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# CIPS RISK INDEX

## A Global Retrospective

### CIPS RISK INDEX INTRODUCTION

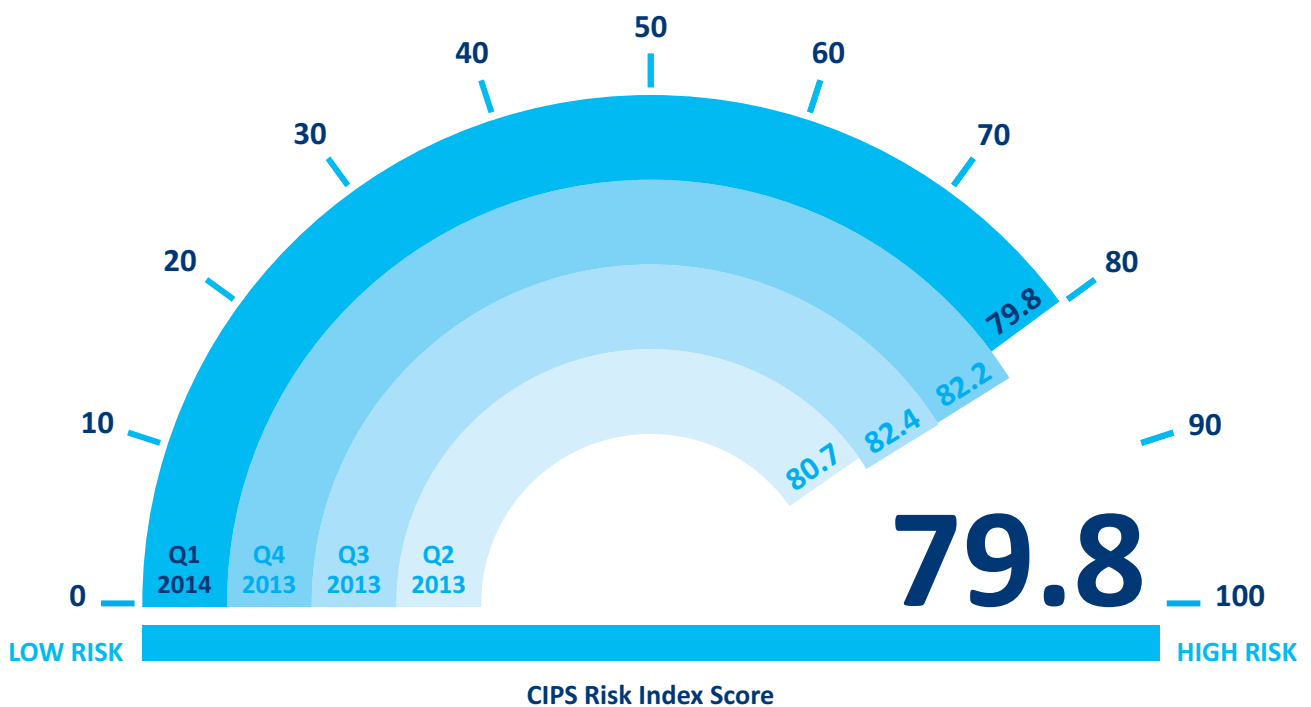
With increasing globalisation has come a much higher risk for supply chains. As a result, Supply Chain Directors and Chief Procurement Officers are being asked to evidence their mitigation strategies, which can include the here-and-now as well as looking ahead for risks on the horizon. The CIPS Risk Index has been created to respond to this demand and forms an essential part of the toolkit for global supply chain risk owners.

CRI helps  
organisations  
manage global  
supply chain risk

# Why CIPS Risk Index?

The CIPS Risk Index provides an informed perspective on risk in the global supply chain environment. The Index aims to help sourcing professionals understand the risks to which their global supply chains may be exposed.

It is designed to look ahead and identify early warnings of changes in the macro environment that may affect suppliers. From the global, quarterly headline figure, it can also be examined at a regional/country level perspective.



## ABOUT CIPS

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues.

CIPS has a global community of over 100,000 in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

## ABOUT DUN & BRADSTREET (D&B)

Dun & Bradstreet (D&B) is the world's leading source of commercial information and insight on business, enabling companies to Grow Relationships Through Data® for more than 172 years.

Today, D&B's global commercial database contains more than 240+ million business records. The database is enhanced by D&B's proprietary DUNSRight® Quality Process, which provides customers with quality business information. This quality information is the foundation of D&B's global solutions that customers rely on to make critical business decisions. D&B provides D&B Risk Management Solutions™ to mitigate credit and supplier risk, increase cash flow and drive increased profitability.

# How does it work?

The CIPS Risk Index is composed of multiple unique assessments undertaken by D&B's economics team of over 40 in-house economists, data analysts and contributors working in-field across the world. In all, 132 countries (comprising 90+% of global economic activity) are assessed across nine categories, on a monthly basis. The individual country scores are then aggregated to calculate a global supply risk score.

This "bottom up" approach allows us to provide insight at a global, regional and national level, as well as deeper analysis into areas related to social unrest, natural disasters and business environment.

To provide a supply chain lens on global risk, the contribution of individual countries to a global risk score is weighted by their corresponding contribution to exports of goods and services in nominal terms according to data published by the IMF.

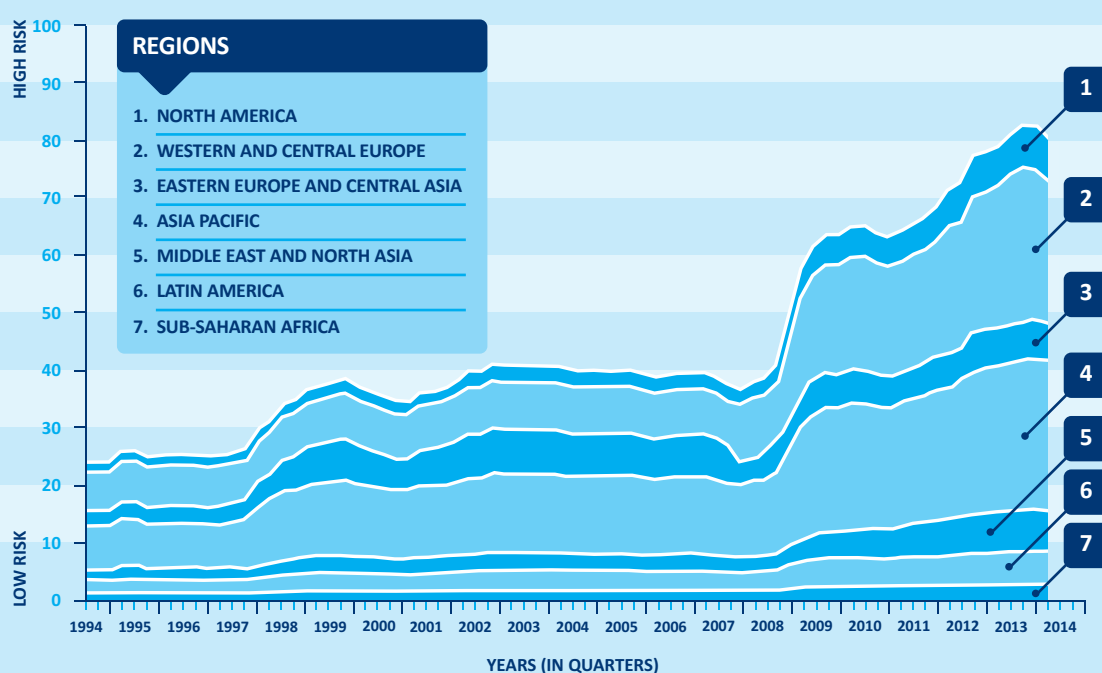
## The Index assesses against nine CRI categories

- Short-term economic outlook
- Long-term economic potential
- Market potential
- FX risk
- Transfer risk
- Business environment quality
- Business continuity
- Insecurity/civil disorder risk
- Expropriation/nationalisation risk

The world trade patterns of 2010 were chosen for the index and applied across the 20 year period for consistency. 2010 is an appropriate year because it both provides a suitable weight to the importance of certain emerging markets today to global supply chains and reflects their increased commercial and economic importance post-financial crisis.

