


CIFE Centre international de formation européenne
100 BERLIN BRUXELLES BUDAPEST

GLOBAL RISK MANAGEMENT: HOW TACKLING POLITICAL RISK?

INTRODUCTION I



CIFE SEMINAR NICE APRIL 2021
MICHEL-HENRY BOUCHET

POLITICAL RISK ASSESSMENT

- **Origins?** Political risk stems from the **threat** related to the exercise of power by a government, its ramifications, and private 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 and losses

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Wars and civil conflicts all over the world



Political risk and Threat materialization

THREAT

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

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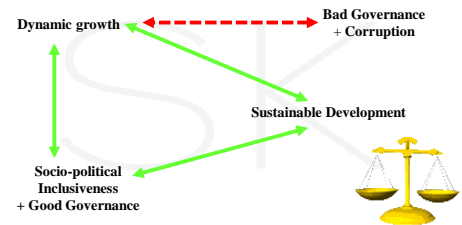
► *Political risk analysis is both an art and a science
but many types of risk are amenable to rigorous analysis:*

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?
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

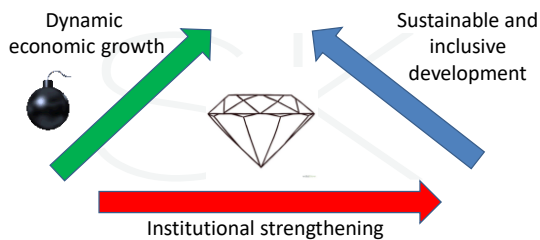
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TRILEMMA OF GROWTH AND DEVELOPMENT?



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THE REQUIRED POLITICAL STABILITY TRIANGLE



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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

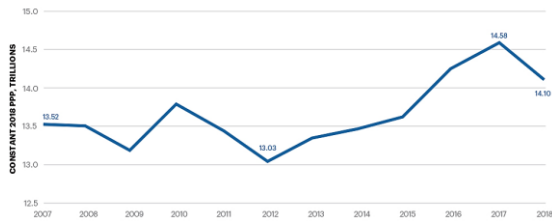
Collateral «soft risks»

• 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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THE SOCIO-ECONOMIC COST OF GLOBAL POLITICAL RISK (\$ TRILLION) 2007-2018

The de-escalation of conflicts, particularly in the MENA region contributed to the 3.3 per cent decline in the global economic impact of violence, the first decline since 2012.



Source: IEP

INSTITUTE FOR ECONOMICS & PEACE
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<https://www.statista.com/chart/3948/the-annual-economic-impact-of-global-violence/>

THE COST OF GLOBAL POLITICAL RISK

The Annual Economic Impact Of Global Violence

Economic impact of violence/conflict to the world economy (in trillion U.S. dollars)



<https://www.statista.com/chart/3948/the-annual-economic-impact-of-global-violence/>

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MIGA: THE KEY CHALLENGE OF POLITICAL RISK

MAJOR CONSTRAINTS ON FOREIGN INVESTMENT IN EMERGING MARKETS

Percent of respondents



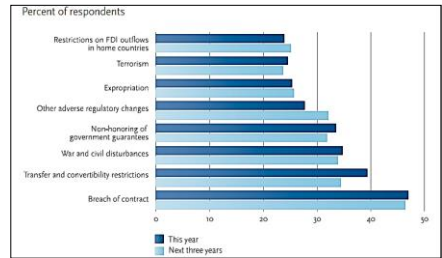
In your opinion, which of the following factors will pose the greatest constraint on investments by your company in emerging markets this year and over the next three years?

