



Country Risk



Political aspects

- Attitude of consumers in the host country
- Actions of host government
- Blockage of fund transfers
- Currency inconvertibility
- War
- Inefficient bureaucracy
- Corruption



Financial aspects

- Economic growth
- Interest rates
- Exchange rate
- Public debt
- Inflation



Measuring country risk

- Macro-assesement (general)
- Micro- assessment (focused on the specific business)
- Methods:
 - Checklist approach
 - Delphi technique
 - Quantitative analysis
 - Inspection visits
 - Combination of techniques



Comparing Risks

- **Comparison between countries**
 - Rating agencies
 - Investment Indices

- **Comparison in time**
 - Rating history
 - Credit spread



Implications for finance

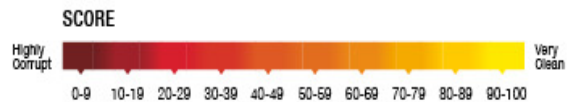
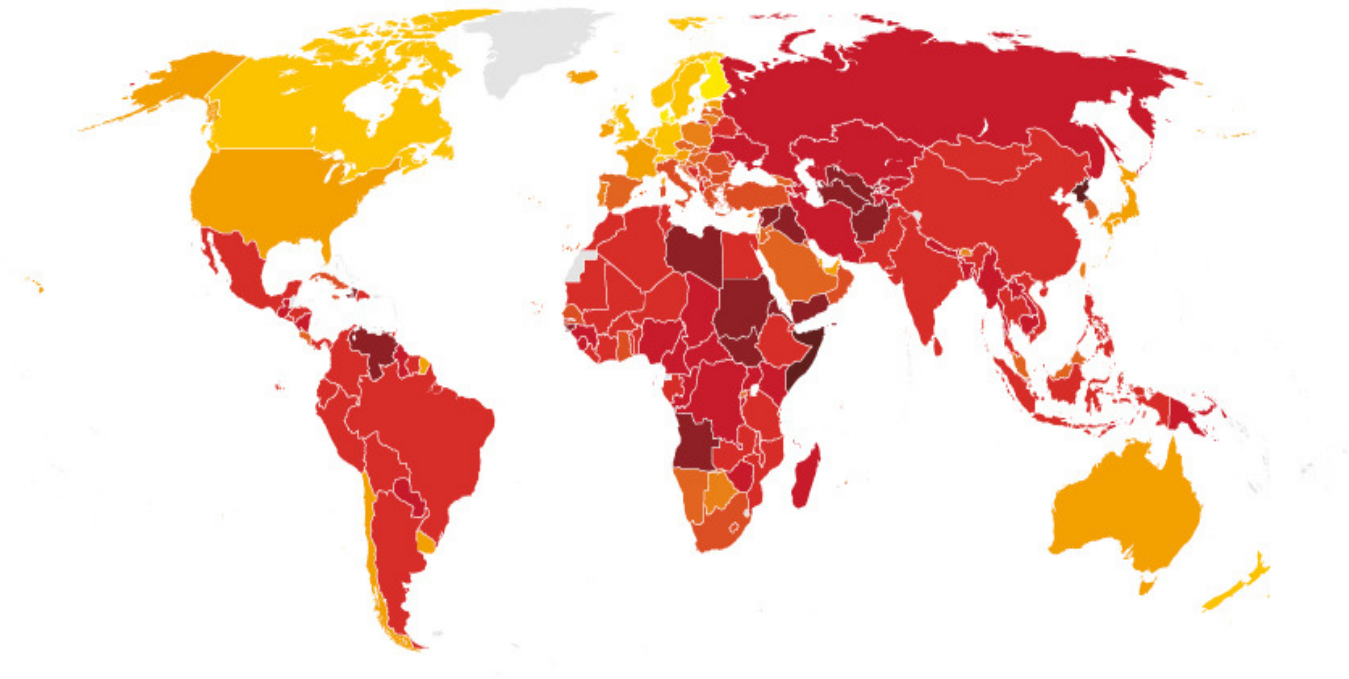
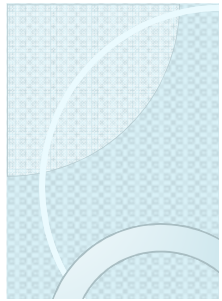
- **Adjusting the discount rate**
 - The higher the risk, the higher the discount rate / higher expected return i
- **Adjusting cash flows**
 - The higher the risk, the higher the discount rate / higher expected return i



Mitigation of expropriation risk

- Rely on unique supplies or technology
- Hire local labor
- Borrow local funds
- Purchase insurance
- Use project finance / non-recourse structures
- Cash out quickly / Short term focus