In constructing an index weighted by country involvement in global supply chains, there is a bias towards the 20 or so countries that dominate world trade. For this reason, CIPS and D&B have also developed regional views on the Risk Index and also provide individual un-weighted scores at the country level through a coloured heatmap (see page 6).

## CIPS RISK INDEX SCORE 1994 - 2014



# What does it mean?

The CIPS Risk Index launched in Q1 2014 with a global score of 79.8. This is just fractionally lower than the all-time peak reached in Q3 2013. Using this new methodology to analyse data over the last 20 years, we believe that businesses are trading in unprecedented economic and political times. The Index scores supply chain risk way above the trend recorded throughout the latter half of the 1990s and first half of the 2000s.

Companies that operate across borders are facing difficult decisions across their supply chains with elevated levels of uncertainty surrounding economic, financial and political risk factors.

**CIPS and D&B believe there are three fundamental questions that arise from this index which can only be truly answered over the coming quarters and years:**

1

## **Are risks declining?**

Are we now on a path, albeit an uneven one, towards recovery and reduced operational risk levels globally? There are encouraging signs from some countries that this may be the case, that the economic healing process is underway, but it would require a major improvement in our risk assessments for the larger Europe and Asia economies to recover to the global risk levels last seen before the onset of the financial crisis in 2008.

2

## **How are organisations responding?**

Secondly, how have businesses dealt with this unprecedented increase in uncertainty in their operating environment? Have they changed their business strategy, sought to transfer the risk (if so, who is now carrying this risk), and/or have they invested in developing resilient supply chains? Some may well be simply relying on their crisis management skills to get them out of a problem as and when it arises. Time will tell.

3

## **Where are the opportunities?**

There is a third factor which will also be explored with the CIPS Risk Index: in spite of the global picture, where are the opportunities at regional and country level that sourcing and supply professionals should be evaluating and how are they changing over time; opportunities which can only be unlocked through a better understanding of the risks that need to be managed.

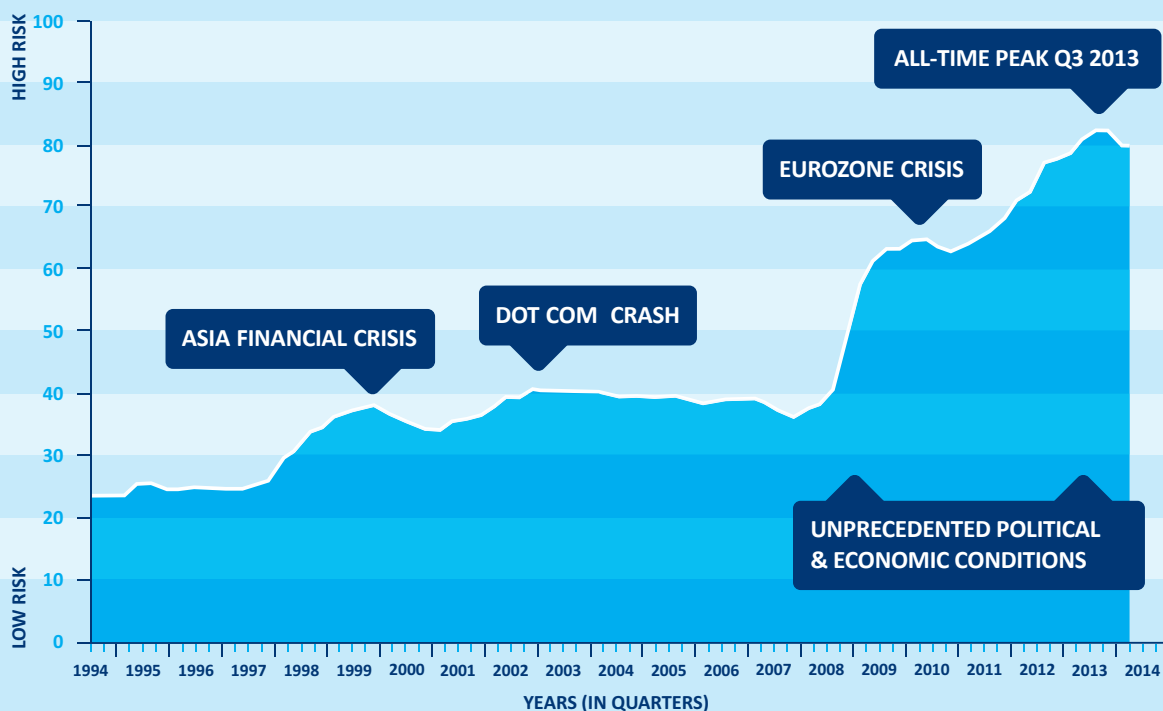
# The unprecedented journey

From 24.4 to 82.4 over 20 years

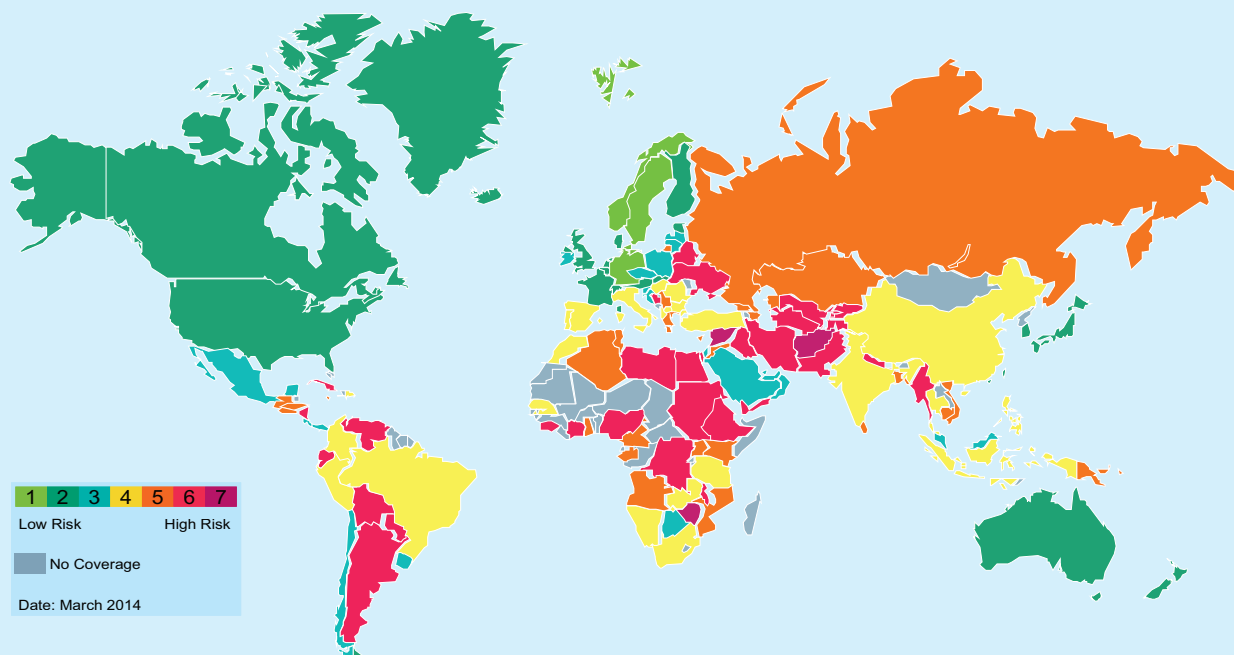
The CIPS Risk Index has been validated against almost 20 years of intelligence carefully compiled and analysed by Dun & Bradstreet. The unprecedented journey to today's global risk score can be explained through the following key milestones:

- The 1990s were characterised by a period of rapid globalisation, the rise of the emerging markets, an explosion in the capabilities of information technology and communications and positive spill-overs into the productivity of advanced economies, especially the United States. In Q1 1998 the negative change in the Index score reflected the onset of the Asian financial crisis and its ripple effect with the risk score contribution for that region alone increasing dramatically from 8.65 at the end of 1997 to 14.05 by Q4 1999, resulting in the global score rising from 26.8 to 38.8
- The global risk score abated and dropped down until the dot.com crash and beginning of the economic slowdown and recession at the turn of the Millennium with the global risk score reaching a new peak of 41.3 in its aftermath in 2002
- The global economic recovery picked up again in the early years of the new Millennium and the CIPS Risk Index remained flat until Q4 2007 at 36.9. However, with asset prices being fuelled by easy credit availability, a major crisis was reaching its tipping point
- With the financial crisis breaking fully in Q4 2008, all regions in the world recorded dramatic increases in risk – specifically Western Europe, North America and Asia Pacific – and the global risk score jumps to 61.7 within just 6 months before peaking temporarily at 65.1 in Q2 2010
- The level of risk escalated again in Q1 2012 through to Q3 2013 with the onset of the Euro crisis. Given the trading importance of a number of the larger European economies into global supply chains D&B's negative scoring in these countries resulted in a huge contribution to overall global operating risk. This raised the CIPS Risk Index score to an all-time 20-year high of 82.4 in Q3 2013.
- At Q1 2014 the CIPS Risk Index sat at 79.8, just fractionally down from the 20-year high, reflecting our cautiously optimistic outlook for 2014 and beyond. Clearly though, overall risk remains exceptionally high.

## CIPS RISK INDEX SCORE 1994 - 2014



## CIPS COUNTRY RISK HEATMAP Q1 2014



**At a country level, we have observed countries with dramatic changes in the operational risk that they present to global supply chains:**

- The US has jumped from the lowest risk country score band of “DB1”, using D&B’s scoring methodology, to “DB2” across this time period. D&B country scores are divided into seven bands ranging from DB1 (lowest risk) to DB7 (highest risk). Each band is subdivided into quartiles (a-d) with an ‘a’ designation representing slightly less risk than a ‘b’ and so on. Only the DB7 score is not divided into quartiles. So while the US is still relatively low risk, this is a significant change in risk profile given the US’s contribution to global trade.

**By providing a regional perspective, we can also see how each of seven regions (as defined by the OECD) contribute to the global risk score and how their contribution has changed over time:**

- The two notable shifts since the 2008 financial crisis have been in Western Europe and Asia Pacific. Given that Asia has been the primary beneficiary of the globalisation of supply chains in recent years, it is a major source of concern that this is one region that has seen a significant increase in operational risk.

**When we consider fashionable clusters of emerging markets such as BRIC (Brazil, Russia, India, China) and MINT (Mexico, Indonesia, Nigeria and Turkey), we can see contrasting fortunes and quite significant differences in risk profile, which should mean that these emerging markets are not seen as homogeneous clusters of equal opportunity; quite the opposite:**

- While China and India have remained consistently between medium risk bands of “DB3” and “DB4”, Russia has always held a much higher risk profile between high risk “DB6” and “DB7” bands
- Likewise with MINT, Mexico has held a consistent medium risk profile between “DB3” and “DB4” over the 20 year period, while Indonesia has experienced periods of time at high risk levels of “DB6”. Nigeria has never been lower than “DB6” in the same period and Turkey has experienced significant volatility starting the 20-year period at “DB3” and currently scoring “DB5” but did touch “DB6” during the period under analysis.

**At a thematic level, we have also seen that major environmental disasters and social unrest events can influence the operational environment and these are reflected in the regional index and country-level scores.**

- The Great East Japan earthquake and its tragic consequences in March 2011 led to a downgrade of Japan’s country risk score due to the overall supply side shock from “DB2c” to “DB3a”
- The extensive flooding in the same year that affected Thailand led again to a downgrade from “DB4c” to “DB4d”. These two events had significant effects of global supply chains
- The Arab Spring which started in early 2011 created significant change in the stability of local supply chains. In the specific case of Egypt, its risk score deteriorated from a healthy “DB3c” to “DB5c” following the uprising in February 2011 and currently sits at “DB6a”
- Bangladesh is another country which was downgraded a notch in August 2013 to “DB5d” due to the deteriorating security situation in the country and increasing frequency of highly disruptive strikes.

# Further information

## COUNTRY INSIGHT REPORTS

Quarterly reports for 132 countries provide in-depth analysis of a country's risks and opportunities in relation to the global and regional business environment. They provide summary recommendations, trend and forward-looking analysis and focussed narrative around the implications of each key risk factor.

[www.cips.org/dnb-qtr](http://www.cips.org/dnb-qtr)

## COUNTRY RISKLINE REPORTS

These monthly reports provide a snapshot view of a country's cross-border risk exposure, focussing on the political, commercial and macroeconomic environments.

[www.cips.org/dnb-mth](http://www.cips.org/dnb-mth)

## COUNTRY HEATMAP

Use the Country Heatmap to quickly locate the countries which are relevant to your supply base. If they are at a threshold of, or beyond your risk appetite, you can find out more from detailed D&B country reports.

[www.cips.org/risk-index](http://www.cips.org/risk-index)

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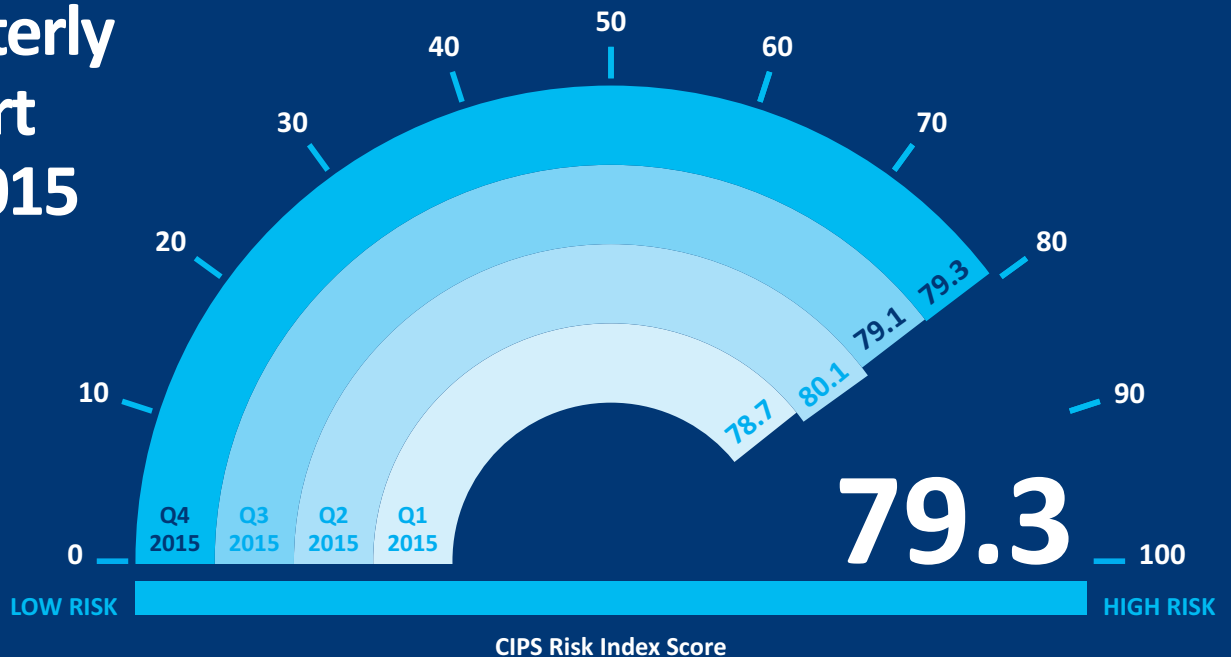