Source: MIGA-EIU Political Risk Survey 2019

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



This year

Next three years

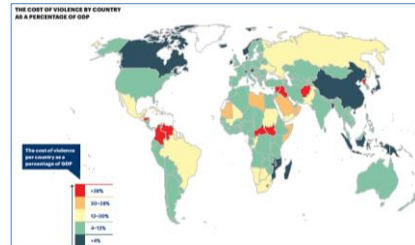
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RANKING OF TOP RISKS REPORTED BY FTSE 100 FIRMS (F1)



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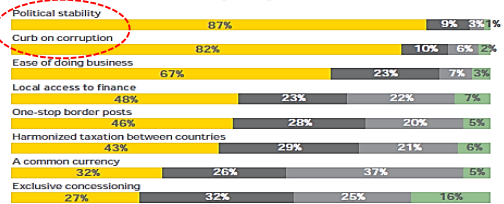
THE COST OF VIOLENCE IN % OF GDP (WORLD ECON FORUM: THE ECONOMIC VALUE OF PEACE REPORT)



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BOOSTING FDI IN AFRICA?

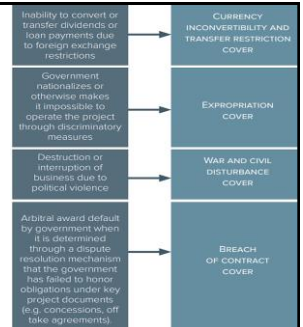
What impact would the following changes have on Africa attractiveness?



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

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A FEW EXAMPLES OF POLITICAL RISK CONSEQUENCES TACKLED BY MIGA

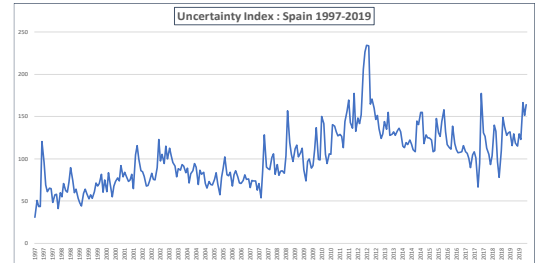


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MEASURING SOCIO-POLITICAL RISK

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MEASURING SOCIO-POLITICAL UNCERTAINTY



EPI index for Spain developed by Corinna Gherell, Javier J. Pérez and Alberto Litago.

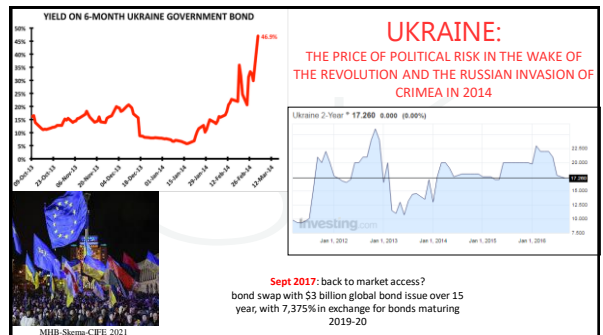
UNCERTAINTY IN EMCS: SHADOW ECONOMY

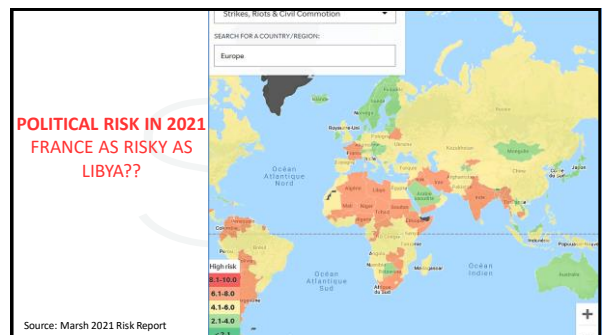
Country↓	% GNP Informal Economy
Georgia	67.3
Bolivia	67.1
Panama	64.1
Azerbaijan	60.6
Peru	59.9
Zimbabwe	59.4
Tanzania	58.3
Nigeria	57.9
Thailand	52.6
Ukraine	52.2
Guatemala	51.5
Uruguay	51.1
Honduras	49.6
Zambia	48.9
Belarus	48.1
Armenia	46.3
Russia	46.1
Benin	45.2
Nicaragua	45.2
Moldova	45

Sources: World Bank
Hernando de Soto

Michel H. Bouché/SKEMA-CFE 2021

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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

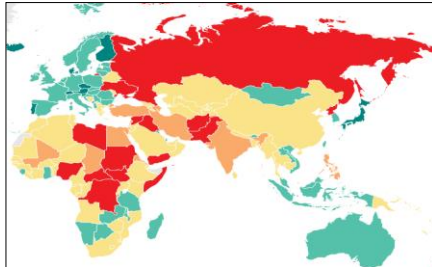
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MAPPING OUT POLITICAL RISK: FRANCE AS RISKY AS BRAZIL?



