

Horizon Scanning

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Abstract:

The objective of this paper is to briefly compare processes and visual representations to assess and monitor crisis. The paper presents 8 early-warning system methodologies coming from private companies, NGO or public institutions.

Summary

The key indicators that the study put into perspective are: impact, intensity, geographical position and probability.

Most early-warning system do not provide visual analytical details on the crisis in question, which make it tough to understand the crisis at a first glance. At the contrary, the CISC product is too analytical, which is time consuming and to not enable to synthesize the key aspects of the crisis or the interest for the customer. An early-warning system must remain balanced: it cannot visually show too many variables but enough to be accurate. The radar chart, the geographic map and the arrows are all relevant, each representation enabling to visualize particular variables, but impeding others: radar and map do not represent trends and evolutions, arrows do not specify the probability or the nature of the crisis.

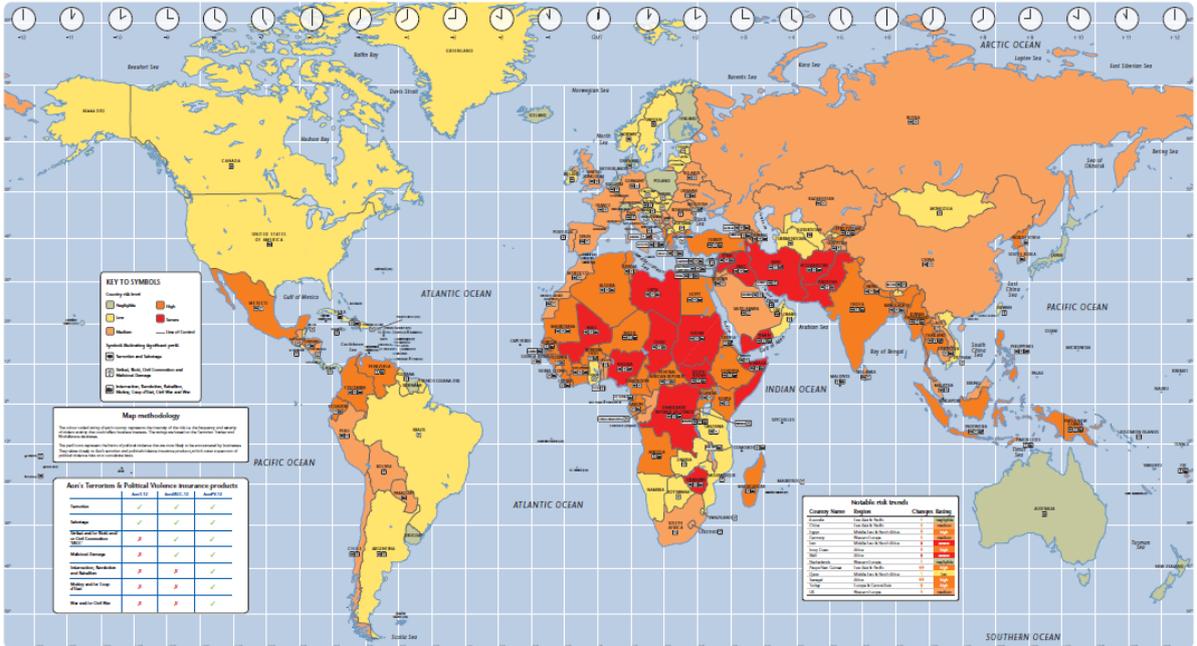
Methodologies with coefficients remain weak: tolerance threshold are different in each country and specific variables applied indistinctively to all countries may biased perception. Simple methodologies with a few variables are more accurate, such as S&P calculation method.

