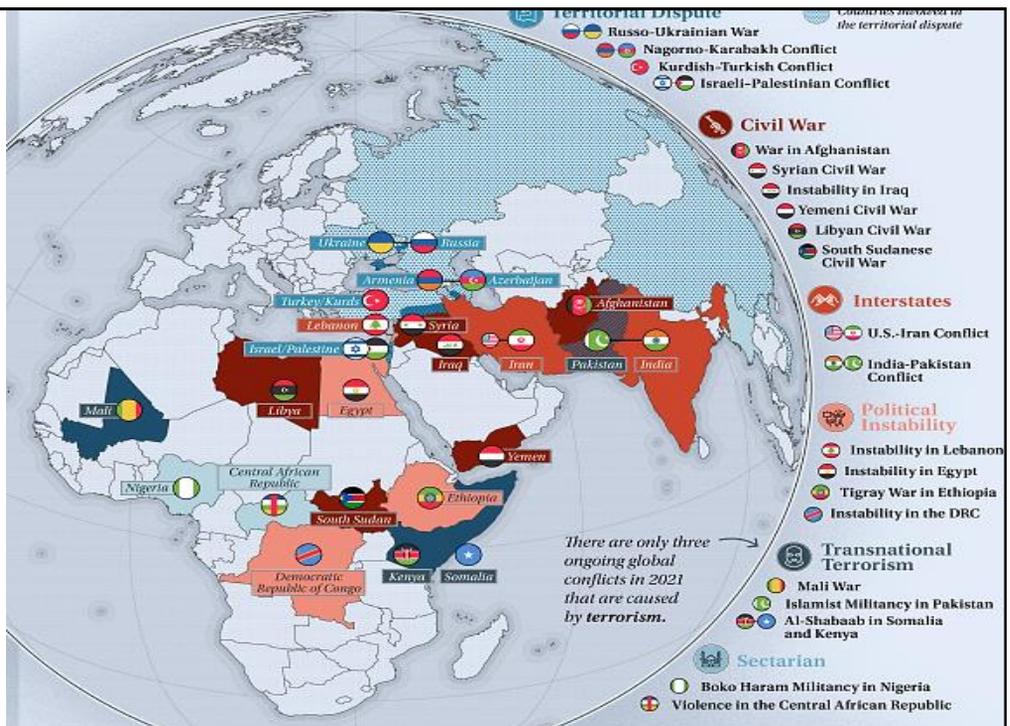
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## Wars and civil conflicts all over the world



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Spring 2022-25:  
Conflict, wars,  
and violence are  
by no means  
things of the  
past:  
>50 ongoing  
conflicts



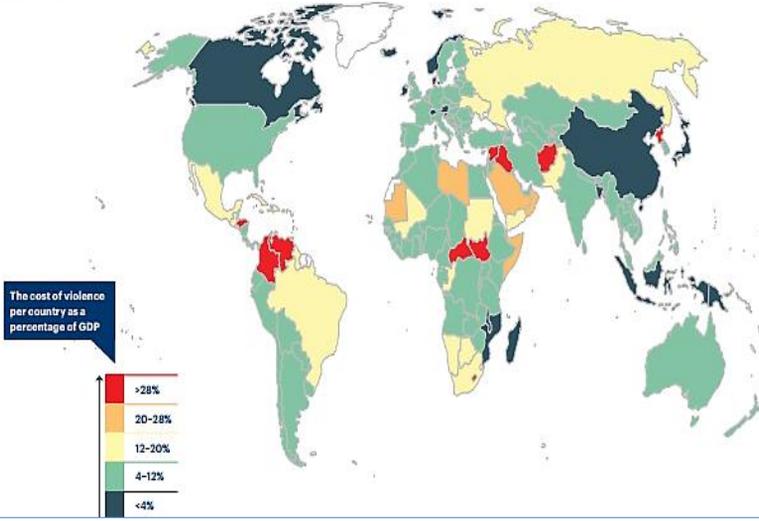
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## THE COST OF VIOLENCE IN % OF GDP

(IEP 2021: THE ECONOMIC VALUE OF PEACE REPORT)

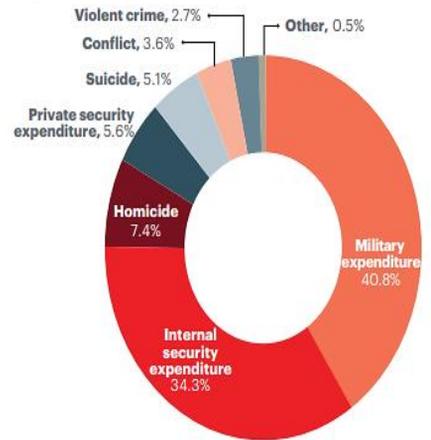
Economic impact of violence on the global economy  
 = **\$14.4 trillion** in PPP terms  
 = **10.5 per cent** of the global GDP  
 or **\$2,000** per person

