

Session 3 – Private Sector Expert Assessments



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Democracy Index and Operational Risk



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Agenda

Democracy Index 2024

- Overview

 - How our approach differs from other Democracy indices

 - Index Design and characteristics

- Bias mitigation and validation

- Developments from the 2024 Democracy Index

Operational Risk index

- Overview

 - How our approach differs

 - Advantages of the EIU Operational Risk Index

- Bias mitigation and validation

- Latest developments and current data

The World Bank selects the subcomponents that require judgment

Voice and Accountability	Political Stability & Absence of Violence	Regulatory Quality	Control of Corruption	Rule of Law	
Democracy Index	Orderly transfers	Unfair competitive practices	Corruption among public officials	Violent crime	Speediness of judicial process
Vested interests	Armed conflict	Price controls		Organized crime	Confiscation / expropriation
Accountability of public officials	Violent demonstrations	Discriminatory tariffs	Government Effectiveness	Fairness of judicial process	Intellectual property rights protection
Human rights	Social unrest	Excessive protections	Quality of bureaucracy	Enforceability of contracts	Private property protection
Freedom of association	International tensions / terrorist threats	Discriminatory taxes	Excessive bureaucracy		

EIU takes a broader approach to democracy characterization

Previous measures of Democracy

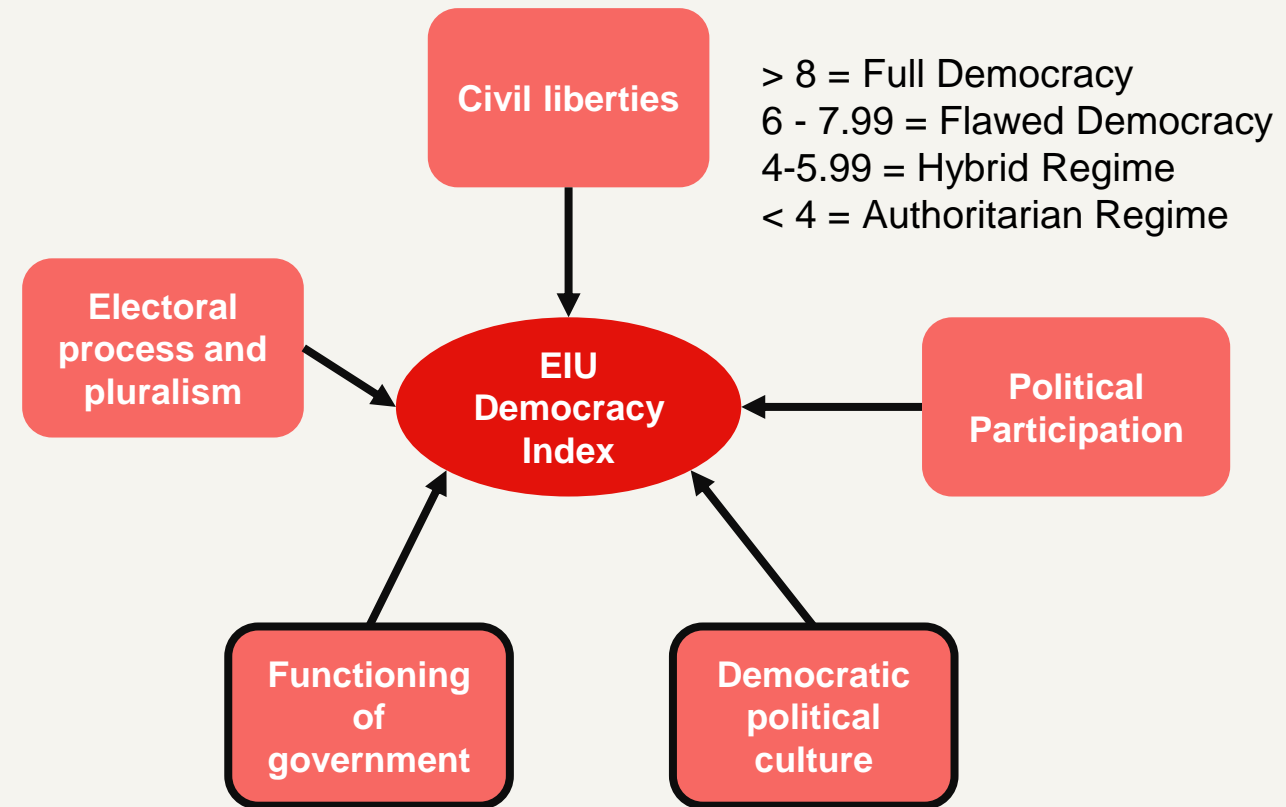
- Focused on “electoral Democracy” and the strength of democratic institutions.
- The strength of democracies are based on traditional criteria: competitive, multi-party elections, universal adult suffrage, regularly contested, secure elections, and public access to political parties and information
- Democracy indices are often “thin” measures that focus on political rights and civil liberties

EIU Democracy Index

- Our approach broadens the definition of democracy to include aspects of society and political culture in democratic societies
- To determine how substantive a democracy is, we place a greater emphasis on the political participation and the functioning of government
- EIU’s measure is based on five categories: *electoral process and pluralism, civil liberties, the functioning of government, and political culture.*

Broad and consistent set of criteria feed into EIU's index

- EIU country analysts assess **60 democracy indicators that feed into five sub-indices and create a single score for 167 countries.**
- The index has a scale of 0-10. with the greatest range being for non-democracies.
- EIU's Democracy Index is updated annually and validated by the index's editorial team.
- No changes to a country's score can be made without justification from the analyst.
- The Democracy Index uses a combination of qualitative assessments and public opinion surveys (e.g. World Values Survey)



Sample of questions from the World Values Survey

Are elections for the national legislature and head of government free?