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# CIPS RISK INDEX

## Quarterly Report Q4 2015



### CIPS RISK INDEX (CRI) KEY POINTS Q4 2015

**The CRI score resumes** its deteriorating trend with an increase to 79.3 this quarter, on the back of downgrades by our team to some highly-weighted advanced and emerging economies.

**While the risk outlook** for some regions of the world, most notably the EU, has improved since mid-2015, emerging markets now appear far more vulnerable.

**The US Federal Reserve lift-off** and concerns over the Chinese slowdown have highlighted emerging market vulnerabilities and eclipsed positive economic features such as continued low energy prices.

**Nine countries have been upgraded** in Q4 in terms of our operational risk assessments, with ten countries experiencing an overall increase in operational risk for companies trading across borders.

**Our CRI has deteriorated and risks remain close to record highs.**

# About the CIPS Risk Index

## How the CIPS Risk Index works

The CIPS Risk Index is composed of multiple unique assessments undertaken by Dun & Bradstreet's economics team of over 40 in-house economists, data analysts and contributors working in-field across the world. In all, 132 countries (comprising 90+% of global economic activity) are assessed across nine categories, on a monthly basis. The individual country scores are then aggregated to calculate a global supply risk score.

We use weights for each country based on the contribution each country makes to total global exports (in theory, their individual contribution to global supply chains). The trade shares are anchored to data for 2010 to facilitate consistent comparison of the index scores over time. The regional scores are done in the same way, aggregating across all countries in the region based on their contribution to total exports.

### Country risk scores

Dun & Bradstreet country scores provide a comparative assessment of cross-border risk. The ratings are divided into seven bands ranging from DB1 (lowest risk) to DB7 (highest risk). Each band is subdivided into quartiles (a-d) with an 'a' designation representing slightly less risk than a 'b' and so on. Only the DB7 score is not divided into quartiles and sets a ceiling for the highest risk level.

## The Index assesses against nine categories:

### CRI CATEGORIES

1. Short-term economic outlook
2. Long-term economic potential
3. Market potential
4. FX risk
5. Transfer risk
6. Business environment quality
7. Business continuity
8. Insecurity/civil disorder risk
9. Expropriation/nationalisation risk

# Deteriorating CRI remains close to record levels

**132 country markets assessed for the period Oct – Dec 2015**

**Our CRI score has deteriorated in the fourth quarter of 2015, resuming the worsening trend in global operational risk since Q3 2014. Our measure has increased to 79.3**

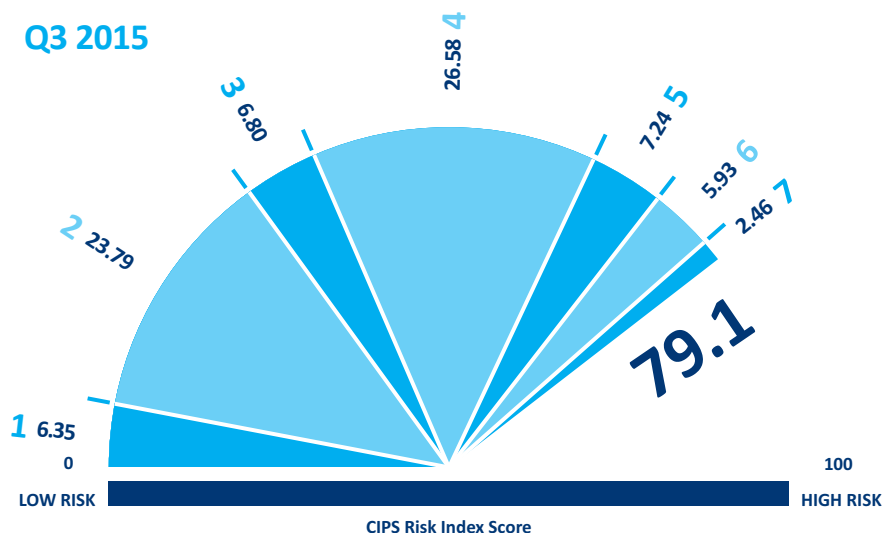
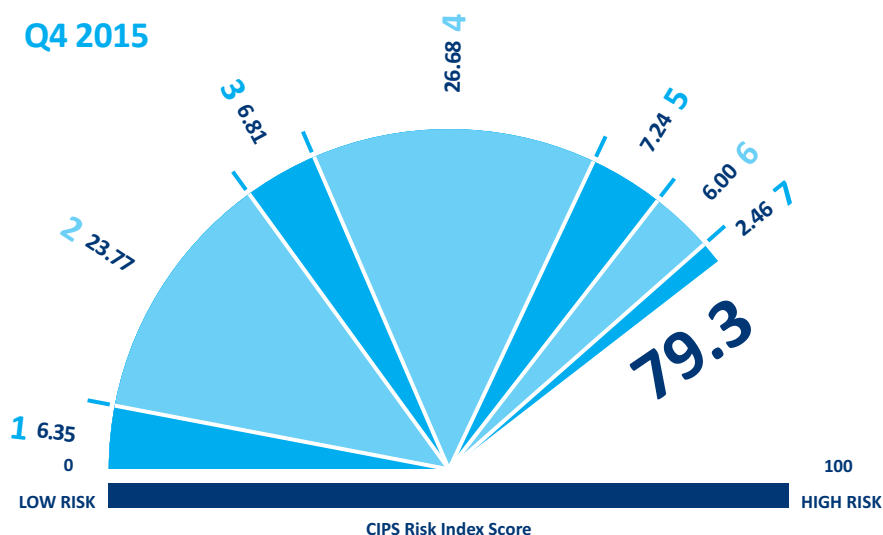
Our CRI score has deteriorated in the fourth quarter of 2015, resuming the worsening trend in global operational risk since Q3 2014. An approximately equal number of countries were upgraded and downgraded, but the countries for which the risk outlook deteriorated are more highly-weighted.

## Contribution to global risk by region (Q4 2015 vs Q3 2015)

### REGIONS

1. NORTH AMERICA
2. WESTERN AND CENTRAL EUROPE
3. EASTERN EUROPE AND CENTRAL ASIA
4. ASIA PACIFIC
5. MIDDLE EAST AND NORTH AFRICA
6. LATIN AMERICA
7. SUB-SAHARAN AFRICA

Charts represent an approximation of regional contribution and reference should always be made to the relevant regional statement for the extent of any actual change.