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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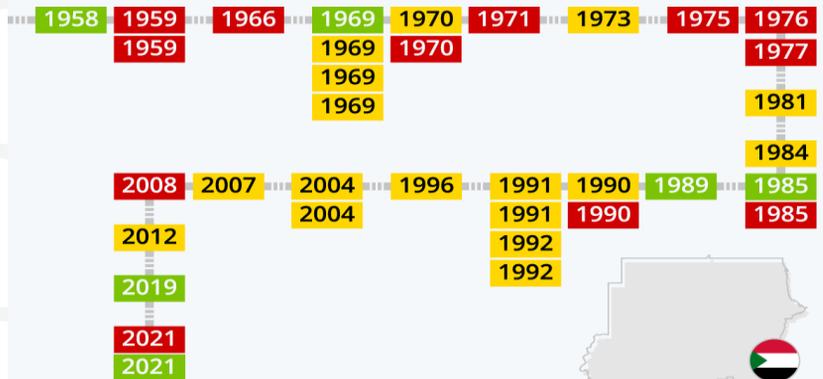
## SUDAN'S HISTORY OF PROTRACTED POLITICAL TURMOIL AND MILITARY COUPS

(35 MILITARY COUPS SINCE THE LATE 1950S)

## A History of Sudan Coups

Coups/coup attempts/coup plots in Sudan since 1956

■ Failed attempt ■ Thwarted/alleged plot ■ Successful



Sources: Center for Systemic Peace, Statista research



statista

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## THE COMPLEXITY OF FINANCIAL RISK!

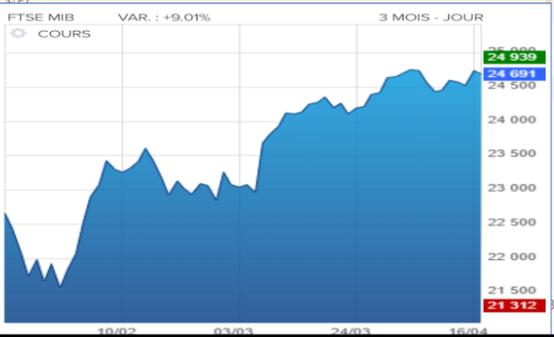
Cost to protect against Turkish debt default abruptly jumps  
Five year CDS spread (basis points)



Source: Refinitiv



Naci Ağbal in his office in February 2021, and his successor, Sahap Kavcıoğlu, less than two months later © Reuters



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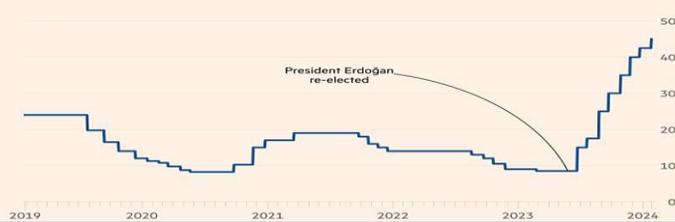


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### 02/2024: ERDOĞAN'S SIXTH CENTRAL BANK GOVERNOR SINCE 2019. TURKISH SAGA OF LATE-NIGHT PUTSCHES AGAINST WELL-REGARDED CENTRAL BANK LEADERS.



Turkey sharply increases rates  
One-week repo rate (%)



**February 2024:** Karahan replaces Erkan: Crucial pivot towards more conventional monetary policy that kicked off after Erkan's appointment in June of 2023. Higher interest rates from 8.5 per cent to 45 per cent to stem inflation and rebuild the central bank's official reserve assets.



**March 2025:** sharp drop of the lira in the wake of massive protests in Turkey after Istanbul mayor Ekrem İmamoğlu was formally arrested . Turkey's one-year credit default swaps spreads and the uncovered interest parity premium (a proxy for expected lira depreciation) spiked following the arrest

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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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## 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.