Consider whether elections are competitive in that electors are free to vote and are offered a range of choices.

1: Essentially unrestricted conditions for the presentation of candidates (for example, no bans on major parties).

0.5: There are some restrictions on the electoral process.

0: A single-party system or major impediments exist (for example, bans on major party or candidate).

Is there universal suffrage for all adults?

Bar generally accepted exclusions (for example, non-nationals; criminals; members of armed forces in some countries).

1: Yes.

0: No.

Public confidence in government

1: High.

0.5: Moderate.

0: Low

If available, from World Values Survey: % of people who have a “great deal” or “quite a lot” of confidence in government:

1: More than 40%

0.5: 25-40%

0: Less than 25%

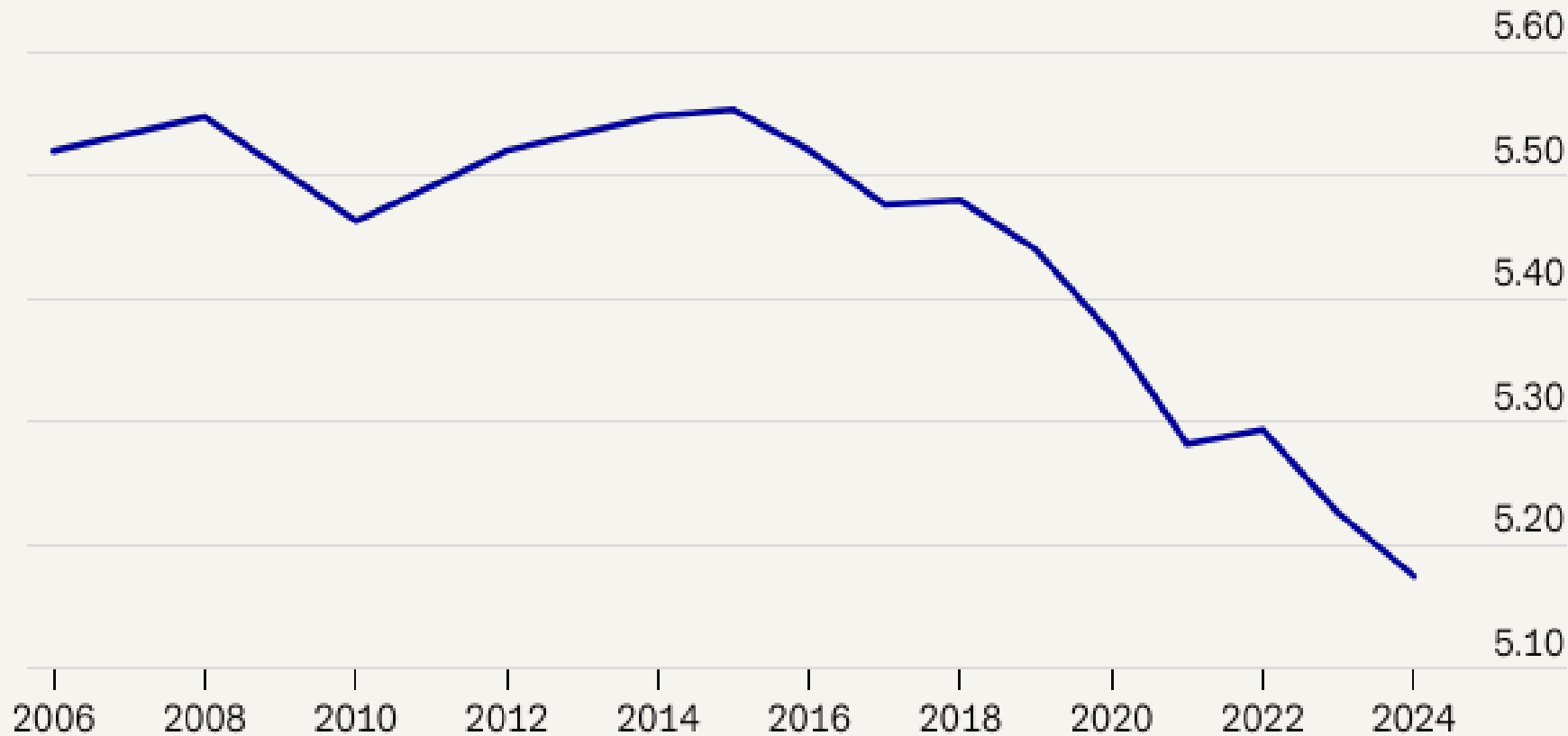
Bias mitigation and advantages of the EIU approach

- EIU uses a **0, 0.5, 1 scale for the majority of our indicators**, for the remainder we use a dichotomous 0-1 scale.
- The 0, 0.5, 1 scale is cleaner and easier to interpret than wider scales (such as 1-5, 1-7, or 1-10.) In all instances when possible, the preference is to use a 0,1 dichotomous scale.
- For wider scales, the differences between scores in different indicators may not be consistent. Moving from a 4 to a 5 in one indicator could be a much larger change than 2 to 3 in another indicator. This creates problems when aggregating the final index.
- EIU's Democracy Index editorial team **reviews every response** from each expert for consistency and provides clear guidance on how scores should be applied. All answers must be justified to the editorial team by the expert.
- For many of the indicators, **survey data is applied as the scoring criteria**, typically from the World Values Survey, Eurobarometer surveys, Gallup polls, Asian Barometer, Latin America Barometer, Afrobarometer, and other national surveys.