# Regional Risk Summaries



## North America

**While Dun & Bradstreet has left the country risk ratings for Canada and the United States unchanged for the past three months, the underlying trend in country risk has taken a slight turn for the worse, signalling that the operating environment in North America remains somewhat challenging due to developments in the global economy.**

The growth outlook for North America remains challenged by external headwinds, led by the slowdown in China, which will drag on commodity prices, as well as on overall global growth. Growth patterns will diverge in the near term; Canada will end 2015 with its slowest growth since the recession, while the US will have another year of steady but average growth. With the US Federal Reserve opting for its first rate hike in December, interest rates in the US and Canada will also diverge as the Bank of Canada keeps rates at record lows for an extended period. Given the diverging paths of interest rates and the prospect of sustained low oil prices, the Canadian dollar will remain weak and the US dollar will remain strong in H1 2016.

Regional growth will be modest in the near term, averaging 2.6% in 2016, up slightly from 2.4% in 2015, underpinned by healthy domestic demand in both Canada and the US. On the other hand, both countries face headwinds due to the slowdown of the global economy, particularly the loss of steam in emerging markets, led by the Chinese economy. Canadian real GDP is on track to post its slowest rate of growth in 2015 since the sharp downturn of 2009. Canada's oil and gas sector, related industries and oil-dependent provinces are feeling the financial strain from the lower global oil price, which has triggered job losses and the scaling back of investor projects. The US economy is heavily dependent on consumers, but thanks to the savings from low energy prices and diminishing slack in the labour market, they are well placed to lead growth.

With the fundamentals of the domestic economy strong, the US Federal Reserve started its process of monetary policy renormalisation on 16 December 2015 by raising rates for the first time since December 2008, thereby ending an extraordinary 7-year period of zero nominal interest rates. While the real macro effects of the rate hike will take place with some lag, the US dollar is expected to remain strong in global FX markets. This will keep commodity prices, especially oil, low for a sustained period of time. This will help consumers in both countries, but energy-related capital spending in both countries will be hampered.

Canadian real GDP contracted during H1 2015, but the economy emerged from recession in Q3 and is expected to have maintained momentum into Q4 2015. Canada appears to be on a stronger footing to achieve faster economic growth in 2016, although the two-speed economy is expected to persist. On the

one hand, consumer spending should continue to be driven by emergency cuts to the benchmark overnight interest rate by the Bank of Canada (BoC) in 2015, alongside cheap credit and low energy costs, which are encouraging demand for a wide range of consumer durables, cars and real estate. On the other hand, business investment is expected to remain subdued due to cut-backs in the energy sector and caution among non-energy sector enterprises. We expect real GDP growth to rise from an estimated 1.3% in 2015 to 2.1% in 2016 and 2.4% in 2017. We have left Canada's rating unchanged at DB2b.

The effects of the interest rate increase on the real economy will take some time to fully materialise. Driven by strong labour market gains and buoyant consumer spending, the US economy remains firmly on track to post modest but steady growth in the near term. The rate hike will not form a headwind to the economy; it is, in fact, a sign of the Fed's confidence in its growth. However, the path of future interest rate rises will be crucial. The Fed has pledged that future rate hikes will be 'only gradual', and will be based on its assessment of 'realized and expected economic conditions'. We expect the US to close out 2015 with a 2.5% expansion; growth will accelerate to 2.7% in 2016, and 2.9% in 2017. The US continues to be rated DB2a.

The FX market is one important channel where the impact of the rate hike will be felt relatively soon, via further appreciation of the already strong US dollar. Dun & Bradstreet forecasts a gentle upward trend in the dollar over the next few months. The appreciation will not be as fast or as sharp as seen at this time last year. One noteworthy feature of this tightening cycle is that the Fed hiked the interest rate while other major central banks in advanced countries are still pursuing extraordinarily accommodative monetary policy, pushing their interest rates effectively lower. This divergence in interest rates will make the dollar more attractive as an investment vehicle, adding to its value as capital flows from other countries into the US. Emerging market economies remain particularly exposed to this risk, and their currencies could see heightened volatility due to capital outflows in favour of the dollar. Commodity prices, which inversely correlate with the US dollar, are also likely to see further declines in the near term.

Despite the headwinds, note that Canada and the US remain two of the best rated countries in D&B's universe of 132 countries. There are only three countries rated higher.

## Western and Central Europe

**Positively, the region has seen four upgrades and only one downgrade in October-December 2015, resulting in an improvement of the overall score. After risk rating changes in Q3 had mainly impacted countries in the core of the euro zone (such as France and the Netherlands), the most recent adjustments were mainly focused on the rim of the region, bordering Eastern Europe.**

The Czech Republic's risk rating was revised upwards by Dun & Bradstreet from DB3b to DB2d (maintaining the improving outlook) as the country remains one of the fastest-growing economies in the region. The central bank is successfully defending its exchange rate target against the euro, thereby boosting the price competitiveness of Czech exporters on global markets. At the same time, household consumption and investment are also growing robustly, but because of a drop in EU funding in 2016, growth is expected to slow down somewhat in 2016.

We also improved Hungary's risk rating from DB4c to DB4b as the weakened currency fuelled an export-led growth boom. Against this backdrop, the manufacturing sector performed especially well, but retail sales also rose rapidly in January-November 2015 (latest available data). A last-minute attempt to use EU funds from the 2007-13 budget (allocated money had to be used by the end of 2015) and an interest rate cut also boosted investment activity, but the drop in EU funding in 2016 will cause a slowdown in real GDP growth to 2.3% (down from the estimated 2.7% in 2015). The risk rating upgrade in Slovenia (from DB3d to DB3b) was also mainly triggered by higher investment spending (financed by EU funds) and, to a lesser extent, the government's progress in privatising several state owned enterprises.

We have upgraded Cyprus's country risk rating from DB5a to DB4d due to a brighter short-term economic outlook. Indeed, the island's economic recovery has entered its third quarter, and is projected to continue. Official data show that real GDP expanded further in Q3 2015, albeit at a slower pace than in the preceding two quarters. Looking ahead, the tailwinds that aided growth in 2015 should continue to stimulate the economy throughout 2016-17, as the labour market improves further and austerity eases. Downside risks to our projections

are associated with underlying weaknesses and legacies from the crisis – in particular, ongoing deflation and an unsustainable level of non-performing loans pose threats to economic growth.

The only economy in the region which saw its rating downgraded in Q4 was Poland (by one quartile, to DB3b). This was a result of several controversial decisions by the newly elected government. Immediately after taking office in November, the nationalist government appointed close allies to key positions in the constitutional court, media, intelligence service and several state-owned enterprises. The central bank governor's term will expire in mid-2016, giving the government the opportunity to complete the take-over of all important positions. While the short-term economic outlook is still reasonably good, Poland's long-term outlook is endangered by the government's moves, which put the country's attractiveness as an FDI destination under threat. The Polish currency has already fallen considerably since the new government took office, and there is the risk of a further aggravation of the situation if the government pushes ahead with implementing its key election campaign promises (such as higher taxes and levies in the predominantly foreign-owned banking and retail sectors).

Looking ahead into 2016, despite the improvement in the region seen in the last quarter of 2015, there is a significant threat that supply chain risk in Western and Central Europe will rise again. This is mainly because of developments in the political arena. The key risks will be the danger of a British EU exit (a referendum will likely take place in mid-2016) and the EU's response to the ongoing refugee crisis, which could, in an unlikely worst-case scenario, lead to the re-implementation of permanent border controls in the Schengen area.