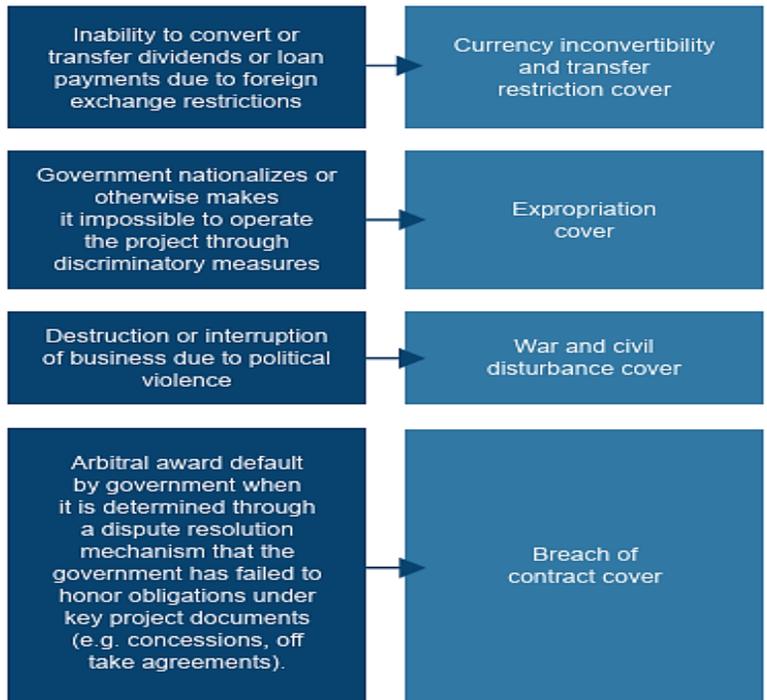
**Gray rhinos are probable events with high impact.** We don’t clearly perceive their full dimensions, we don’t know precisely when or how much. That requires a framework to clear out of the way of gray rhinos when they charge (regional conflicts in Asia escalating amid broader strategic competition,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

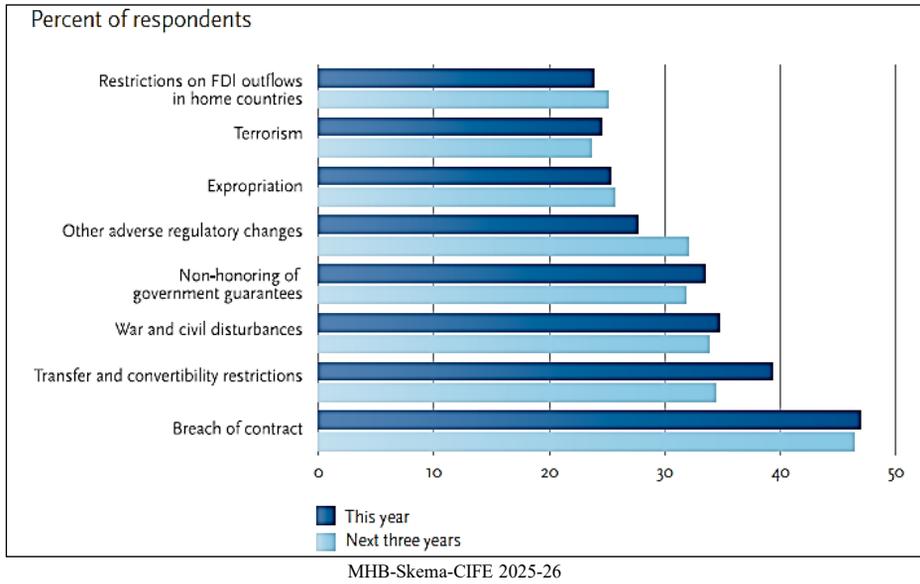
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**EXAMPLES OF POLITICAL RISK SOLUTIONS TACKLED BY MIGA**



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



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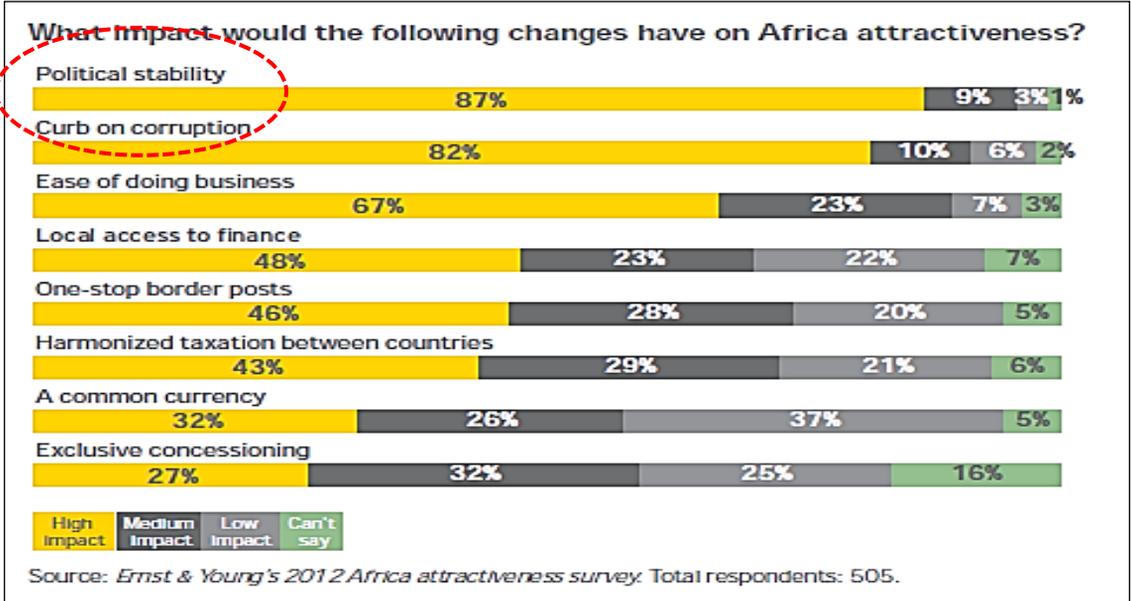
RANKING OF TOP RISKS REPORTED BY FTSE 100 FIRMS (FT)



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## BOOSTING FDI IN AFRICA?