The world is becoming less democratic

Charting democracy's ups and downs, 2006 to 2024

Global average Democracy Index score; 0-10 scale

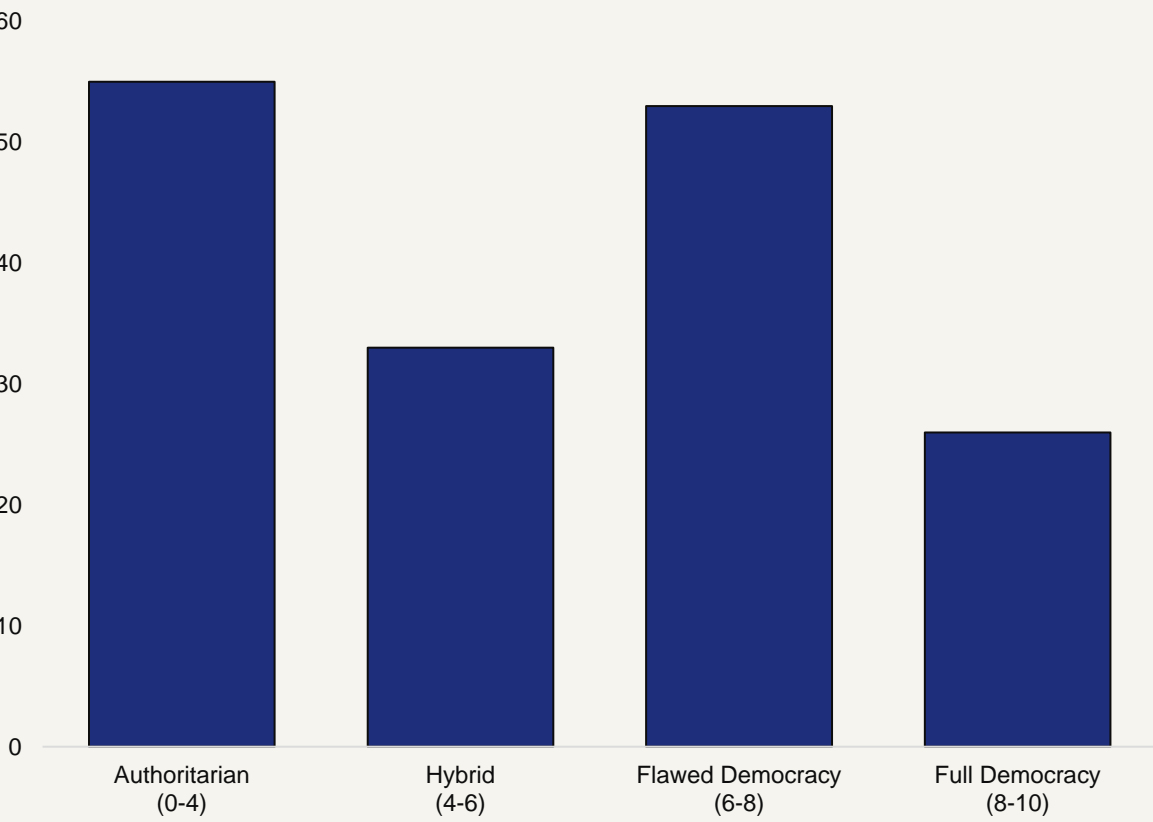


Source: EIU.

