Chapter 22 - Country Political Risk

Introduction

Country risk includes a wide range of risks, associated with lending or depositing funds, or doing other financial transaction in a particular country. It includes economic risk, political risk, currency blockage, expropriation, and inadequate access to hard currencies. Country risk can adversely affect operating profits as well as the value of assets.
With more investors investing internationally, both directly and indirectly, the political, and therefore economic, stability and viability of a country's economy need to be considered.

Measuring Country Risk

Given below are the lists of some agencies that provide services in evaluating the country risk.

- Bank of America World Information Services
- Business Environment Risk Intelligence (BERI) S.A.
- Control Risks Information Services (CRIS)
- Economist Intelligence Unit (EIU)
- Euromoney
- Institutional Investor
- Standard and Poor's Rating Group
- Political Risk Services: International Country Risk Guide (ICRG)
- Political Risk Services: CoplinO'Leary Rating System
- Moody's Investor Services

Political Risk

The risk of loss due to political reasons arises in a particular country due to changes in the country's political structure or policies, such as tax laws, tariffs, expropriation of assets, or restriction in repatriation of profits. Political risk is distinct from other commercial risks, and tends to be difficult to evaluate.
Some example of political risks are:

- Contract frustration by another country, government resulting in your inability to perform the contract, following which the buyer may not make payment and or / on demand bonds may be called.
- Government buyer repudiating the contract this may be occur if there is a significant political or economic change within the customer's country.
- Licence cancellation or non renewal or imposition of an embargo.
- Sanctions imposed against a particular country or company.
- Imposition of exchange controls causing payments to be blocked.
- General moratorium decreed by an overseas government preventing payment
- Shortage of foreign exchange/transfer delay.
- War involving either importing or exporting country.
- Forced abandonment
- Revoking of Import/ Exports licence.
- Changes in regulations.

The following are also considered as political risks in relation to exporting :

- Confiscation of assets by a foreign government.
- Unfair calling of bonds.

Insurance companies provide political risk covers. These may be purchased:

- On their own, covering only political risk on the sale to a particular country.
- For a portfolio of political risks.
- For the political risks in relation to the sale to another company in your group (where there is a common shareholding and therefore insolvency cover is not available).
- As part of a credit insurance policy.

PreDelivery Risks

A company can suffer financial loss, if export contract is cancelled due to commercial or political reasons, even before the goods and services are dispatched or delivered. In such a situation, the exposure to loss will depends on:

- The nature of the contract.
- If the company can salvage any products and resell them quickly, with a small amount of re working
- Any stage payments
- If servicing staff have left the country.
- The extent of the commitments to suppliers.
- The horizon of pre delivery risk
- The customer and country risks

Pre Delivery Cover

Credit insurance can be extended to cover predelivery risk, in particular, the risk of customer insolvency predelivery or political frustration predelivery.

Some times predelivery cover can be extended included the frustration of a contract caused by non payment of a pre delivery milestone, and or non payment of a termination account, and or bond call.

Predelivery risks are often complicated and the wording of the cover is worth careful examination.

It is to be noted that in the event that it was clearly unwise to dispatch goods, credit risk (payment risk) cover would not automatically apply if the company nonetheless went ahead and dispatched head them.

Binding contracts cover and NonCancelable Limits

Binding contracts cover and noncancelable limits are not included in predelivery cover. However, they provide a commitment from the credit insurer that the cover for dispatches / invoices will not be withdrawn without a prior notice.

If the company's customer is overdue, or it is imprudent to dispatch, there is no credit insurance cover for dispatches subsequently made, even where the company holds binding contract cover or noncancelable limits.