### FURTHER INFORMATION

#### Country Insight Snapshot Reports

These frequently-updated reports provide a snapshot view of a country's cross-border risk exposure, focussing on the political, commercial and macroeconomic environments.

[www.cips.org/dnb-mth](http://www.cips.org/dnb-mth)



## Eastern Europe and Central Asia

**Our risk rating score for the Eastern Europe and Central Asia region held steady once again in Q4 2015, but we continue to view the underlying trend as deteriorating. The region as a whole contracted by an estimated 0.7% in 2015. In 2016, we expect only a modest rebound of around 1.3%. However, risks to this forecast are skewed to the downside given the multitude of factors weighing on the outlook.**

For the region's oil exporting economies, including Russia, Azerbaijan and Kazakhstan, the ongoing oil price slump poses a particular threat, as the price of Brent crude oil plummeted below USD30 per barrel in mid-January. Meanwhile, in the CIS countries, currency volatility is having an adverse impact on economic sentiment and investment plans. In Azerbaijan, the manat has lost over a third of its value since the central bank abandoned its dollar peg in December, sparking mass anti-government protests. The bank subsequently introduced a 20% tax on taking money out of the country in an effort to restrict capital flight and alleviate foreign currency shortages. Geopolitical tensions also continue to weigh on investor sentiment. While hopes of achieving a lasting and significant de-escalation in the conflict in eastern Ukraine have been bolstered amid a recent rush of diplomatic activity (including meetings between high-level Russian, Ukrainian and American leaders), we continue to believe that a full resolution remains a distant prospect.

In Russia, although the rate of contraction is likely to moderate, we expect the economy to remain in recession in 2016. Russia is heavily reliant on oil for exports and fiscal revenues, and as such, the rouble has been battered by the slump in prices, falling to a record low of RUB80.7:USD in mid-January. Oil prices, which have tumbled to levels last seen in 2004, are being weighed down by concerns over China's economic slowdown, which has compounded the impact of the global supply glut. More recently, the oil price has taken a further hit as the market braces itself for the resumption of Iranian oil exports following the lifting of international sanctions against Tehran. Meanwhile, the EU decided in December to extend its sectoral sanctions on Russia until at least the end of July. Overall, given Russia's strong trade, investment and remittance links with many Eastern European and Central Asian nations, its spluttering economy bodes poorly for the performance of the region as a whole.

The risk of civil disorder in Russia has intensified in recent months amid the challenging economic backdrop, posing an increased risk of supply chain disruption. In November, truckers across the country held slow-moving protests in

reaction to the introduction of a new tax for heavy goods vehicles. In early December, hundreds of truck drivers blocked a substantial section of the ring road circulating Moscow, causing long delays. Given that lower government revenues will likely force authorities to make further unpopular budget choices, additional industrial unrest in the coming months cannot be ruled out.

In mid-January, the Ukrainian government and pro-Russia forces agreed on a renewed truce following talks held with the aid of a senior negotiator from the Organisation for Security and Co-operation in Europe (OSCE). Meanwhile, the deadline for both sides to meet their Minsk accord obligations (originally set for the end of 2015) has been extended into 2016 (with no specific date yet provided). However, a number of contested issues – including the reinstatement of full control over its borders to Ukraine – remain far from being resolved.

Moreover, tensions between Kiev and the Kremlin have intensified recently. In late November, Ukrainian electricity pylons supplying energy to Crimea were blown up in a suspicious explosion, leaving much of the peninsula without power. Crimea is almost entirely reliant on Ukraine for supplies of power and water. The peninsula has experienced chronic power shortages since the November incident, and a partial restoration of electricity during December was halted following another attack on the pylons at the end of the year. Russia has flown in power generators to the peninsula in order to cover basic power needs, and has been laying several power cables across the strait to Crimea. Ukrainian President Petro Poroshenko has said that Kyiv is only prepared to restore electricity to Crimea if the annexed peninsula re-joins Ukraine. In late December, a cyber-attack cut off the power supply to three Ukrainian regional power firms, resulting in short-term blackouts. Experts have labelled the incident as the first known power outage caused by a cyber-attack. Meanwhile, Russia has banned the transit of goods into and out of Ukraine over its territory, with some estimates suggesting that the measure could wipe 0.5%-0.7% off Ukraine's GDP.



## Asia-Pacific

**The Asia-Pacific region's risk score deteriorated slightly in Q4 as it moved from 3.420 to 3.429 (on our 1-7 scale, with 7.000 the highest-risk score possible). The increase was driven by the second downgrade of New Zealand's risk score of 2015, in October, and the trailing effects of a downgrade to Australia's country risk score in September; their downgrades both reflected the negative external impact from the shift in China's economic outlook, and falling prices for their key commodity exports (in agriculture and mining respectively).**

In October, we downgraded our country risk score for New Zealand one notch to DB2c, following the earlier downgrade to DB2b in July. This reflected the 40% fall in global dairy prices from the average of the 2014/15 agricultural year, as well as the fall in New Zealand's employment figures in Q3. By September, global dairy prices had fallen to their lowest level since the 2008 financial crisis in the wake of a global supply glut. In the most conservative baseline scenario outlined in the Reserve Bank of New Zealand's Financial Stability Report, a slow recovery in dairy prices in 2016 will result in a further 10% decline in land prices and an 8% rise in non-performing loans.

The impact of the El Nino phenomenon on New Zealand's summer milk yields will not be clear until at least end-Q1 2016. Drier weather would restrict output, but it would also raise dairy prices, New Zealand being the source of one-third of global dairy exports. Warmer-than-average Indian Ocean temperatures observed since late 2015 may mitigate the drying effects of El Nino. New Zealand's real GDP growth performance for 2015 as a whole was in any case depressed by a drought in the North Island region early in the year.

The marked slowdown in upstream industry in China, Australia's main trading partner, led Dun & Bradstreet to downgrade Australia one notch to DB2d in September 2015,

as iron ore prices continued to fall towards the marginal production cost of the large ore miners. China's domestic steel demand will contract for a third year in 2016. Sectors in China oriented to private consumers and services are faring well, but, in areas burdened with over-capacity industries, local governments have been propping up employment via their influence over banks. This has meant that corporate finances in distressed sectors have deteriorated more than if they had taken advantage of China's flexible labour laws; this has in turn worsened creditors' exposures. The northern, coal-heavy provinces are the most affected in a condition worsened by corruption-driven, loss-making investments, and by the decline of coal as energy policy tries to reduce dependence on the most polluting fossil fuel.

The El Nino phenomenon's likely impact remained uncertain in Australia at the start of 2016, despite signs of the meteorological phenomenon weakening in December 2015. A highly negative scenario in theory could see a weather-induced reduction in output for Australian agriculture equivalent to 1% of Australia's GDP. In this context, our supply environment outlook for Australia remained set to 'amber' in January. However, despite an active typhoon season in 2015, none of the eight tropical cyclones hitting the Philippines, China, Taiwan or Japan in May-December 2015, were severe enough to warrant any moves in their country risk indicators.

### FURTHER INFORMATION

#### Country Insight Snapshot Reports

These frequently-updated reports provide a snapshot view of a country's cross-border risk exposure, focussing on the political, commercial and macroeconomic environments.

[www.cips.org/dnb-mth](http://www.cips.org/dnb-mth)



TREND\*

## Middle East and North Africa

As forecast in the previous report, the Middle East and North Africa's (MENA) regional risk score was relatively stable in Q4, improving only marginally from 4.384 in Q3 2015 to 4.382 in Q4 2015. This improvement reversed some of the losses made in the previous quarter. Although the Q4 score is below the worst score of 4.443 recorded in Q4 2013, it remains elevated by historical standards and indicates higher average supply chain risk than in other regions. The changes in the score reflect the base effect of the upgrade to Iran in August and the downgrade to Egypt in November.