Transparency index



#cpi2015
www.transparency.org/cpi



Transparency index (2)

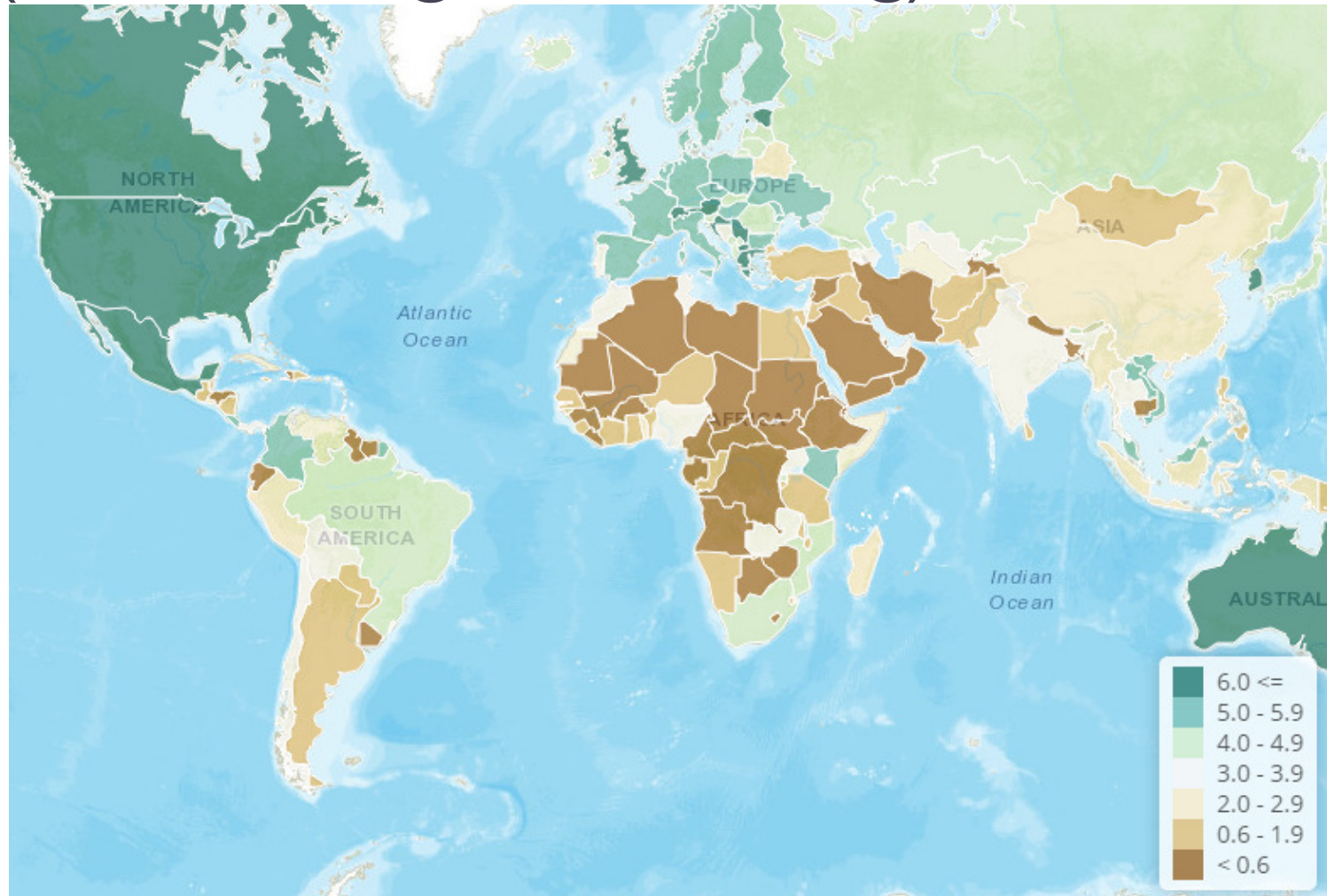
Rank	Country/territory	2015 Score	2014 Score	2013 Score
1	Denmark	91	92	91
2	Finland	90	89	89
3	Sweden	89	87	89
4	New Zealand	88	91	91
5	Netherlands	87	83	83
29	Portugal	63	63	62
30	Poland	62	61	60
30	Taiwan	62	61	61
32	Cyprus	61	63	63
163	South Sudan	15	15	14
165	Sudan	12	11	11
166	Afghanistan	11	12	8
167	Korea (North)	8	8	8
167	Somalia	8	8	8

Source: www.transparency.org

World Bank – Doing Business (www.doingbusiness.org)