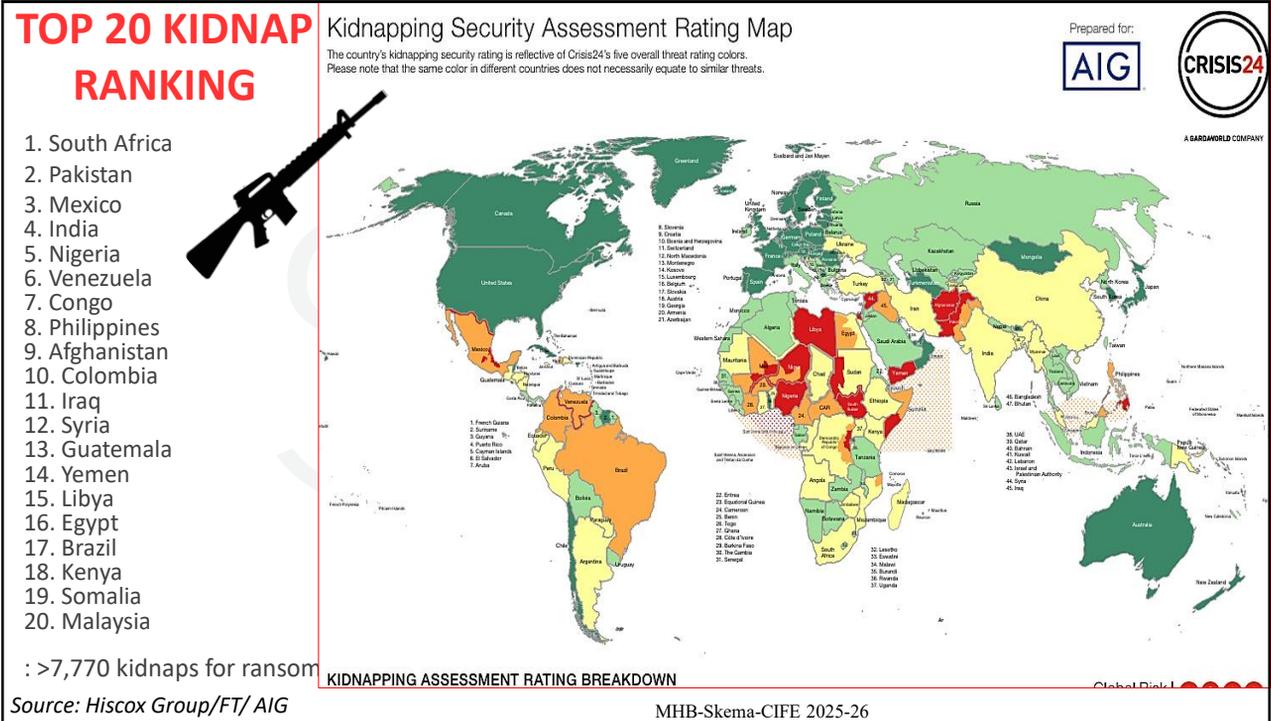
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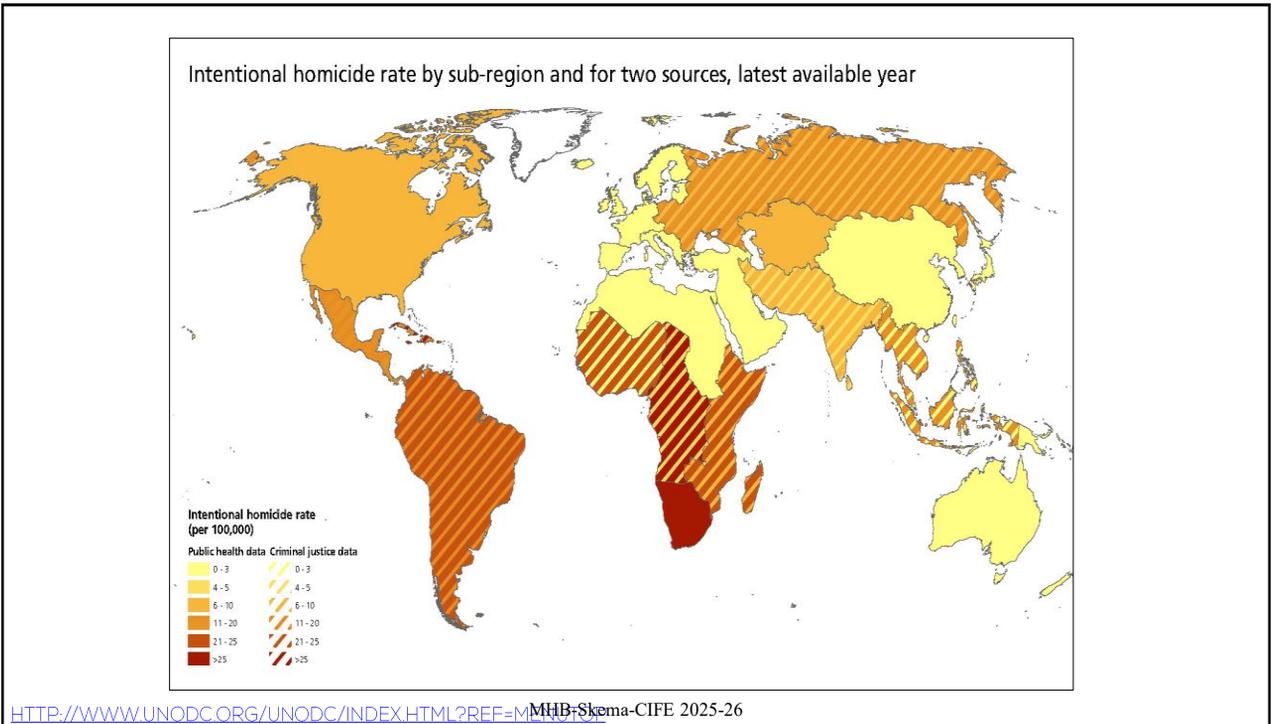
# MEASURING SOCIO-POLITICAL RISK