Erosion of civil liberties are a bellwether of democratic decline

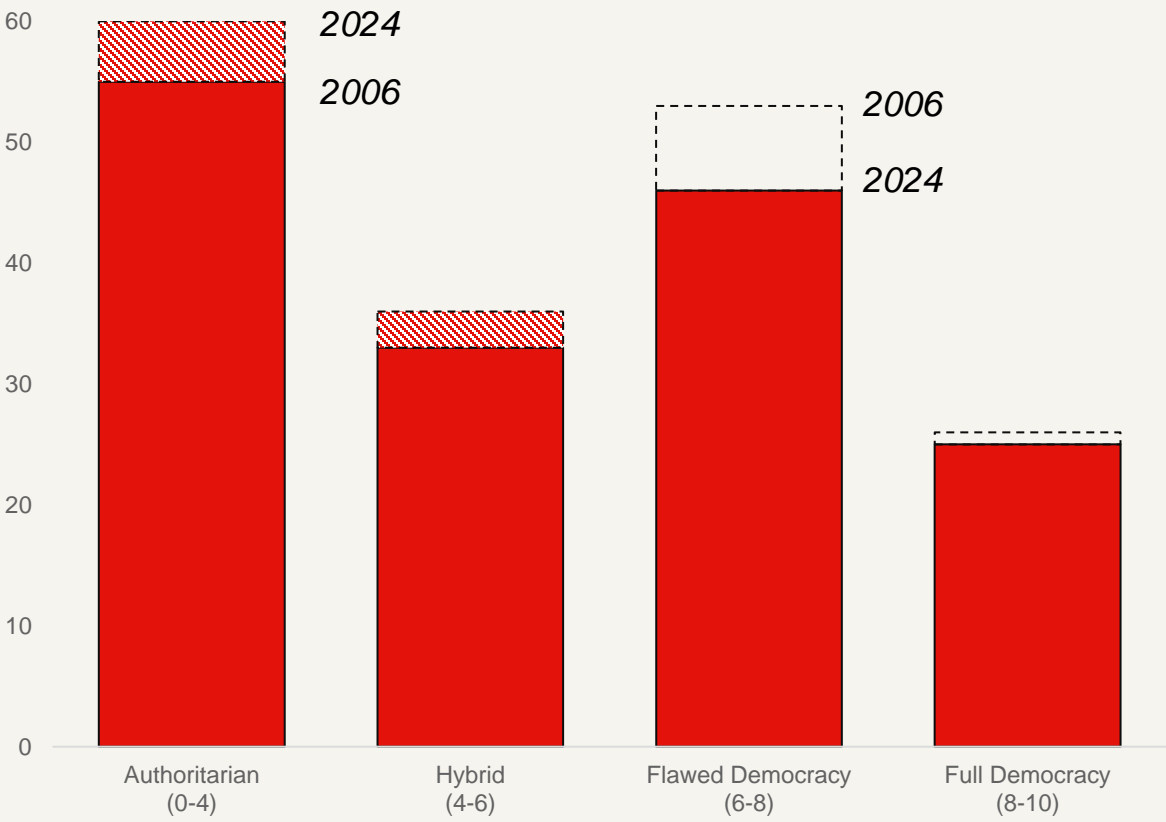
Democratic institutions were stronger in 2006

2006 Democracy Index



57% of countries are hybrid or authoritarian regimes

2024 Democracy Index

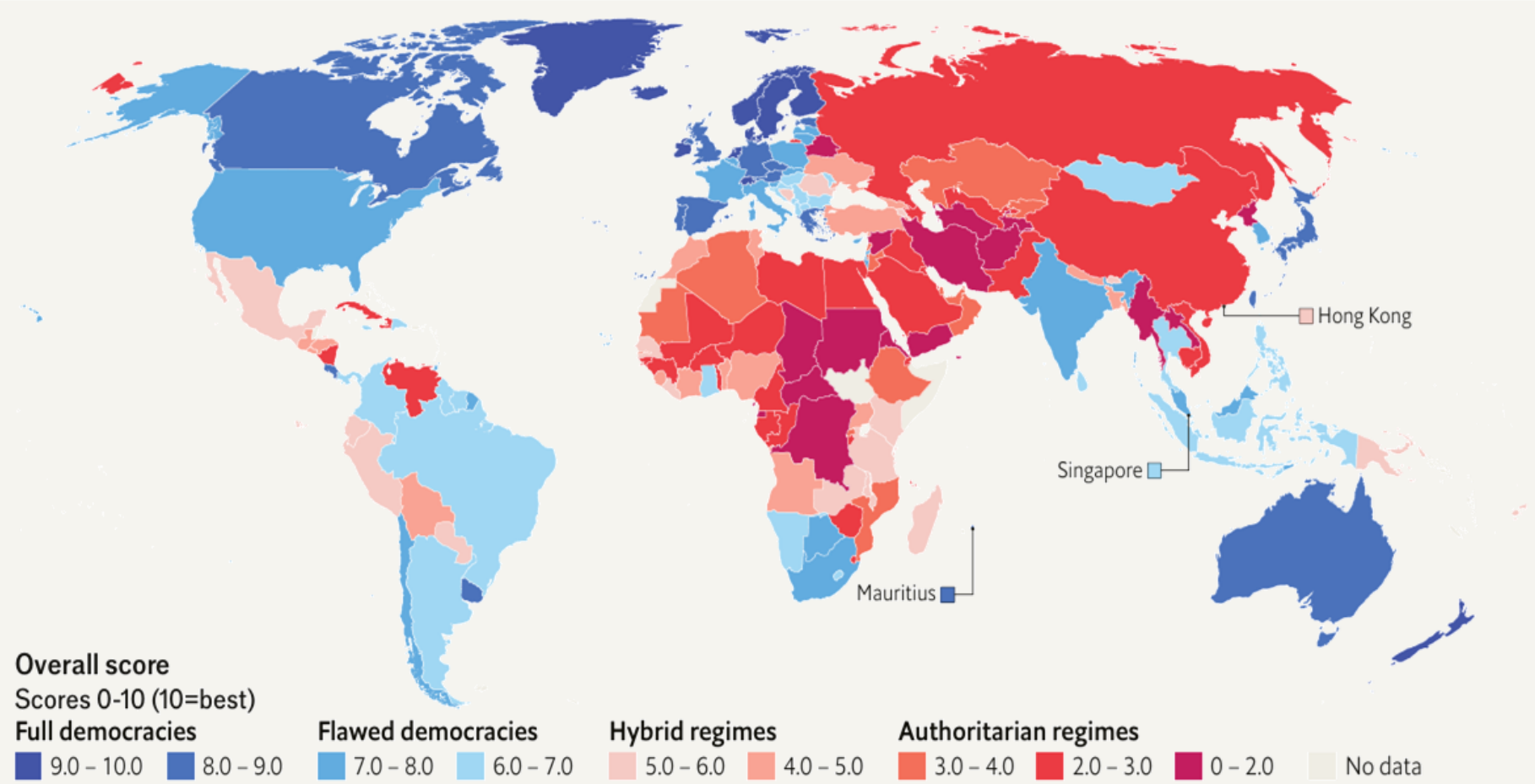


Source: EIU.