Horizon Scanning Methodologies

AON

2012 Terrorism & Political Violence Map

AON



Country risk level according AON's 2012 Political Risk Map

Country	Risk level	Type of risk					
		Exchange transfer	Sovereign non-payment	Political interference	Supply chain disruption	Legal & regulatory	Political violence
Albania	MR		x			x	
Bosnia & Herzegovina	MHR		x	x		x	x
Bulgaria	MLR				x	x	
Croatia	MR						
Czech Republic							
Estonia							
Hungary							
Latvia							
Lithuania							
Macedonia	MHR	x					
Montenegro	MHR	x	x	x		x	
Poland							
Romania	MLR				x		
Serbia	MHR	x	x			x	
Slovakia							
Slovenia							
Turkey							
Armenia	HR	x	x	x	x		x
Azerbaijan	HR			x	x	x	x
Belarus	VHR	x	x	x	x	x	x
Georgia	MHR	x	x			x	x
Kazakhstan	MHR			x		x	x
Kyrgyzstan	HR	x	x	x	x	x	
Moldova	MR	x	x			x	
Russia	MR			x	x	x	
Tajikistan	HR	x	x	x	x	x	
Turkmenistan	MHR	x	x		x	x	x
Ukraine	MHR	x		x	x	x	
Uzbekistan	MHR	x		x	x	x	

Legend

	Not rated*
MLR	Medium-Low Risk
MR	Medium Risk
MHR	Medium-High Risk
HR	High Risk

* EU and OECD member countries are not rated in the 2012

Methodology

The colour coded rating of each country represents the intensity of the risk i.e. the frequency and severity of violent activity that could affect business interests. The ratings are based on the Terrorism Tracker and World Aware databases.

The peril icons represent the forms of political violence that are most likely to be encountered by businesses.

They relate closely to Aon's terrorism and political violence insurance products, which cover a spectrum of political violence risks on a cumulative basis

Weaknesses

- No trends or notion of time
- No clear methodology to justify the colour code or change in the colour code
- _ Annual update

Strengths

- _ A clear picture of the risk assessment at the first look
- _ World outlook

Overall Assessment

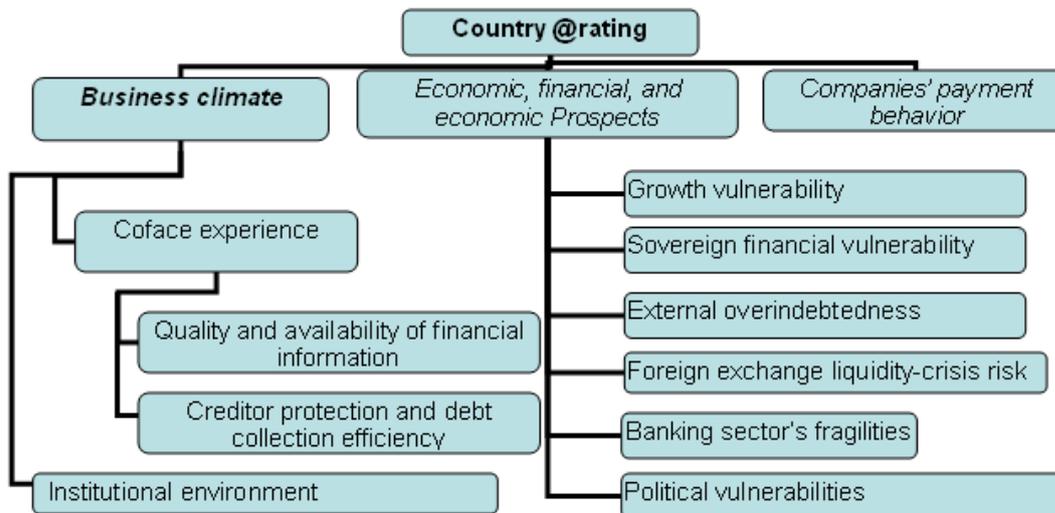
- not really useful, just give a broad idea of crisis

Feedback

- The geographical map is visually useful to see connections between world regions

Assessments are based on threefold expertise developed by Coface:

- **macroeconomic expertise** in assessing country risk based on a battery of macroeconomic financial and political indicators
- **expertise on business environment.** The score is based on internal and external sources
- **microeconomic expertise** that draws on Coface databases covering 50 million companies worldwide and 50 years experience with payment in trade flows it guarantees.



A1	The political and economic situation is very good. A quality business environment has a positive influence on corporate payment behaviour. Corporate default probability is very low on average.
A2	The political and economic situation is good. A basically stable and efficient business environment nonetheless leaves room for improvement. Corporate default probability is low on average.
A3	Changes in generally good but somewhat volatile political and economic environment can affect corporate payment behaviour. A basically secure business environment can nonetheless give rise to occasional difficulties for companies. Corporate default probability is quite acceptable on average.
A4	A somewhat shaky political and economic outlook and a relatively volatile business environment can affect corporate payment behaviour. Corporate default probability is still acceptable on average.
B	Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behaviour. Corporate default probability is appreciable.
C	A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behaviour. Corporate default probability is high.
D	A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behaviour.