Iran was upgraded in Q3 by one quartile from DB5d to DB5c (High Risk category) as a result of the success of the nuclear negotiations, which paved the way for the January agreement and the lifting of international sanctions in January 2016. This move will open the world's 28th largest economy to inflows of investment, as well as present significant cross-border trade opportunities. Nevertheless, certain US sanctions are set to continue in relation to Tehran's other activities, such as human rights abuses and its alleged support of terrorist groups. In addition, international sanctions can be reapplied within 90 days if Iran is found to be in contravention of the agreement. Thus, supply chain risks remain elevated in relation to Iran.

Meanwhile, Egypt was downgraded from DB6a to DB6b (Very High Risk category) in November in the wake of the downing of a Russian airliner in Sinai on 31 October, with the death of all 224 people on board. The crash was almost certainly caused by a bomb planted on board by terrorists pledging allegiance to Islamic State. The incident will have a serious impact on Egypt's tourism sector, an important source of employment and FX revenue. The attack came at the start of the high season for European and Russian tourism, and is likely to result in an annual loss of at least USD2bn in tourism revenue (which totalled USD7.2bn in 2014). This will place an additional burden on the already high current account deficit, in turn putting further pressure on the Egyptian pound and FX reserves. Although the new central bank governor has freed up currency to pay for imports, the availability of funds for imports will remain a concern, ensuring supply chain risk remains elevated.

Looking ahead, we expect three factors will impact on the regional risk score over the next quarter: the lifting of sanctions against Iran, the weak oil price, and the continuing regional security crisis. The opening of the Iranian economy, as international sanctions in relation to the nuclear deal are lifted, will assist regional and global supply chains into the medium term. However, the deal will see more Iranian oil enter the already over-supplied oil market, further suppressing the oil price. In the short term, this will impact negatively on risk in the oil exporting countries of the region, as government expenditure (a major driver of the economy), particularly on capital expenditure, is cut. A cut in government expenditure will in turn curtail opportunities in the construction sector and related businesses, as well as reduce household consumption, further cutting the demand for imports. However, in the medium term, these governments will have to liberalise their economies, opening opportunities for cross-border investment and trade, thereby improving supply chains.

Meanwhile, security risks across the region will be high, as the Cold War between Shi'a Iran and Sunni Saudi Arabia draws in other countries, and proxy wars between the two sides continue in Syria, Iraq and Yemen. In addition, the radical Islamic group Islamic State is increasing its presence in the highly volatile situation in Libya, and will continue to attract recruits and implement actions in other countries. In response, we expect groups with affiliations to al-Qaeda groups to attempt to raise their profile with similar attacks. The security situation will therefore ensure supply chain risk remain high in the region over 2016 and into 2017.

### FURTHER INFORMATION

#### Country Heatmap

Use the Country Heatmap to quickly locate the countries which are relevant to your supply base. If they are at a threshold of, or beyond your risk appetite, you can find out more from detailed Dun & Bradstreet country reports.

[www.cips.org/risk-index](http://www.cips.org/risk-index)





## Latin America

**Latin America's risk score continued its deteriorating trend for a fifth consecutive quarter. In Q4, the region's score rose to 4.516 from 4.474, largely on account of decelerating economic activity and heightened political uncertainty in both Central America and South America. Brazil, Ecuador and Venezuela in particular. Notably, historic drought and flooding in Colombia are among the most recent weather-related challenges attributed to the El Niño phenomenon that has disrupted business operations to varying degrees in Latin American economies. These factors, combined with our current forecasts for low export commodity prices in Q1 and lingering uncertainty in global financial markets, mean that operational risks will remain elevated in Latin America in the next few quarters.**

Brazil's estimated contraction of 3.5% in 2015 significantly depressed regional growth and will continue to weigh on Latin America's performance in 2016; we expect the Brazilian economy to contract by 2.5% in 2016. Moreover, despite a recent aggressive monetary tightening cycle, resilient inflation continues to drive up operational costs and narrow firms' profits: inflation remained significantly outside of the central bank's target range of 4.5% (+/- 2%), hitting 10.7% in December 2015. Unsurprisingly, the steadily weakening Real is a major contributor to the current round of inflationary pressures, and cross-border payment risks are elevated, particularly for Brazilian counterparties with USD-denominated liabilities. While central bank rate hikes are unlikely in Q1 – the Selic now stands at 14.25%, which is its highest level since July 2006 – they cannot be ruled out. Meanwhile, fiscal slippage will force consolidation and limit spending on much-needed infrastructure projects, while political turmoil, fuelled by impending impeachment proceedings against President Dilma Rousseff, deflects attention from structural reform. Worryingly, recent public protests against a rise in public transportation fares pose a significant risk for business operations: an 8.6% hike in the price of public transportation in São Paulo to BRL3.80 (just below USD1) per round trip triggered widespread protests in January. Firms operating in major cities including São Paulo and Rio de Janeiro are advised to formulate contingency plans for possible business disruptions resulting from protests, particularly in light of the widespread public support for similar demonstrations in 2013.

Elsewhere, Dun & Bradstreet downgraded Ecuador's country risk rating from DB6c to DB6d, with a negative outlook, as the country moves closer to authoritarianism. In December, congress approved (by a comfortable margin of 100 votes) a constitutional amendment that allows for unlimited presidential terms. As such, increasingly-autocratic President Rafael Correa will be able to run for as many terms as he wishes from 2021 and, if he wins, further tighten his grip on power. Troublingly, two other recent 'reforms' could also mean a more dictatorial political climate going forward:

the media is now a 'public service', which implies that journalists will have to toe the government line more closely; President Correa's unsubstantiated claim is that the revision of the media law was necessary to cut the power of private media groups, which have not represented the interests of the poorer sections of society. Secondly, the government now has the right to order the army on to the streets even in the absence of a state of emergency. This has raised concerns about the possible militarisation of Ecuadorian society and the suppression that this is likely to entail. In combination, these measures augur poorly for the commercial environment and could become a major disincentive to private investors. Negatively, payment risks are on the rise because of low international oil prices. Recent developments underline the difficult current fiscal situation: President Correa sought to quell concerns by publicly confirming that government would indeed be in a position to pay public sector salaries due in December. Further, there have been reports that the government has been experiencing problems in making payments to locally-based contractors and has, as a result, had to ask for more time to make such payments.

While we are generally sanguine on Cuba's short- to medium-term outlook, significant near-term risks to growth persist. Indeed, official growth projections for 2016 were recently halved to 2% on account of the poor outlook for key commodity export prices. Nevertheless, strengthening economic ties with the US continue to encourage interest from American as well as extra-regional investors; when realised, these will create new opportunities for Cuba's increasing participation in global supply chains. In addition, expanded access to credit facilities, higher remittances, and rising tourist arrivals will support the nascent micro-enterprise sector as well as household demand. Congressional approval for the complete elimination of the US embargo on Cuba is unlikely before the US Presidential election in November this year. Nevertheless, the agriculture, finance, and telecommunications sectors continue to generate investor interest on the island.