More than a third of the world lives under authoritarian regimes

Only 6.6% of the world's population lives in a “full” democracy

Democracy Index 2024



Most democracies fall short of the ideal

EIU classifies 71 countries as democracies

Democracy Index 2024

	No. of countries	% of countries	% of world population
Full democracy	25	15.0%	6.6%
Flawed democracy	46	27.5%	37.9%
Hybrid regime	36	21.6%	15.6%
Authoritarian regime	60	35.9%	39.8%

Note: "World" population refers to the total population of the 167 countries covered by the index. Since this excludes only micro states, this is nearly equal to the entire estimated world population.

Source: EIU.

Questions Welcome

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The International Country Risk Guide (ICRG)

Overview, Uses, Methods, Data, & Results

Workshop on Data Sources for the
Worldwide Governance Indicators (WGI)

March 14, 2025 Washington, DC



OVERVIEW

- The Genesis of PRS and ICRG.
- Longest running geopolitical risk rating and forecasting series (1984-present).
- Over 7.5 million vetted geopolitical risk points, covering political, economic, financial, and composite risk.
- Covers 141 countries (ICRG); 20+ additional countries for private clients.

EXTENSIVE USE IN THE ACADEMIC LITERATURE AND APPLIED ACTIVITIES

- Some 1,000 references/uses of the ICRG data in the academic literature.
- Drawing the connection between aspects of geopolitical risk and a range of economic and political phenomenon, from the behavior of financial assets, the effect of corruption on growth, the costs of war, et al.
- Standard approach in textbooks in International Finance & Valuation.
- Applied uses via the creation of hurdle rates/the cost of capital; litigation support; portfolio rebalancing.

METHODOLOGY, DATA AND GENERAL APPROACH

- Risk Metrics, Weightings, Risk Bands
 - Over 22 political risk variables
 - Quasi Type-2 errors (WC/BC)
 - Twelve economic and financial risk variables
 - Composite scores
 - Monitored daily and published monthly

- Country analysts and Coordinating Council

- Academic and Applied Experience

SELECT OUTCOMES

- Predictive Capacity
 - Emerging Market Equities
 - OPIC Claims & Press Reports
- The Behavior of Financial Assets
- COVID and Pandemics
- The Economic Costs of War

AI TESTING BEGAN IN 2016

Initial Outcomes

Present Time

- Large Language Models (LLMs)
- Retrieval-Augmented Generation (RAG)

QUESTIONS
WELCOME



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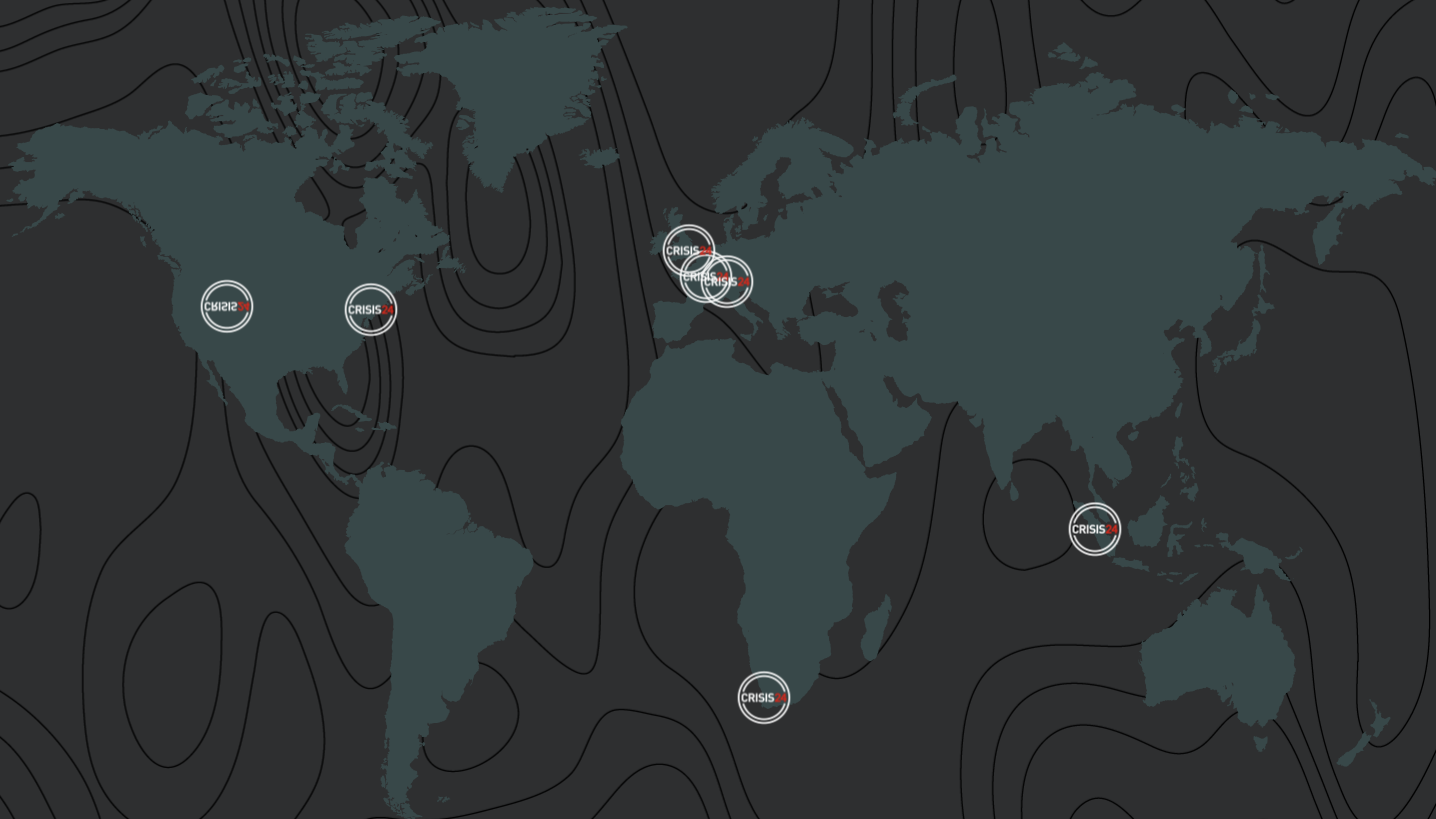
Country/City Security Assessment Ratings (CSARs)