Corporate default probability is very high.	
Weaknesses - too much business oriented - too broad in the indicators, no clear understanding of the crisis at first sight - letters as indicators are too abstract	Strengths - clear geographical map - code of colour easy to understand - the impact is clear
Overall Assessment <ul style="list-style-type: none"> Beneficial in terms of direct impact on the customer Visually appealing 	

Criminal Intelligence Service Canada (CISC) Sentinel Watch List												
<table border="1"> <thead> <tr> <th>SHORT HEADING OF THREAT SCENARIO</th> <th>IMPACT: MEDIUM</th> <th>PROBABILITY: HIGH</th> </tr> </thead> <tbody> <tr> <td rowspan="3"> THREAT ISSUE  Brief overview of the threat scenario and its potential implications for Canada, in roughly 150-200 words. This should give a quick overview providing the 'who', 'what', 'where', 'how', and, critically, the 'so what'. </td> <td> MONITORED INDICATORS Condition/event that could signal the threat's emergence or development. </td> <td> POSSIBLE INDICATIONS Specific observation pertinent to corresponding indicator  </td> </tr> <tr> <td> Indicators are divided by row separators. Between three and five indicators are included for each threat scenario.  </td> <td> Multiple observations are listed, separated by a blank line. All key relevant observations should be listed. </td> </tr> <tr> <td> Indicators for which no observation has been made should still be added, with a note in the adjacent column to indicate that condition has not yet been observed. </td> <td> <i>No observed indications</i> </td> </tr> </tbody> </table>			SHORT HEADING OF THREAT SCENARIO	IMPACT: MEDIUM	PROBABILITY: HIGH	THREAT ISSUE  Brief overview of the threat scenario and its potential implications for Canada, in roughly 150-200 words. This should give a quick overview providing the 'who', 'what', 'where', 'how', and, critically, the 'so what'.	MONITORED INDICATORS Condition/event that could signal the threat's emergence or development.	POSSIBLE INDICATIONS Specific observation pertinent to corresponding indicator 	Indicators are divided by row separators. Between three and five indicators are included for each threat scenario. 	Multiple observations are listed, separated by a blank line. All key relevant observations should be listed.	Indicators for which no observation has been made should still be added, with a note in the adjacent column to indicate that condition has not yet been observed.	<i>No observed indications</i>
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Methodology The Sentinel Watch List functions as both an analytical tool and an early warning mechanism. The WatchList consists of four principal components for each threat scenario under evaluation: 1) the Threat Issue section provides a brief narrative of the threat scenario and its potential significance; 2) the Monitored Indicators column identifies potential trends or conditions that could serve as tripwires to facilitate the detection of a threat's emergence and development; 3) the Possible Indications column records key observations that could signal an indicator's presence; and, 4) assessments of impact and probability, reflected by five-level colour-coded scales, are displayed at the top of each threat scenario. Threats that are rapidly developing or otherwise call for immediate attention are marked with a flag icon in the Threat Issue section. A magnifying glass icon next to selected indicators or indications display the availability of additional content embedded in the electronic version of the WatchList The identification of threat scenarios for inclusion in the Watch List begins with an all-source, global environmental scan. From this scan, the warning analyst identifies conditions, phenomena, actors or groups that could conceivably have implications for the Customer in												

the coming months and years. This positing on potential future threats is an inherently subjective exercise. Scenario development is based largely on what could be termed imaginative threat perception, or, in other words, educated guesswork – the process must therefore be unrestricted to enable warning analysts to think freely and creatively about the potential threats of tomorrow. Once a scenario is developed, the warning analysts collectively make a preliminary estimate on the likelihood of the scenario’s occurrence on a five-level scale: nil, low, medium, high, and near-certain. The third step involves a collective estimate on the potential impact the scenario could have if it were to occur.