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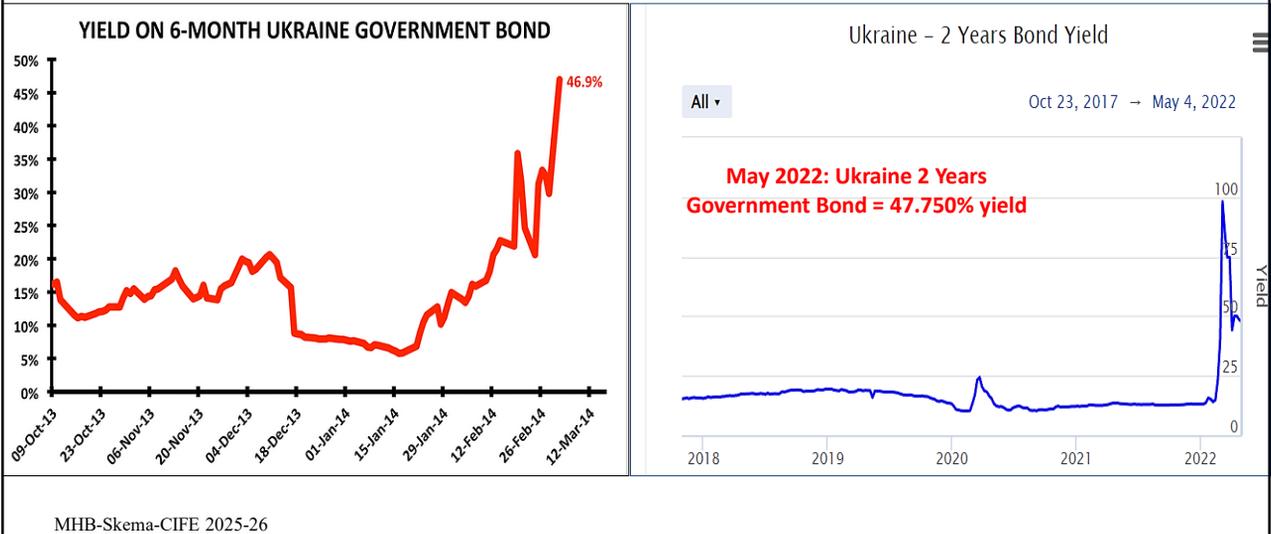
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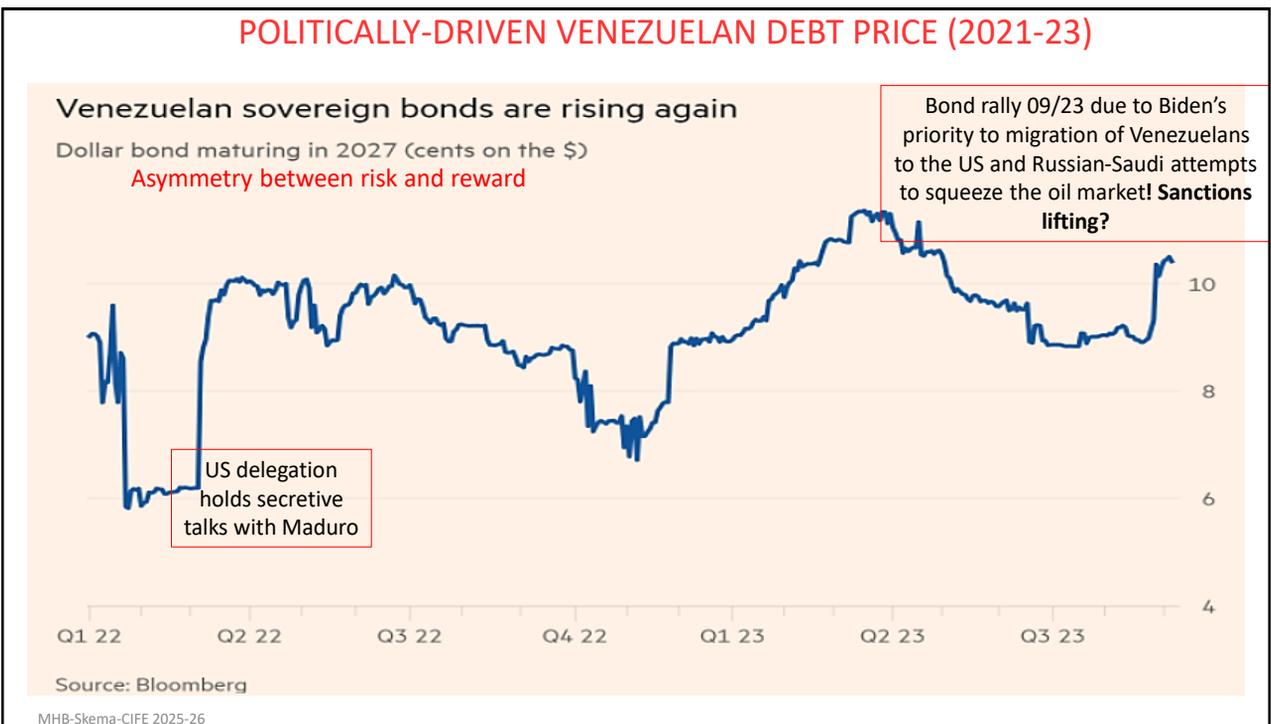
# UKRAINE:

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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## POLITICALLY-DRIVEN VENEZUELAN DEBT PRICE (2021-23)



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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

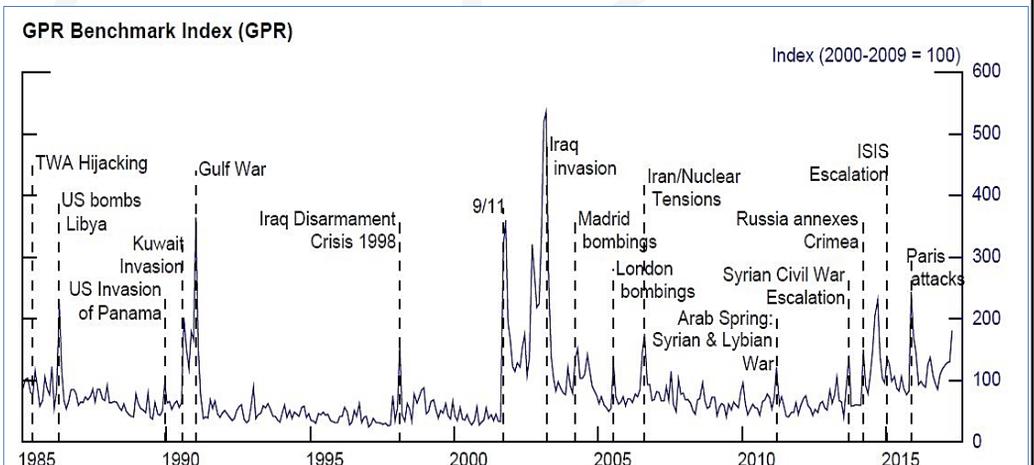
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## THE GEOPOLITICAL RISK INDEX

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.

