RISK EVALUATION AND POLITICAL RISK ANALYSIS

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INTRODUCTION

- Risk is a situation in which the future outcome is unknown.
- Risks can be both expected and unexpected.
- Most commonly, risks occur due to changes in the cultural, economic, political, technological and geopolitical environment.
- Specifically political risk is of significant matter, because it is interrelated with almost all other types of risks.
EVALUATION OF RISK

- **Positivist Perspective**: using statistical analysis based on variables, experience and objective
- **Contextual Perspective** is based on the context on which it is used
- Risk is multidimensional, so analyst most commonly use the positivist perspective to evaluate risk
IDENTIFY RISK

Firstly we need to identify the factors that may cause risk:
- Cultural
- Economic
- Political
- Technological
- Geopolitical
MEASURE THE RISK FACTORS

 Investors have to measure those risks and their impact

 Important agencies that measure risks:
   Moody's
   Standard & Poor's (S&P)
   Higher credit rating is considered a safer investment than a lower credit rating
RISK ANALYSIS AGENCIES

- In today's liquid society, risk analysis is a rising research subject, and many agencies have specific departments for that purpose
  - Economist Intelligence Unit (EIU)
  - Central Intelligence Agency (CIA)
  - Consulting Companies
  - Global Competitiveness Index
RISK ANALYSIS

MACRO-ENVIRONMENT

- Decisions, Changes, legal frameworks that are likely to affect all enterprises in the country

MICRO-ENVIRONMENT

- Analysis directed toward policies or changes that influence selected sectors of the economy or specific foreign businesses in the country
WHAT IS NEXT??
HOW DO COMPANIES DEAL WITH RISK?

- **Business Impact Analysis** identifies the most important operations of a business and evaluates for how long those operations may remain idle before they begin running again without inflicting significant damage to the business.

- **Risk Assessment** identifying possible scenarios while forging preventing strategies. Usually all threats that display higher risk rates are the ones to cause interruptions. With Risk Assessment a company is provided with a path in order to deal with the uncertain and unstable future of an environment.
POLITICAL RISK ANALYSIS

- Political decisions
- Political developments
- Socio-economic inequalities
SOCIETAL FRAGILITIES

- Economic
- Environmental
- Social
EFFECTS OF SOCIETAL FRAGILITIES

- Rise of antidemocratic regimes
Risk and opportunity hotspots in key growth markets

Maplecroft's Political Risk Atlas (PRA) 2013 assesses risks that have the potential to undergo change, and in particular short-term, dynamic risks, such as government action, business activities or due to action by sub-state or other non-state actors. It also incorporates the Political Risk (Structural) Index, which assesses long-term political risks such as infrastructure readiness and societal resilience, which contribute to a country's long term growth environment. By analysing both dynamic and structural risks, PRA 2013 thus enables businesses and investors to make an assessment of their exposure to a comprehensive range of political risks and take steps to mitigate them.

For more information see [www.maplecroft.com](http://www.maplecroft.com) or contact info@maplecroft.com.
POLITICAL RISK INDICATORS

- Domestic instability
- Foreign conflict
- Political climate
- Economic climate
Companies need to engage in political risk analysis and evaluate it from different perspectives. Political risk is a cluster of risks like economic, social, cultural, and requires special attention and research analysis is order to overcome the possible difficulties that may occur and prevent potential disasters.
THANK YOU
QUESTIONS?