The identification of a potential threat scenario represents the first stage of the Watch List process; preparing an issue for inclusion in the WatchList requires more focused research. The research phase involves identifying and answering the key questions concerning the particular threat scenario. While these questions will depend largely on the specific scenario under examination, some key questions could include: is there a precedent for this threat; where has it occurred and under what conditions; what are the push/pull factors or conditions; would current conditions conceivably permit or promote the development of the threat here; if the threat could not develop here at the present time, what would need to change for the threat to occur here, and how likely is it that these changes will occur in the coming months and years. Essentially, then, the warning analyst is concerned with identifying the conditions that both enable and cause the emergence of the threat scenario, and evaluating those conditions in light of current and foreseeable conditions in Canada. Other factors for consideration would include whether the topic addresses an intelligence gap; whether the topic is already being looked at by the customer; whether the topic would be of interest to decision and policy makers; whether the topic fits within the agency mandate; whether we have access to the necessary expertise and information to effectively examine the topic.

Weaknesses

- Not visually astounding
- It is confusing, too many details in small boxes, could become extremely long.

Strengths

- Key indicators are visible and enable the creation of indicators clusters, helping to contextualizing better the threat.
- Description of the threat scenario and its potential implications
- It is good to have a justification for the indicator or the threat issue
- Variables are relevant: probability and impact

Overall Assessment

It is difficult to balance between a visually interesting early warning system and an analytical tool. This tool is too detailed.

Feedback

- Balanced detail
- Affordable Variables (probability and impact)

International Crisis Group Crisis Watch

Conflict Risk Alerts 	Conflict Resolution Opportunities 
Deteriorated Situations  <ul style="list-style-type: none"> India (non-Kashmir) Madagascar Mali Syria Tajikistan 	Improved Situations 

Methodology

Crisis Watch is a succinct monthly regular update on the state of play in all the most significant situations of conflict or potential conflict around the world. It is divided in 4 indicators:

- **Conflict Risk Alerts:** It summarizes briefly developments during the previous month in some 70 situations of current or potential conflict, listed alphabetically by region, providing references and links to more detailed information sources.
- **Conflict Resolution Opportunities:** assesses whether the overall situation in each case has, during the previous month, significantly deteriorated, significantly improved, or on balance remained more or less unchanged;
- **Deteriorated Situations:** It alerts readers to situations where, in the coming month, there is a particular risk of new or significantly escalated conflict, or a particular conflict resolution opportunity (noting that in some instances there may in fact be both)
- **Improved Situations:** It informs reader about countries, which situation is improving

Weaknesses

- No indication on the impact
- Too simplistic
- No indication on the nature of the crisis
- No notion of time
- Doesn't define the shift in status

Strengths

- easy to understand what crisis are at stake

Overall Assessment

- Too simple, but visually interesting

**Oxford Analytica
Global Risk Monitor**



Methodology

The Global Risk Monitor (GRM) tracks the likelihood of top ten global risks – the most serious and pertinent geopolitical and macroeconomic risks the world faces in the year ahead. It is based on macro diligence of political, economic, security and societal uncertainty. The methodology allows to track emerging risks and measure their impact on geopolitics, macroeconomics and investor interests.

In the Global Risk Monitor, Oxford Analytica identifies specific negative contingencies – for example, a popular uprising in Saudi Arabia or the capture of the Mexican state by cartels. In doing so, they draw on decades of research into the right methodologies for scenario analysis, which suggest that it is extremely difficult to correctly identify predisposing factors unless a clear undesirable end-state has been defined.

The Monitor divides threats by region and international threats, from the less likely to the most likely. A code of colors determines the risk outlook (up, neutral or low) and the circle’s size informs about the impact of the threat (high medium or low).

Weaknesses

- Difficult to illustrate the crisis relevance for the Customer
- No definition about the nature of the crisis
- No indication about the crisis evolution
- doubtful choice of colours

Strengths

- Interesting geographic division
- Intensity and Risk are visible at first sight, relevant variables

Overall Assessment

- No immediate impact

Feedback

- The radar style is good, but visually difficult to deal with

PRS Group

The International Country Risk Guide (ICRG)

POLITICAL RISK COMPONENTS

Sequence	Component	Points (max.)
A	Government Stability	12
B	Socioeconomic Conditions	12
C	Investment Profile	12
D	Internal Conflict	12
E	External Conflict	12
F	Corruption	6
G	Military in Politics	6
H	Religious Tensions	6
I	Law and Order	6
J	Ethnic Tensions	6
K	Democratic Accountability	6
L	Bureaucracy Quality	4
Total		100