Ease of Doing Business Rank	Economy	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
1	New Zealand	1	1	34	1	1	1	11	55	13	34
2	Singapore	6	10	10	19	20	1	8	41	2	29
3	Denmark	24	6	14	12	32	19	7	1	24	8
4	Hong Kong SAR, China	3	5	3	61	20	3	3	42	21	28
5	Korea, Rep	11	31	1	39	44	13	23	32	1	4
24	Poland	107	46	46	38	20	42	47	1	55	27
25	Portugal	32	35	50	27	101	70	38	1	19	7
26	United Arab Emirates	53	4	4	11	101	9	1	85	25	104
27	Czech Republic	81	130	13	31	32	53	53	1	68	26
28	Netherlands	22	87	45	29	82	70	20	1	71	11
186	South Sudan	181	178	188	181	175	179	68	177	73	169
187	Venezuela, RB	189	137	186	129	118	175	185	187	137	165
188	Libya	163	187	128	187	185	185	121	114	143	169
189	Eritrea	186	187	141	178	185	165	147	189	121	169
190	Somalia	184	187	188	148	185	190	190	156	109	169

World Bank – Doing Business (www.doingbusiness.org)



World Bank – Doing Business (www.doingbusiness.org)

POLAND		OECD high income		GNI per capita (US\$)	13,370
Ease of doing business rank (1–190)	24	Overall distance to frontier (DTF) score (0–100)	77.81	Population	37,999,494
Starting a business (rank)	107	Getting credit (rank)	20	Trading across borders (rank)	1
DTF score for starting a business (0–100)	84.22	DTF score for getting credit (0–100)	75.00	DTF score for trading across borders (0–100)	100.00
Procedures (number)	4	Strength of legal rights index (0–12)	7	Time to export	
Time (days)	37	Depth of credit information index (0–8)	8	Documentary compliance (hours)	1
Cost (% of income per capita)	12.1	Credit bureau coverage (% of adults)	92.5	Border compliance (hours)	0
Minimum capital (% of income per capita)	10.9	Credit registry coverage (% of adults)	0.0	Cost to export	
				Documentary compliance (US\$)	0
✓ Dealing with construction permits (rank)	46	✓ Protecting minority investors (rank)	42	Border compliance (US\$)	0
DTF score for dealing with construction permits (0–100)	75.15	DTF score for protecting minority investors (0–100)	63.33	Time to import	
Procedures (number)	12	Extent of disclosure index (0–10)	7	Documentary compliance (hours)	1
Time (days)	153	Extent of director liability index (0–10)	2	Border compliance (hours)	0
Cost (% of warehouse value)	0.3	Ease of shareholder suits index (0–10)	9	Cost to import	
Building quality control index (0–15)	10.0	Extent of shareholder rights index (0–10)	8	Documentary compliance (US\$)	0
		Extent of ownership and control index (0–10)	5	Border compliance (US\$)	0
		Extent of corporate transparency index (0–10)	7		
✓ Getting electricity (rank)	46	Paying taxes (rank)	47	Enforcing contracts (rank)	55
DTF score for getting electricity (0–100)	81.35	DTF score for paying taxes (0–100)	82.73	DTF score for enforcing contracts (0–100)	63.44
Procedures (number)	4	Payments (number per year)	7	Time (days)	685
Time (days)	122	Time (hours per year)	271	Cost (% of claim)	19.4
Cost (% of income per capita)	19.0	Total tax rate (% of profit)	40.4	Quality of judicial processes index (0–18)	10.5
Reliability of supply and transparency of tariffs index (0–8)	7	Postfiling index (0–100)	92.18		
Registering property (rank)	38			✓ Resolving insolvency (rank)	27
DTF score for registering property (0–100)	76.49			DTF score for resolving insolvency (0–100)	76.37
Procedures (number)	6			Time (years)	3.0
Time (days)	33			Cost (% of estate)	15.0
Cost (% of property value)	0.3			Recovery rate (cents on the dollar)	60.6
Quality of land administration index (0–30)	19.5			Strength of insolvency framework index (0–16)	14.0

Country risk ratings

Rating Agencies

Issuer Ratings Scales

<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>		<u>Speculative grade</u>	
	<i>Investment grade</i>		BB+	Ba1	BB+
			BB	Ba2	BB
			BB-	Ba3	BB-
			B+	B1	B+
			B	B2	B
			B-	B3	B-
			CCC+	Caa1	CCC+
			CCC	Caa2	CCC
			CCC-	Caa3	CCC-
			CC	--	CC
			C	--	C
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA			
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A			
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB			
BBB-	Baa3	BBB-			