<http://www.aon.com/terrorismmap/2015-Terrorism-Map-14-05-2013.pdf>
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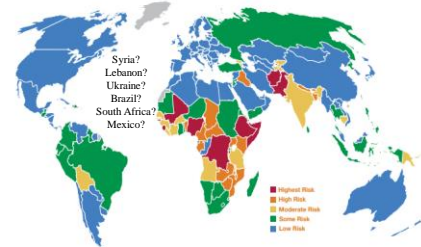
PEACE AND SECURITY INDEX



http://www.visionofhumanity.org/sites/default/files/Global%20Peace%20Index%20Report%202016_0.pdf
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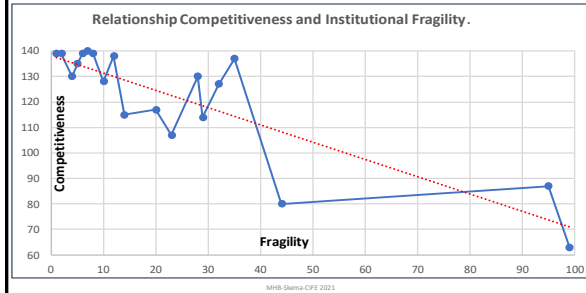
BLINDNESS? RISK OF FUTURE POLITICAL CRISIS 2010-12 SOURCE: UNIVERSITY OF MARYLAND CENTER FOR CONFLICT MANAGEMENT

Figure 2.1 Risk of Future Instability, 2010-2012

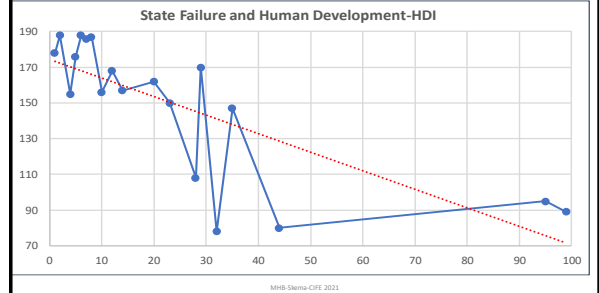


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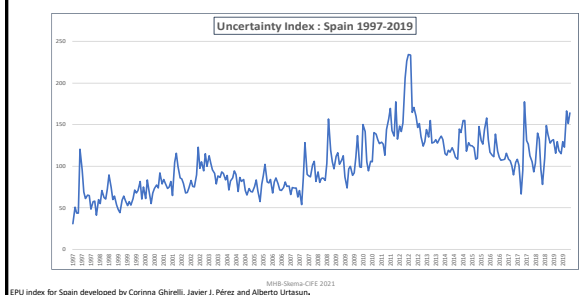
INSTITUTIONAL FRAGILITY AND COMPETITIVENESS (WEF)



INSTITUTIONAL FRAGILITY AND HUMAN DEVELOPMENT (UNDP)

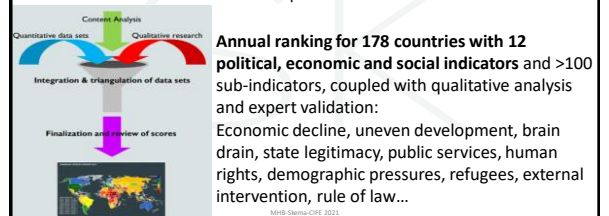


SOCIO-POLITICAL UNCERTAINTY



THE METHODOLOGY BEHIND THE FRAGILE STATES INDEX

The Fragile States Index produced by The Fund for Peace is a critical tool in highlighting not only the normal pressures that all states experience, but also in identifying when those pressures are outweighing a states' capacity to manage those pressures.