Methodology

Government Stability – 12 Points

This is an assessment both of the government's ability to carry out its declared program(s), and its ability to stay in office. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Government Unity
- Legislative Strength
- Popular Support

Socioeconomic Conditions – 12 Points

This is an assessment of the socioeconomic pressures at work in society that could constrain government action or fuel social dissatisfaction. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Unemployment
- Consumer Confidence

- Poverty

Investment Profile – 12 Points

This is an assessment of factors affecting the risk to investment that are not covered by other political, economic and financial risk components. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Contract Viability/Expropriation
- Profits Repatriation
- Payment Delays

Internal Conflict – 12 Points

This is an assessment of political violence in the country and its actual or potential impact on governance. The highest rating is given to those countries where there is no armed or civil opposition to the government and the government does not indulge in arbitrary violence, direct or indirect, against its own people. The lowest rating is given to a country embroiled in an on-going civil war. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Civil War/Coup Threat
- Terrorism/Political Violence
- Civil Disorder

External Conflict – 12 Points

The external conflict measure is an assessment both of the risk to the incumbent government from foreign action, ranging from non-violent external pressure (diplomatic pressures, withholding of aid, trade restrictions, territorial disputes, sanctions, etc) to violent external pressure (cross-border conflicts to all-out war).

The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- War
- Cross-Border Conflict
- Foreign Pressures

Corruption – 6 Points

This is an assessment of corruption within the political system. Such corruption is a threat to foreign investment for several reasons: it distorts the economic and financial environment; it reduces the efficiency of government and business by enabling people to assume positions of power through

patronage rather than ability; and, last but not least, introduces an inherent instability into the political process.

Military in Politics – 6 Points

In some cases, military participation in government may be a symptom rather than a cause of underlying difficulties. Overall, lower risk ratings indicate a greater degree of military participation in politics and a higher level of political risk.

Religious Tensions – 6 Points

Religious tensions may stem from the domination of society and/or governance by a single religious group that seeks to replace civil law by religious law and to exclude other religions from the political and/or social process; the desire of a single religious group to dominate governance; the suppression of religious freedom; the desire of a religious group to express its own identity, separate from the country as a whole.

The risk involved in these situations range from inexperienced people imposing inappropriate policies through civil dissent to civil war.

Law and Order – 6 Points

Law and Order are assessed separately, with each sub-component comprising zero to three points. The Law sub-component is an assessment of the strength and impartiality of the legal system, while the Order sub-component is an assessment of popular observance of the law. Thus, a country can enjoy a high rating – 3 – in terms of its judicial system, but a low rating – 1 – if it suffers from a very high crime rate or if the law is routinely ignored without effective sanction (for example, widespread illegal strikes).

Ethnic Tensions – 6 Points

This component is an assessment of the degree of tension within a country attributable to racial, nationality, or language divisions. Lower ratings are given to countries where racial and nationality tensions are high because opposing groups are intolerant and unwilling to compromise. Higher ratings are given to countries where tensions are minimal, even though such differences may still exist.

Democratic Accountability – 6 Points

This is a measure of how responsive government is to its people, on the basis that the less responsive it is, the more likely it is that the government will fall, peacefully in a democratic society, but possibly violently in a non-democratic one.

The points in this component are awarded on the basis of the type of governance enjoyed by the country in question. For this purpose, we have defined the following types of governance:

Bureaucracy Quality – 4 Points

The institutional strength and quality of the bureaucracy is another shock absorber that tends to minimize revisions of policy when governments change. Therefore, high points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. In these low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training. Countries that lack the cushioning effect of a strong bureaucracy receive low points

because a change in government tends to be traumatic in terms of policy formulation and day-to-day administrative functions.

In general terms if the points awarded are less than 50% of the total, that component can be considered as very high risk. If the points are in the 50-60% range it is high risk, in the 60%-70% range moderate risk, in the 70-80% range low risk and in the 80-100% range very low risk. However, this is only a general guideline as a better rating in other components can compensate for a poor risk rating in one component.