Jonathon Keymer
Director of Intelligence, Crisis24

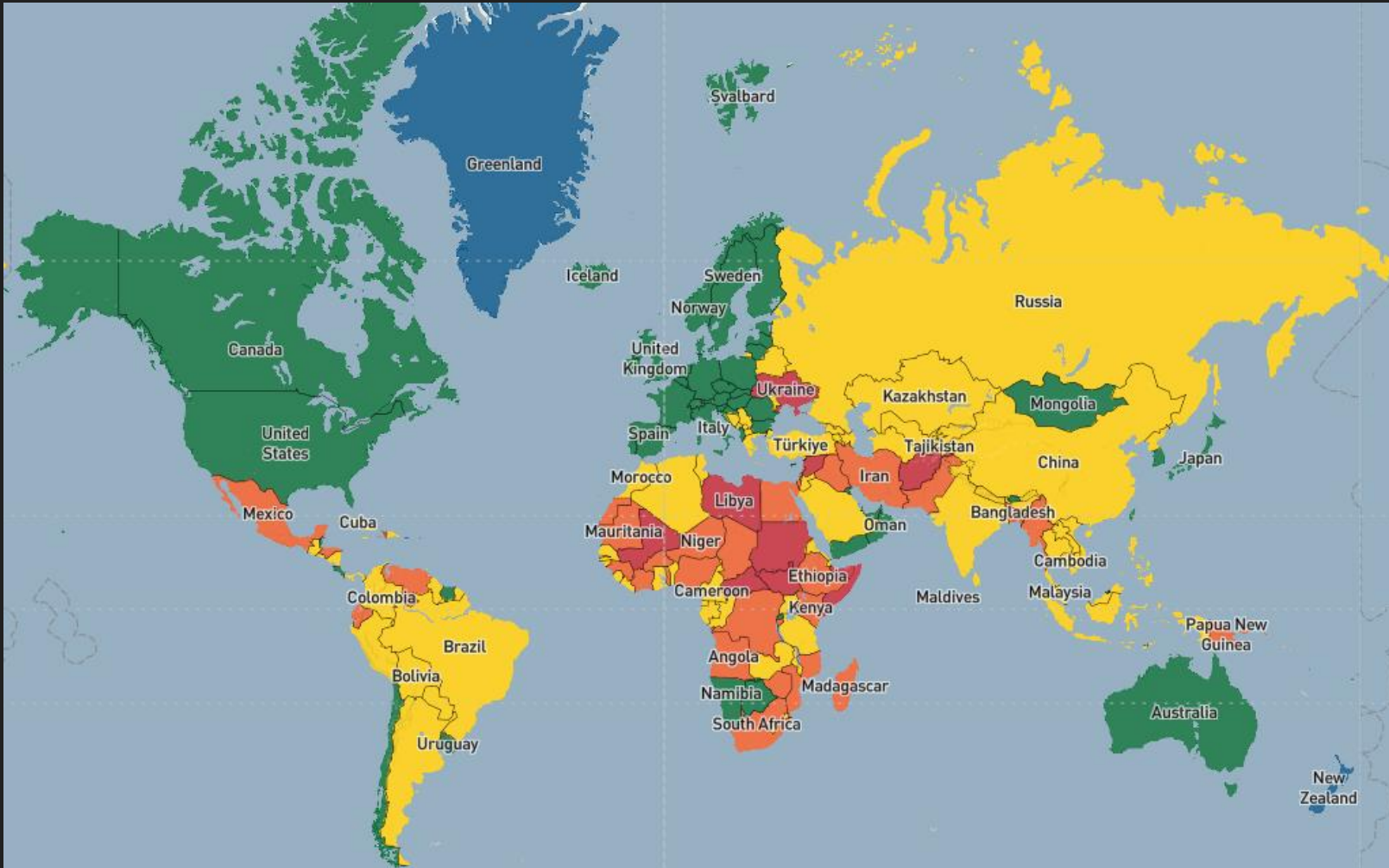
CSARS

COUNTRY/CITY SECURITY ASSESSMENT RATINGS

- Risk = **THREAT** + Exposure
- Five regional teams (Africa, Americas, APAC, Europe/Central Asia, MENA)
- Underpinned by thematic SMEs and on-the ground security details
- Aim to inform/support clients operating anywhere in the world
- CSARs weighed with individual client profile to determine **RISK**



COUNTRY-LEVEL CSARS



COUNTRY-LEVEL CSARS

SOUTH AFRICA

Security Assessment Rating



Overall Rating

- Crime: 4 - High
- Security Services: 3 - Moderate
- Civil Unrest: 4 - High
- Terrorism: 3 - Moderate
- Kidnapping: 3 - Moderate
- Geopolitical: 3 - Moderate

- Subcategories are weighted by likelihood and potential impact
- Assessments are “art” not “science”

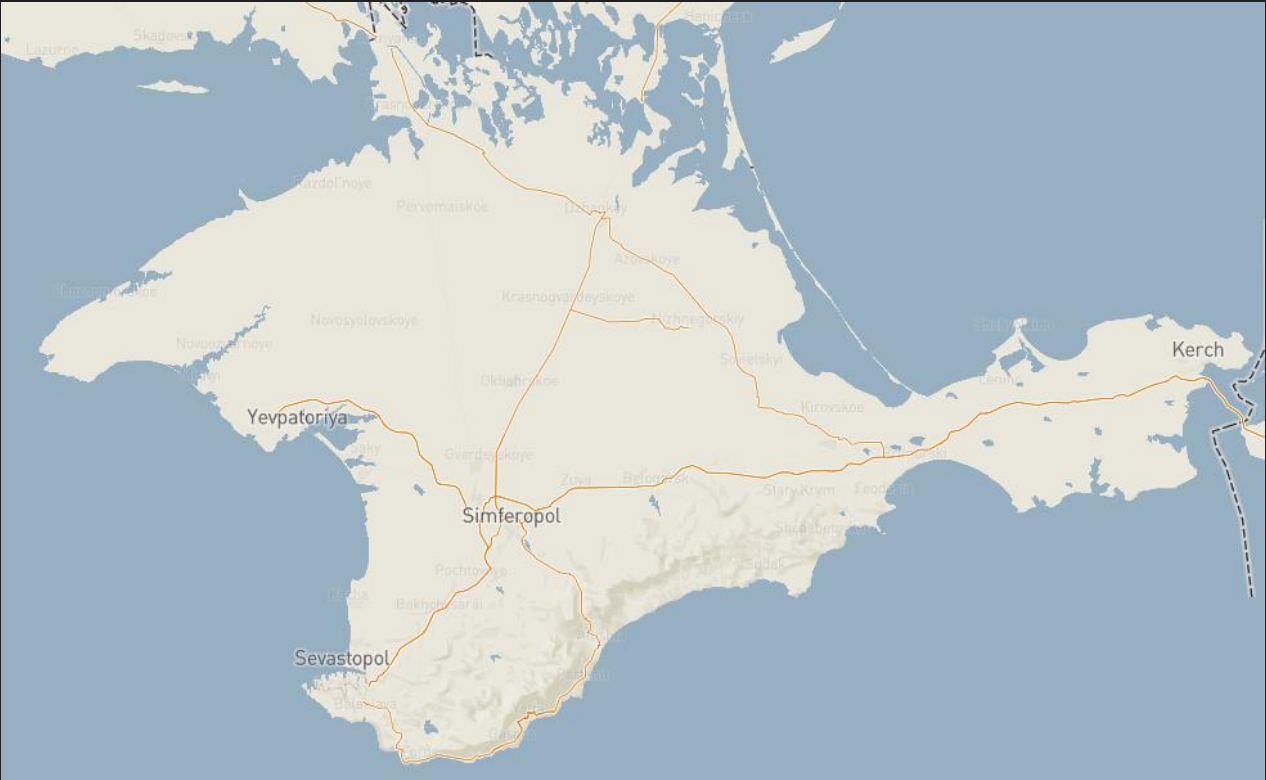
CSAR DEFINITIONS

1 (MINIMAL)	Threats, where present, occur in specific, often isolated or low-traveled, areas and rarely affect travelers or businesses. Basic travel safety and corporate security procedures almost always mitigate risks.
2 (LOW)	Threats typically occur only in specific areas and infrequently affect travelers or businesses. Basic travel safety and corporate security procedures generally mitigate risks.
3 (MODERATE)	Threats are generally limited but sometimes affect travelers or businesses. Dynamic incidents occur periodically. Basic travel safety and corporate procedures may not mitigate all risk.
4 (HIGH)	Threats are widespread, but may be lower in specific areas. Dynamic incidents occur frequently. Travelers and businesses that take precautions are still at high risk.
5 (SEVERE)	Threats are nearly universal. Most threats are intrinsic, but dynamic incidents also occur and threaten safety. Travelers and businesses that take precautions are still at severe risk.