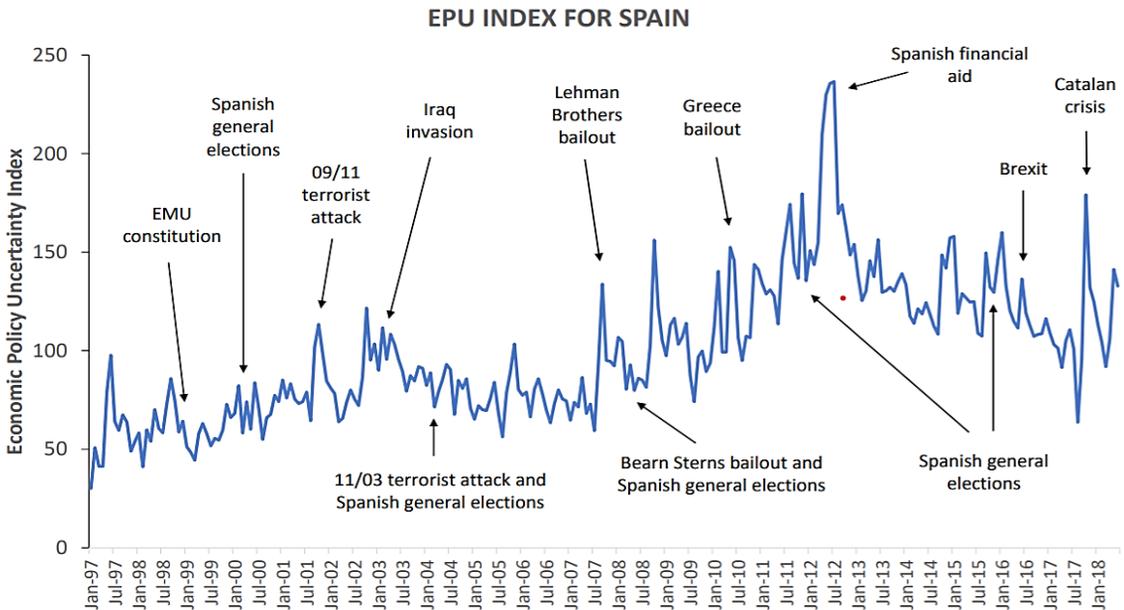
KEY INPUTS = GEOPOLITICAL RISK, MILITARY-RELATED TENSIONS, NUCLEAR TENSIONS. WAR THREATS AND TERRORIST THREATS, TERRORIST ACTS OR THE BEGINNING OF A WAR.



Source: Caldara and Iacoviello (US Federal Reserve Board)

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## MEASURING SOCIO-POLITICAL UNCERTAINTY 1997-2023



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

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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”.

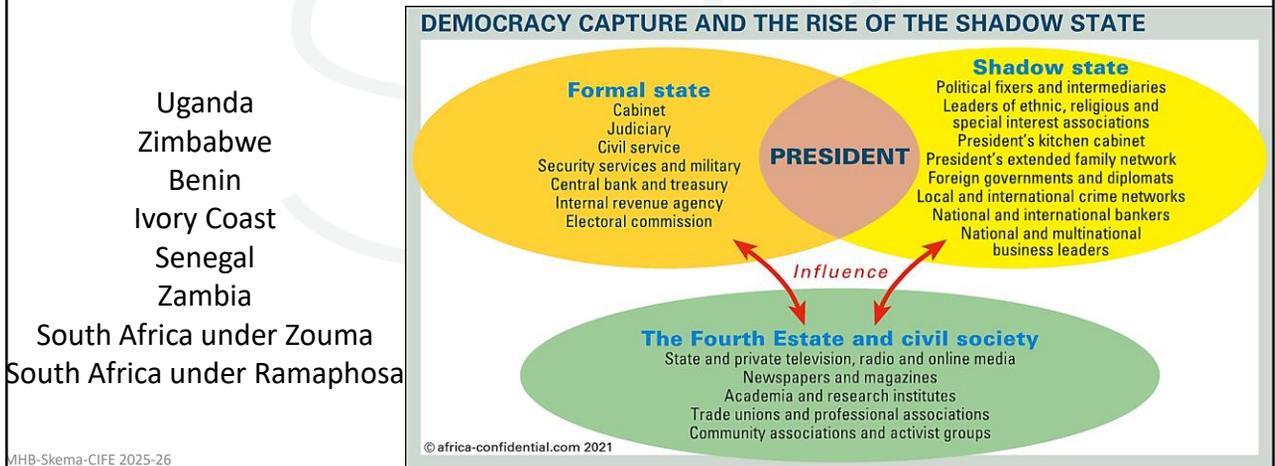
Congo  
Congo-Kinshasa  
Togo  
Cuba?  
Gabon  
Tanzania  
Venezuela

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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.