Overall, a political risk rating of 0.0% to 49.9% indicates a Very High Risk; 50.0% to 59.9% High Risk; 60.0% to 69.9% Moderate Risk; 70.0% to 79.9% Low Risk; and 80.0% or more Very Low Risk. Once again, however, a poor political risk rating can be compensated for by a better financial and/or economic risk rating.

Weaknesses <ul style="list-style-type: none">_ Not visually attractive_ The weighting of coefficient is doubtful, as only 1 factor can be determinant for a crisis and is not flexible (a factor cab irrelevant for a country but important for another)	Strengths <ul style="list-style-type: none">_ Clear methodology, with coefficient_ Simple methodology, easily exported and flexible
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Overall Assessment

- The methodology brings reflection

Feedback

- Scoring countries with a specific calculation is inaccurate
- The methodology brings reflection on variables we could use in the future

Standards and Poor

Sovereign Ratings And Country T&C Assessments

Table 3A

Assessing A Sovereign's Political Score

On a scale from 1 to 6, strongest to weakest (scores 1-3)

Score	Primary factor: effectiveness, stability and predictability of policymaking and political institutions (see subsection VI.C.1.a)	Secondary factor: transparency and accountability of institutions, data, and processes (see subsection VI.C.1.b)
1	<ul style="list-style-type: none"> • Proactive policymaking, with a strong track record in managing past economic and financial crises and delivering economic growth. • Ability and willingness to implement reforms to ensure sustainable public finances over the long term. • High likelihood that institutions and policies will remain stable over time, ensuring the predictability of responses to future crises. 	<ul style="list-style-type: none"> • Extensive checks and balances between institutions. • Unbiased enforcement of contracts and respect for the rule of law. • Free flow of information throughout society, with open debate of policy decisions. • Timely and reliable public finance data and statistical information.
2	<p>Compared to 1, any of the following apply:</p> <ul style="list-style-type: none"> • Generally strong but shorter track record of policies that deliver sustainable public finances and balanced economic growth. • Weaker ability to implement reforms, due to a slow or complex decision-making process. • Shifts in the political environment or institutional framework, which raise uncertainties about the ability to sustain public finances consistently over the long term. 	<ul style="list-style-type: none"> • Generally effective checks and balances. • Unbiased enforcement of contracts and respect for the rule of law. • Free flow of information throughout society, with open debate of policy decisions. • Generally timely and reliable public finance data and statistical information.
3	<ul style="list-style-type: none"> • Generally effective policymaking in recent years, promoting sustainable public finances and balanced economic growth. But policy shifts are possible because of changes in administration or the potential destabilizing influences of underlying socioeconomic or significant long term fiscal challenges. 	<ul style="list-style-type: none"> • Evolving checks and balances between various institutions. • Generally unbiased enforcement of contracts and respect for the rule of law. • Free flow of information throughout society, but with some policy decisions not fully and openly debated. • Statistical information that may be less timely than for the higher categories or subject to larger revisions.

4	<p>Either of the following:</p> <ul style="list-style-type: none"> • Policy choices may weaken support for sustainable public finances and balanced economic growth. • Reduced predictability of future policy responses due to an uncertain or untested succession process or to moderate risk of challenges to political institutions resulting from highly centralized decision making and parts of the population desiring more political or economic participation. 	<ul style="list-style-type: none"> • More uncertain checks and balances between institutions, enforcement of contracts, and respect for the rule of law than in the above categories. • Relatively weak transparency, owing to interference by political institutions in the free dissemination of information, material gaps in data, or reporting delays.
5	<p>One of the following:</p> <ul style="list-style-type: none"> • Policy choices likely will weaken capability and willingness to maintain sustainable public finances and thus timely debt service. • High risk of challenges to political institutions, possibly involving domestic conflict, due to demands for more economic or political participation by parts of the population, or due to significant ethnic or religious challenges to the legitimacy of political institutions. • Future policy responses are difficult to predict due to a highly polarized political landscape, highly centralized decision making, or an uncertain or untested succession process. 	<ul style="list-style-type: none"> • Unassured enforcement of contracts and respect for the rule of law. • Impaired transparency, owing to at least one of the following factors: moderate-to-high levels of perceived corruption, material data gaps, or significant interference by political institutions in the free dissemination of information.
6	<p>Either of the following:</p> <ul style="list-style-type: none"> • Weak political institutions, resulting in an uncertain policy environment in periods of stress, including diminished capability and willingness to maintain timely debt service. • Considerable risk of breakdown of political institutions, including significant domestic conflict. 	<ul style="list-style-type: none"> • Unassured enforcement of contracts and respect for the rule of law. • Impaired transparency, owing to several of the following factors: material data gaps, frequent and material data revisions, high levels of perceived corruption of political institutions, and suppressed information flows.