## Sub-Saharan Africa

**The region's overall risk score improved over the fourth quarter of 2015 (to 5.528 from 5.535 in Q3). Country risk scores for Cote d'Ivoire, Namibia and Senegal have been upgraded, while those for Malawi and Zambia downgraded. Nevertheless, the underlying trend in operational risk is still deteriorating slowly, as the drop in global commodity prices and the slowdown in emerging markets weigh on the export revenues and fiscal positions of key countries within the region.**

A weak global growth environment in general, and the slowdown in the Chinese economy in particular, will weigh on sub-Saharan Africa's growth in the near term. Many of the key member countries remain over-dependent on commodity exports to China. Given China's ongoing managed transition from an investment-led to a consumption-driven economy, its demand for African commodities will continue to weaken. Over the medium term, part of this demand will return in the form of consumption goods, but in the meantime, regional countries will have to diversify their markets to weather the drop in global commodity prices; robust domestic demand will not be adequate to pick up the slack.

Dun & Bradstreet has downwardly revised its forecast for near-term growth; real GDP growth for sub-Saharan Africa is estimated to have fallen below 4% to 3.6% in 2015 (down from 4.7% in 2014). This is the slowest pace of growth since 2009. The largest economies in the region will slow the most, due to their heavy dependence on commodity exports. With external headwinds sapping the momentum of previous years, growth will pick up only slowly in 2016 and beyond. Larger external and fiscal deficits in many of the key regional members will need to be addressed before the region can shift to a higher growth trajectory.

Dun & Bradstreet upgraded Cote d'Ivoire's country risk rating from DB6b to DB6a during Q4. Cote d'Ivoire is expected to be one of the fastest-growing economies in Africa in the short term, with real GDP forecast to grow at or above 7.0% through to 2017. Continued investment in transport and energy infrastructure will be a major driver of economic growth, and will support expanding business activity in the construction, mining, manufacturing, and agri-business sectors. Job creation and rising wages across the public and private sectors will continue to support growth in household spending and demand for consumer goods. This positive outlook is underpinned by the relatively peaceful elections held in October 2015 and expectations that political stability and security will remain intact ahead of and after the December 2016 legislative elections. Additional pro-business policies and reforms are anticipated, while inflows of foreign finance are expected to remain strong.

We also upgraded Namibia's overall country risk rating to DB4b from DB4c, with a 'stable' outlook; while economic growth has slowed, it remains strong in contrast to weak South African growth and is set to accelerate again in 2016-17 due to expanded mining output. President Hage Geingob has gained popular backing for a poverty reduction programme coupled with measures to boost economic diversification and upgrade infrastructure; a 'targeted impact plan' is to be implemented during 2016/17 to 2020/21. Namibia's Business Climate Index, compiled by the Institute for Public Policy Research, attained a record high of 170.3 points in October 2015, driven by higher vehicle sales, increased building plan approvals, underpinned by low oil prices and subdued inflation. However, fiscal stimulus to the economy will be reduced in 2016 as the government makes spending cuts to match lower revenue expectations.

Our third Q4 upgrade in the region was to Senegal's country risk rating, which rose from DB4d to DB4c because of several positive developments. Senegal's long-term economic plan is encouraging investment in infrastructure, real GDP growth is quickening, the budget deficit remains on a downward trajectory, and the risk of debt distress is low. In addition, inflation remains muted, helped by Senegal's membership of the franc zone and the local currency's peg to the euro. Underlining the improvement, the IMF executive board in December completed the first review of a new, three-year policy support instrument (PSI), after finding Senegal to be compliant with almost all quantitative and structural targets. Senegal is also making sustained progress in key global rankings, as shown by the World Bank's Doing Business 2016 report, the World Economic Forum's Global Competitiveness Report for 2015/16 and Transparency International's Corruption Perception Index. In particular, the World Bank's Doing Business 2016 lists Senegal among the world's top ten regulatory reformers, for the second year in succession, although the country's ranking is still comparatively low at 153rd (out of 189 countries).

## Sub-Saharan Africa continued

On the other hand, Dun & Bradstreet downgraded Malawi's country risk rating from DB6b to DB6c. Key challenges include the continued suspension of donor budgetary support (since Q4 2013) because of a corruption scandal, and Malawi's failure to stay on track with an IMF extended credit facility (ECF), according to an IMF mission in September. Domestic debt is consequently rising, despite spending cuts, and the government will need to satisfy several conditions to normalise relations with external financiers. In addition, GDP growth prospects have deteriorated because of weather-related challenges ranging from serious flooding in Q1 2015, to a subsequent drought, which has led to a reduction in hydro-electric capacity and frequent power cuts. We have therefore trimmed our real GDP estimate for 2015 to 2.9% (from 3.2%) and our forecast for 2016 to 4.4% (from 5.8%). Macroeconomic stability is also threatened by rampant inflation, which climbed to 24.7% y/y in October, a 21-month high, underpinned by costlier food.

We have also downgraded Zambia, from DB4d to DB5a: the economy is feeling the strain from lower global commodity prices and power shortages. The copper mining sector typically accounts for 70% of export receipts and is being hit particularly hard. Glencore put its Mopani Copper Mines venture under care and maintenance for 18 months in September, while Vedanta Resources ceased production at its loss-making Konkola Copper Mines venture at Nchanga in November. The IMF completed a mission to Zambia in November and gave a downbeat assessment of the economy, expressing concerns over economic stability amid low commodity prices and the power shortages, while heavily criticising the government's lax spending controls. Shortly after the IMF's November report, President Edgar Lungu ordered a freeze on new road projects, delayed construction contracts, postponed the launch of a new national airline and indicated that fuel and electricity subsidies could be fully scrapped to achieve full cost recovery. We estimate that real GDP will slow to 3.8% in 2016 following 4.4% growth in 2015.

### FURTHER INFORMATION

#### Country Insight Reports

Quarterly reports for 132 countries provide in-depth analysis of a country's risks and opportunities in relation to the global and regional business environment. They provide summary recommendations, trend and forward-looking analysis and focussed narrative around the implications of each key risk factor.

[www.cips.org/dnb-qtr](http://www.cips.org/dnb-qtr)

# Commentary

## Dr. John Glen

CIPS Economist and Director of Centre for Customised Executive Development

**“Though the overall index has virtually flat-lined this quarter no one should be fooled into thinking risk is reduced. Quite the opposite. The report shows continuing deterioration of risk conditions.**

From challenges from the global economy to hit the US, to the chill everyone is feeling from the slowdown of the Chinese economy, the effects are significant.

Environmental factors such as El Nino also offer an uncertain future over the coming months affecting not just food production but possibly putting lives at risk with severe drought conditions.

Business leaders and supply chain professionals must be ever-vigilant and wary, placing both risk mitigation, and building supply chain resilience, to the top of their priority list.



## Oana Aristide

Acting Global Leader and Leading Economist, Dun & Bradstreet

**“Q4 2015 was dominated by non-economic news, such as the Paris terror attacks and the continued refugee inflows into Europe, combined with the increased political resistance and sometimes controversial measures aimed at curtailing these inflows. While both of these have a limited impact in terms of disrupting business activity, they do affect investor and consumer confidence. Meanwhile, the Federal Reserve lift-off and the growth deceleration in China raised concerns about emerging markets’ vulnerabilities. This business uncertainty – a feature of the global economy since the end of the recession – continues to stifle the animal spirits necessary for a robust global recovery.**

The CIPS Risk Index reflects the general unease about the state of the global economy with its increase in operational risk. Excepting a small improvement in Q3 2015, the CRI has been on a deteriorating trend since Q4 2014. We believe the CRI from late 2014 and into 2015 was indicating ahead of time the recently reported travails in the emerging markets, and the eventual downgrade in our index of highly-weighted trading countries such as Brazil. While global economic growth in 2016 is still expected to be positive, consensus forecasts over the past few months have been successively adjusted downwards.



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supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

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