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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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## ASSESSING AND COMPARING SOCIO-POLITICAL STABILITY PROSPECTS

### ▶ ITALY

- Peace Index: 1,66
  - TI Corruption ranking: 522
  - GI corruption index: 35th
  - Fragility index: 42,6/100 (lower/better)
  - HDI: 30th
  - Rail strikes (35 days/1000 workers)
  - Gini index = 0,33 (OECD)
  - Women in politics= 35% (OECD)
  - Housing overcrowding: 20%
- Fiscal space?
- Growth rate 2024-29: 0,7% (IMF)
  - Public debt/GDP 2024: 139%
  - BOP Current account: +0,8%
  - Unemployment spending: 0,91% GDP

### ▶ SPAIN

- Peace Index: 1,65
  - TI Corruption rank : 46/180
  - GI corruption index: 26th
  - Fragility Index: 43,5/100
  - HDI: 27th
  - Strikes (42 days/1000 workers)
  - Gini index= 0,32
  - Women in politics= 44%
  - Housing overcrowding: 4%
- Fiscal space?
- Growth rate 2024-29: 2,3%
  - Public debt/GDP : 116%
  - BOP Current account 2023-25: +2,5%
  - Unemployment spending : 1,53% GDP

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## BETTER OFF IN TUNISIA OR IN ALGERIA ?



TUNISIA	ALGERIA
<ul style="list-style-type: none"> <li>▶ GDP Per capita = \$10500</li> <li>▶ HDI= 97</li> <li>▶ Life expectancy f = 77</li> <li>▶ Infant mortality= 13/1000</li> <li>▶ Gender inequality: 0,28</li> <li>▶ Doing Business= 78</li> <li>▶ Corruption = 92</li> <li>▶ Peace Index= 85</li> </ul>	<ul style="list-style-type: none"> <li>▶ GDP Per capita=13500</li> <li>▶ HDI= 83</li> <li>▶ Life expectancy= 75</li> <li>▶ Infant mortality= 22/1000</li> <li>▶ Gender inequality: 0,43</li> <li>▶ Doing Business= 157</li> <li>▶ Corruption = 107</li> <li>▶ Peace Index= 109/163</li> </ul>
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**

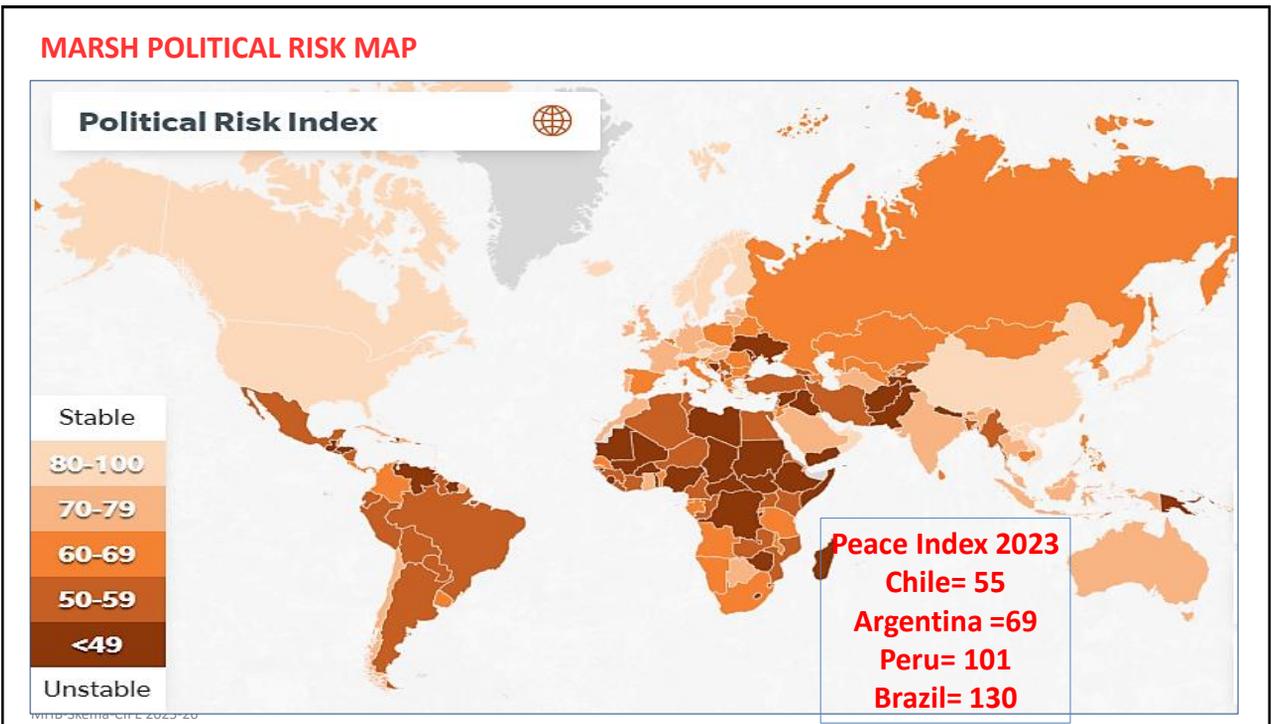
<https://emalm.com/?v=blWrt>

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