Methodology

a) Effectiveness, stability, and predictability of policymaking and political institutions

The criteria analyze the effectiveness, stability, and predictability of policymaking and institutions based on:

- The track record of a sovereign in managing past political, economic, and financial crises; maintaining prudent policy-making in good times; and delivering balanced economic growth.
- A sovereign's ability and willingness to implement reforms to address fiscal challenges, such as health care or pensions, to ensure sustainable public finances over the long term.
- The predictability in the overall policy framework and developments that may affect policy responses to future crisis or lead to significant policy shifts.
- Actual or potential challenges to political institutions, possibly involving domestic conflict, from popular demands for increased political or economic participation, or from significant challenges to the legitimacy of institutions on ethnic, religious, or political grounds.

Effective policymaking and stable political institutions enable governments to address proactively periods of economic distress and to take measures to correct imbalances. This helps to sustain long-term growth prospects and limits the risk of sharp deterioration of a sovereign's creditworthiness. Stable and well-established institutions generally ensure a certain degree of predictability in the general direction of policymaking, even when political power shifts between competing parties and policy details change as a result. Conversely, succession risks, high concentration of power, and potential or actual challenges to political institutions are factors that can pose risks to institutional stability, and in turn lead to substantial policy shifts and affect the continuity of key credit

characteristics. The analysis of the risk from challenges to political institutions is based on the history of internal political conflicts, including extra-constitutional changes of government.

b) Transparency and accountability of institutions, data, and processes

The accountability and transparency of institutions, data, and processes are based on the analysis of the following:

- The existence of checks and balances between institutions.
- The perceived level of corruption in the country, which correlates strongly to the accountability of the institutions.
- The unbiased enforcement of contracts and respect for the rule of law (especially in the area of property rights),

which correlates closely to respect for creditors' and investors' interests.

- The independence of statistical offices and the media, as well as the history of data revisions or data gaps, as measures of the transparency and reliability of the information.

The last point includes an assessment of the quality and consistency of the relevant data, which include national income accounts, fiscal accounts, monetary surveys, public enterprise accounts, the balance of payments, and the international investment position. These data are based on estimated values and are not always measured with precision. Thus, where there is a history of significant data revisions, poor forecasting, or data gaps and inconsistencies (either from one source or between sources), the criteria call for interpreting the data in light of these discrepancies.

The transparency and accountability of institutions bear directly on sovereign creditworthiness because they reinforce the stability and predictability both of political institutions and the political framework. They do this even though they may not reinforce the stability of a ruling political class or party. In addition, transparent and accountable institutions, processes, and data are important because they enhance the reliability and accuracy of information, and help make known in a timely manner any significant shifts in a country's policymaking or the occurrence of risks relevant to sovereign credit risk.

c) A government's debt payment culture

The first potential adjustment to the initial political score relates to debt payment culture. Willingness to default is an important consideration when analyzing a sovereign's creditworthiness, partly because creditors have only limited legal redress. As a result, a sovereign can, and sometimes does, default on its obligations even when it possesses the financial capability for timely debt service. Therefore, the analysis aims to assess to what degree policymakers likely are willing to prioritize debt service to avoid default in difficult situations.

The overall political score cannot be better than '6' in cases where we believe that a government's debt payment culture represents a credit risk. For this to happen, a government would typically present one or more of the following characteristics:

- Arrears on bilateral official debt, which is debt owed to other governments and government-owned entities.
- A public discourse that questions the legitimacy of debt contracted by a previous administration (so-called "odious debt").
- No material policy change since the last default on commercial debt.