KEY FEATURES OF FAILED AND FRAGILE STATES

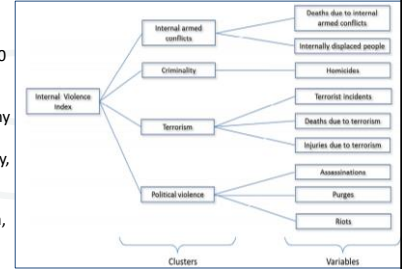
	n/178	Index TI/RO	UNDP/188	Index **	WEF 140	KF/GDP%	human flight **	%	(3 year av.)	
Weak States	Ranking	Corruption **	HDI **	GINI	Competit	Capital flight	& Brain drain	Unempl.	Invest/GDP	Ext Debt/GDP
Yemen	1	176	178	38	139	2%	7,3	35	12	30%
Somalia	2	180	188	39	139	1%	9,5	6	10	75%
Syria	4	178	155	36	230	3%	8,4	50	10	16%
Congo DR	5	165	176	49	135	39%	7	15	12	20%
CAR	6	149	188	44	139	4%	7,1	7	13	36%
Chad	7	165	186	43,3	140	2%	8,5	6	16	27%
South Sudan	8	178	187	35	139	1%	6,5	15	11	111%
Zimbabwe	10	160	156	43	128	5%	7,6	10	12	77%
Haiti	12	161	168	61	138	3%	8,4	15	25	30%
Nigeria	14	144	157	49	115	3%	6,9	23	15	70%
Uganda	20	149	162	42	117	3%	7,3	5	24	40%
Pakistan	23	117	150	33,5	107	1%	6,8	6	16	31%
Libya	28	170	108	42	130	22%	6,3	20	15	20%
Côte d'Ivoire	29	105	170	42	114	2%	7,2	5	16	37%
Venezuela	32	108	78	40	127	23%	6,1	35	14	33%
Angola	35	165	147	43	137	11%	6,9	9	24	57%
Lebanon	44	138	80	32	80	17%	5,6	9	20	200%
Tunisia	95	73	95	40	87	5%	5,9	16	21	90%
Peru	99	105	89	44	63	5%	7,1	10	21	35%

* Worldwide private deposits in International Bank/BIS Ab-1
 ** the higher, the worse

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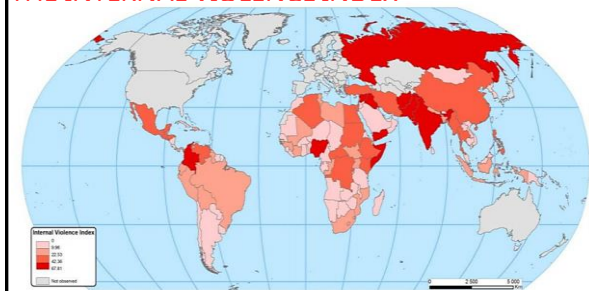
THE INTERNAL VIOLENCE INDEX

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.



MIIB-Skema-CFE 2021. SOURCE: FERDI April 2016: Feindouno / Goujon /Wagner

THE INTERNAL VIOLENCE INDEX



BETTER OFF IN TUNISIA OR IN ALGERIA ?

TUNISIA

- ▶ GDP Per capita = \$10500
- ▶ HDI = 97
- ▶ Life expectancy = 77
- ▶ Infant mortality = 13
- ▶ Gender inequality = 0,28
- ▶ Doing Business = 77
- ▶ Corruption = 75

ALGERIA

- ▶ GDP Per capita = 13500
- ▶ HDI = 83
- ▶ Life expectancy = 75
- ▶ Infant mortality = 22/1000
- ▶ Gender inequality = 0,43
- ▶ Doing Business = 156
- ▶ Corruption = 108

MIIB-Skema-CFE 2021

