

## METHODOLOGY DOCUMENTATION

# AlliedOffsets Country Political Risk Score

A weighted composite indicator of sovereign governance and political risk across carbon market host countries

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## Overview

The Country Political Risk Score is a single 0–100 indicator that summarises the political, governance and institutional risk a carbon market host country presents. It combines ten independently published governance, stability, rule-of-law and economic-freedom indices into one weighted composite, then bands the result into a Low, Medium or High risk tier. The score provides a quick, standardised way to compare sovereign risk exposure across the countries where carbon credit projects are developed, without needing to consult ten separate data sources.

## Data Inputs

| Field / Parameter                                            | Description                                                                                                                                             | Source / Notes                                                                     |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Political Stability and Absence of Violence/Terrorism</b> | An estimate of the likelihood that a government will be destabilised by unconstitutional or violent means, including political violence and terrorism.  | World Bank Worldwide Governance Indicators (WGI) — sourced from the World Bank API |
| <b>Government Effectiveness</b>                              | An estimate of the quality of public services, the civil service, and policy implementation, and the government's independence from political pressure. | World Bank Worldwide Governance Indicators (WGI) — sourced from the World Bank API |
| <b>Rule of Law</b>                                           | An estimate of confidence in and adherence to the rules of society, including contract enforcement, property rights, the police and the courts.         | World Bank Worldwide Governance Indicators (WGI) — sourced from the World Bank API |
| <b>Regulatory Quality</b>                                    | An estimate of a government's ability to formulate and implement sound policies and regulations that permit and promote private-sector development.     | World Bank Worldwide Governance Indicators (WGI) — sourced from the World Bank API |
| <b>Rule of Law Index</b>                                     | A broader measure of rule-of-law strength, used to complement the World Bank's own Rule of Law estimate.                                                | V-Dem Institute Country-Year dataset                                               |
| <b>Corruption Perceptions Index</b>                          | A measure of perceived public-sector corruption, on a scale where higher values indicate lower perceived corruption.                                    | Transparency International                                                         |
| <b>Economic Freedom Index</b>                                | A measure of the openness and freedom of a country's economic and regulatory environment.                                                               | Heritage Foundation                                                                |

| Field / Parameter                       | Description                                                                                                                                                                                                                              | Source / Notes                                          |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| <b>Fragile State Index</b>              | A composite measure of state fragility across social, economic and political pressures; higher values indicate greater fragility.                                                                                                        | Fund for Peace                                          |
| <b>V-Dem Liberal Democracy Index</b>    | A measure of the strength of liberal democratic institutions, including protection of individual and minority rights against the state and majority rule.                                                                                | V-Dem Institute Country-Year dataset                    |
| <b>Global Peace Index</b>               | A measure of relative peacefulness, covering ongoing conflict, societal safety and militarisation; higher values indicate less peace.                                                                                                    | Institute for Economics and Peace                       |
| <b>OECD Country Risk Classification</b> | A separate export-credit risk classification (0 = lowest risk to 7 = highest, or a text classification for high-income OECD/Euro-area countries). Carried alongside the score for context; it is not one of the ten weighted indicators. | OECD Arrangement on Officially Supported Export Credits |

## Logical Flow

1

### Gather and align inputs

The four World Bank indicators are pulled live; the other six are refreshed by uploading each publisher's latest release. Country names are reconciled across all ten sources so records merge correctly, and each country is tagged with a region from AlliedOffsets' database.

2

### Fill gaps with regional averages

Where a country is missing data for an indicator, it is filled using the average of other countries in the same region — applied once to raw values and again after rescaling, so a gap in one source doesn't leave a country unscored.

3

### Rescale and combine into a weighted score

Every indicator is converted onto a common 0–100 scale where 100 is always lowest risk, inverting the Fragile State and Global Peace indices since they run the opposite way, then combined using the fixed weights (see Key Calculations), rebalancing automatically if an indicator is still missing.

4

### Band the result and publish

The final score is sorted into a risk tier and written, along with the underlying raw values, to AlliedOffsets' internal Political Risk Score workbook.

## Key Calculations

### Weighted composite score

Weights: Political Stability 15%, Government Effectiveness 15%, Regulatory Quality 10%, Rule of Law 10%, Rule of Law Index 10%, Corruption Perceptions Index 10%, Economic Freedom Index 10%, Fragile State Index 8%, V-Dem Liberal Democracy Index 6%, Global Peace Index 6% (sums to 100%). If a country is still missing an indicator after gap-filling, the remaining weights scale up proportionally so they still sum to 100%, rather than treating the gap as zero risk.

**Risk tier banding**

Low Risk 61–100, Medium Risk 41–60, High Risk 0–40. A country with no usable data and no regional average to draw on is labelled 'Insufficient data' rather than placed in a tier.

## Assumptions

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- The weights above are fixed and judgement-based, not statistically derived or back-tested against outcomes.
- Four indicators (the World Bank measures) refresh live on every run; the other six are only as current as the last manual upload of that publisher's release.
- Global Peace Index values are parsed automatically from the publisher's PDF report; an unannounced layout change could cause a country to be missed or misparsed.
- The OECD Country Risk Classification is shown for context only and is not one of the ten weighted indicators; high-income OECD/Euro-area countries show as 'not reviewed or classified' rather than a numeric score.

## Limitations

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- Captures sovereign, country-level risk only — not project-specific, sub-national, or sector-specific political risk.
- Not a real-time measure: reflects each source's most recent live pull or manual upload as of the last update.
- The weighting scheme is static and requires a manual update to change — it does not adapt automatically to new evidence.

## Output

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Per country: the weighted Country Political Risk Score (0–100), its Risk Tier, the OECD Country Risk Classification (context only), and a count of how many of the ten weighted indicators had usable data.