CITY SECURITY ASSESSMENT RATINGS

	Turkiye (Country CSAR)	Batman (City CSAR)
Overall CSAR	3 (Moderate)	4 (High)
Crime	3	3
Security Services	3	3
Civil Unrest	3	3
Terrorism	3	4

EXCEPTIONS



Pre-War Sevastopol, Crimea		
Overall CSAR	4 (High)	
Crime	2	
Security Services	4	
Civil Unrest	2	
Terrorism	2	

SOURCES

Open sources

- Local and international media
- Government advice
- NGO reports
- International bodies (UN, OSCE etc.)

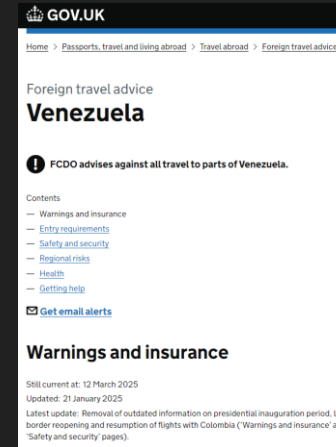
Robust verification procedures

Closed sources

- Embedded analysts
- Human networks, including operational details on the ground

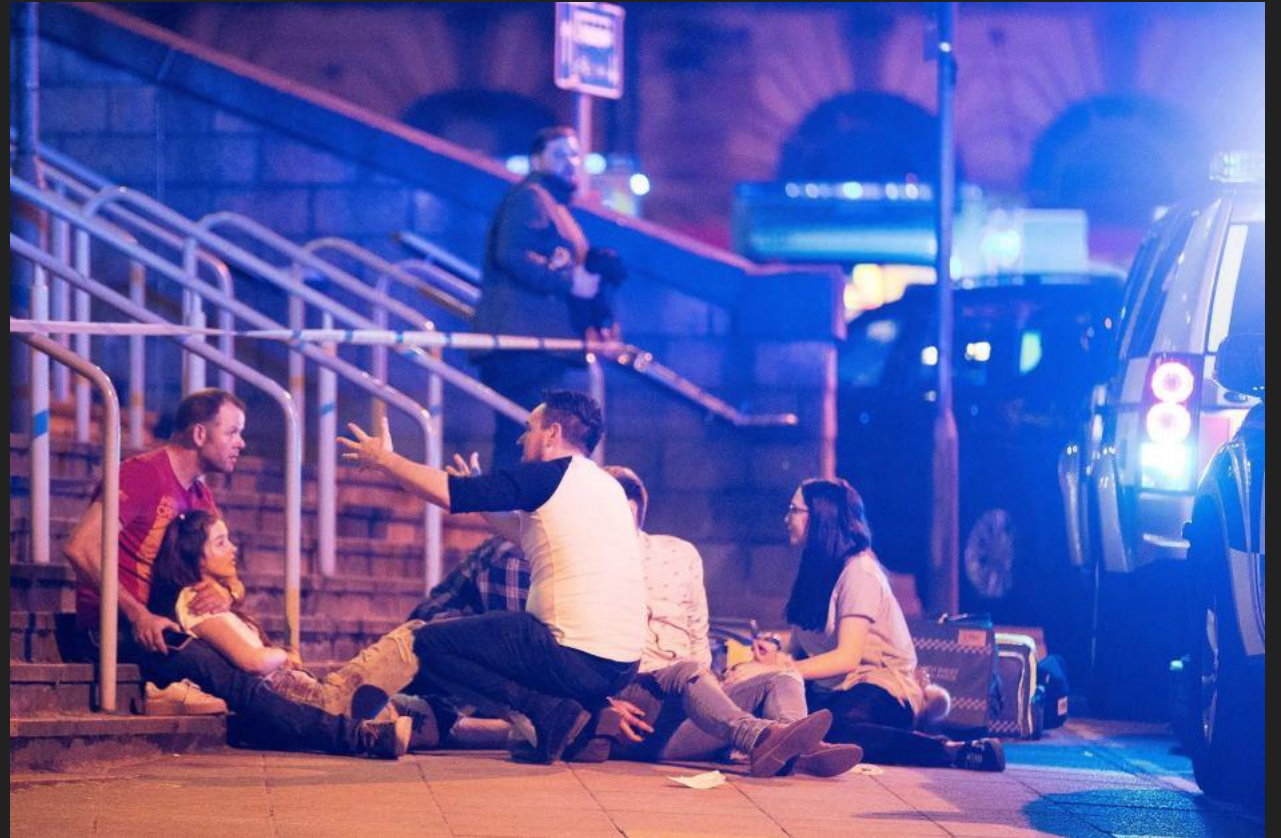
Impartiality essential

Multiple sources used to “triangulate” the ground truth



REVIEWS

- Each location reviewed at least every 6 months
- Out of sequence reviews in response to dynamic events
- CSARs updated to reflect identified/forecast trends
- One major incident does not automatically prompt an increase in CSAR severity





Q&A