

## METHODOLOGY OVERVIEW

# Country Political Risk Score

A composite indicator of governance and political risk in carbon market host countries

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## Overview

The Country Political Risk Score summarizes the political, governance and institutional risk of each country where carbon projects are developed. It combines a range of respected, publicly available governance, stability, rule-of-law and economic freedom indices into one comparable score. Each country is then placed in a Low, Medium or High risk tier. Users can compare sovereign risk across host countries without consulting many separate sources.

## Data Sources

| Source type                      | How it is used                                                                                                                                                                                                                                         |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| World Bank                       | Worldwide Governance Indicators covering political stability, government effectiveness, rule of law and regulatory quality.                                                                                                                            |
| Academic and independent indices | Published indices including V-Dem, Transparency International's Corruption Perceptions Index, the Heritage Foundation Index of Economic Freedom, the Fund for Peace Fragile States Index and the Institute for Economics and Peace Global Peace Index. |
| OECD                             | The OECD Country Risk Classification, shown for context alongside the score.                                                                                                                                                                           |

## Our Approach

|   |                                                                                                                                                              |
|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | <b>Collect the latest indices</b><br>The most recent release of each index is collected and aligned by country.                                              |
| 2 | <b>Fill gaps conservatively</b><br>Where a country is missing data for an index, a regional reference is used, so one gap does not leave a country unscored. |
| 3 | <b>Standardize</b><br>Every index is converted to a common scale on which a higher value always means lower risk.                                            |
| 4 | <b>Combine and tier</b><br>Indices are combined into a single score, which is placed in a Low, Medium or High risk tier.                                     |

## Key Principles

### Built on public, respected sources

Every input is a widely used, published index.

### Breadth over any single view

Combining many indices reduces reliance on any one methodology.

### Transparent coverage

We report how many indicators were available for each country.

## Quality Assurance

- Inputs are refreshed as each publisher releases new data.
- Countries with too little data are labeled as having insufficient data rather than being given a tier.

## Interpreting the Results

- The score reflects sovereign, country-level risk. It does not reflect project-specific, sub-national or sector-specific risk.

## Limitations

- The score is only as current as the latest release of each underlying index.
- Regional gap-filling may not reflect a country's specific circumstances.
- The combination of indices reflects expert judgment and is reviewed periodically.

### WHAT YOU GET

For each country, a political risk score, a risk tier, the OECD Country Risk Classification for context, and the number of indicators with available data.