Academic studies suggest the relevance of the last characteristic mentioned just above. In their 2003 article "Debt Intolerance," Reinhart, Rogoff, and Savastano find that countries can graduate from being serial defaulters, although the path to "graduation" is long. Defaults weaken political institutions because the ensuing economic decline discredits the policies that led to default and raises the population's mistrust. This greater public mistrust may make forming a consensus on economic policy more difficult and thus may prompt further defaults in the future. The evidence that the study presents also suggests that the first default may be much more costly than later ones, hence the idea that, with each successive default, serial defaulters have less of a reputation to lose.

d) External security risks

The second potential adjustment to the initial political score relates to geopolitical and external security risks, including war or threats of war stemming from conflicts or strained relations with neighboring countries. When there is a long-standing risk of war within the country's territory, but we do not foresee that this risk will likely materialize in the next three to five years, the political score would be one to two categories worse than the initial score. However, when these risks are imminent

or rapidly rising, it would affect the sovereign's political risk and the overall rating to a greater extent, depending on what the magnitude and effect of the conflict would be on the sovereign's economic and political situation. National security is a rating concern because military threats may place a large burden on fiscal policy, reduce the flow of potential investment, or put the balance of payments under stress. It may also lead to economic sanctions.

e) Effect of external organizations on policy making

At times, membership in supranational organizations can affect policy setting. Membership in military alliances, political unions, monetary unions, and trading blocks, for example, brings with it not only benefits but obligations as well. This issue is most evident when a sovereign seeks exceptional official funding, for example from the IMF or the European Union. Such funding often provides much needed financing, either for balance of payment support or for budgetary support (see paragraph 96) for short- to medium-term tenors, but it also entails conditions for that support to be disbursed over time.

When participation in a supranational program--either in the guise of conditions for membership or conditions for exceptional financial assistance--gives greater predictability and effectiveness of policymaking, then a sovereign's political score would be one category better. Conversely, if a sovereign's commitment to external organizations is not credible with investors or its domestic population such that policy outcomes or access to funding is more uncertain, then a sovereign's political score would be one category worse.

Weaknesses

- variables do not really match political risk, even if it is sold as a political risk assessment
- visually unattractive
- business oriented
- The final score for sovereign state (AA+, BBB) is not visually friendly

Strengths

- Precise calculation, easy to use
-

Overall Assessment

- Detailed variables for an accurate assessment

Swiss Peace

Before Project

No visual result

BEFORE carefully monitors these seven key factors that provide reliable early warnings of violent conflict:

1. Socio-Economic Conditions
2. State and Institution Strength/Weakness
3. Regional/International Consequences
4. National Security
5. Public discourse, ideological factors and elite behaviour
6. Human Rights and Civil Liberties
7. Political Actors

There are three categories of conflict indicators:

- **Structural/Root Causes of Conflict**

Structural factors, such as ethnic or religious diversity, colonial history, natural resources or land distribution, are mostly static and change slowly over time. These factors alone do not cause violent conflict, but can be manipulated, by powerful political figures for example, in

such a way as to exacerbate growing tensions.

- **Proximate Causes of Conflict**

Proximate causes bring a country closer to the outbreak of violent conflict through an interplay of structural factors. Proximate causes are not static, but can change over time. Examples include government type and increase in poverty level.

- **Conflict Triggers**

Conflict triggers are concrete single events that unleash violence. Depending on the context, any event can be a trigger: the sudden death of a president, the incarceration of important figures of the opposition, or the announcement of a rise in prices of foods or gasoline.

Weaknesses	Strengths
- No idea what the final product look like	- information on the type of crisis - Interesting variables to define a crisis
Overall Assessment	
- Innovative variables	
Feedback	
<ul style="list-style-type: none">• Possibility to adapt the concept of conflict categories with a visual output.• Considering rhetoric and ideology is a good call	

Useful Links

- _ [Bayesian model averaging](#)
- _ [European Commission \(Joint Research Centre\)](#)
- _ [Global Pulse / Global Impact Vulnerability & Alert System](#)
- _ [Integrated Data for Events Analysis](#)
- _ [Interactive Conflict Barometer](#)
- _ [Minorities at Risk](#)
- _ [Protocol for the Analysis of Nonviolent Direct Action](#)
- _ [Swiss Federal Institute of Technology](#)
- _ [The Oxford Analytica Daily Brief](#)
- _ **Ulfeder Jay**, *The Watch List*, Foreign Policy, July August 2012,
http://www.foreignpolicy.com/articles/2012/06/18/the_watch_list?page=0,0
- _ [Uppsala University](#)