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SCHEMATIC "CUT-AND-DRIED" MODELS FOR RISK POLICY

Political risk is for the most part perceived as the opportunity to put into play so-called "black holes" in the rupture of reciprocal national relations on three levels: a breakdown of political relations between the domestic and foreign country, within the domestic country, and between the foreign country and a third country. The events which result, either directly or indirectly, from such a breakdown can be designated as political risk. Political risk is the type of risk which can appear, can be taken on or transferred. Usually it is connected with the granting of consent which is conditioned by a political decision at any level of the state apparatus or with the risk of political change which presumes consequences and estimated change of economic events.

Keywords: course of risk, global risk, risk area, risk of transfer, political risk.

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СХЕМАТИЧНА ШАБЛОННА МОДЕЛЬ УПРАВЛІННЯ ПОЛІТИЧНИМ РИЗИКОМ

У статті визначена необхідність впровадження у системі державного сектора системи управління ризиками. Визначена сутність політичного ризику, його види, рівні та місце у системі глобальних ризиків, а також методи його оцінки і передачі. Запропонована модель, що базується на використанні індексу розвитку людського потенціалу як ідентифікатора глобального ризику в сфері державних фінансів.

Ключові слова: глобальний ризик, політичний, ризик, область ризику, індекс розвитку людського потенціалу.

Introduction

Approving decisions on the risk measures, analysis of public opinion and impact of public perception of the risks is a prerequisite for their implementation. If a high degree of uncertainty in a given period of time is in deciding on the final stage and the inability to define the impact of risk is high, it is necessary to take a decision on implementing the necessary measures to monitor those factors and thereby prevent the completion of the process, which thus prevents the observation at that stage constituted the decision to support tracking systems and will bring enough information to take optimal decisions at a later time. In the system of the public sector, it is necessary to implement risk management in the broader society-wide system and also consider the factors that are in decision-making in business finance characterized as incidental.

It is mainly public acceptance, health and human protection, environmental protection, acceptance by other administrations, implementation options, reduction of toxicity volume and negative effects on the private sector. Therefore it is necessary to establish the primary and secondary components of risk in deciding. Outputs useful in deciding on risk can be achieved only using proper assessment process on them. The total and target risk will be defined only using the correct interpretation of the risks and uncertainties in the process, will then take into account in their assessment of all the circumstances. Outcomes of subsequent identification process allow enough factors on deciding on the evaluation process and the process of elimination to gain. Outcomes of the risk assessment must be accurate and must provide information about each phase of identifying risks so they can be used as part of risk assessment. The overall structure of the process defines the formulation versions clearly, while eliminating risks. In the process of risk management is essential to follow the public participation and the perception of the risk. Risk management is necessary to inform the public, and its view of the action. Determination of measures must be consistent with the public perception of risk assessment taken, in order to ensure it support the estimate structure for the management and measures taken to minimize the risk to an acceptable level.

According to Smith's (1995) risk management, the process includes:

1. To identify risks or uncertainties.
2. The analysis of the consequences.
3. The response for risk minimization.
4. The allocation of appropriate contingency.

Risk management must be continuous with the identification, analysis, notification of risk in a single unit – "risk loop". Despite constant requirements for risk management, there is no uniform standard that could be applied on eliminating proceeding and approaches. Stages of risk management as a systematic process defined Merna (1996) as a sequence of steps of identification, analysis and risk response. Chapman and Ward (1997) extended risk process into eight stages, each of which is defined by the object and purpose. The process is divided into the following phases:

1. The definition of any relevant factors and gaps in the implementation process,
2. Allocation - the result should be trappable and verifiable aspects of risk,
3. Identification of risk - and the possibility of monitoring the proactive and retroactive conditions associated with risk responses,

4. The structure - which is designed to show the hierarchy of risks and subsequently tested using simple assumptions as to its accuracy

5. Ownership - Allocation of risk and subsequent determination of the responsible entity for its management,

6. Estimation of risk exposure,

7. Evaluation - Synthesis assumptions and results of the test probabilities,

8. The term plan of activities undertaken to implement the previous steps.

Model defined by Eugene Fama (1970) - the University of Chicago exclude any risk. His definition of the "efficient market hypothesis" excludes any deviation from the prescribed range, as a separate element, as part of the market, cannot overcome market by their behaviour. However, if any market possibility has already existed, anybody could use it, thus this uncertainty has disappeared. His hypothesis explains using the example that he rejects picked up twenty dollar bank note from the ground, because there cannot be any. If there even was any, someone would have picked up before him certainly. Such approach was also used for the risk of overvaluation or undervaluation of the market. If such risks arose, someone have already taken advantage of it, therefore the market can locate and eliminate risk alone, so there is not any. The market is considered efficient and therefore the stock market replicates the impact of all information. Therefore, according to him, overvalued or undervalued stocks does not exist, there are only stocks, which price depend on real information and its value is therefore real and quantifiable follows the trends in macroeconomic variables.

Chapman and Ward (1997) exclude situations in which the risk was not included. If there is a project with minimum or zero risk, "it is no worth powder and shot". Organisations that understand the character of these risks and can manage them effectively, can avoid unforeseen disasters, but also can work with smaller deviations and lower coincidences, may release resources for continued efforts and may take the advantage of beneficial investment opportunity that might otherwise be dismissed as too risky.

Risk and uncertainty differentiate Bussey (1978) as the decision that is conditional of risk. If the decision maker knows the full time series of possible outcomes and when he can assign to each known outcome probabilities, he can apply decisions based on definite values. In practice, however, this theory is difficult to apply. Bussey therefore defines uncertainty as phenomenon that exists when there is activity in the course of more than one possible result. A possible outcome is determined also by its probability, which is unknown. Thus, the decision maker can apply the argument in deciding between the results, but cannot assign their current probability values.

Rowe (1977) defines risk as "the possibility of unwanted negative consequences of events or acts" as opposed to Gratt (1987) that has defined risk as "estimate of uncertainty based on the expected outcome conditional probability of an event occurring multiplied by the consequences of the event that occurred." Thus, he explained that if the risk is quantifiable and subsequently in the context of an undesirable phenomenon, such as a disaster - natural disaster, in which two thousand inhabitants live, to estimate the expected result by means of the likelihood of the occurrence - one of thousands died, or as the value of future result - two dead, can be used both.

In the identification of risks pursuant to the Turnbull report (2009) good risk management is rewarded also by ”firm” and “soft“ contributions. The report conclusions are summarized in the following table:

FIRM CONTRIBUTIONS	SOFT CONTRIBUTIONS
Development of more exact plans and more real projects for future	They improve experiences with communication with risk
They increase probability of meeting deadlines	They lead to communication with other subjects
They contribute to usage of the most appropriate tools	They help differentiate effective and non-effective management
They force more real evaluation	They help to develop the skills of the subject
They contribute to evaluation of information on activities	They concentrate attention on objective problems
They compare all alternatives in decision-making	
They add responsibility for risks	

Fig. 1. Strong and soft contributions of risk management (source: The Institute of Chartered Accountants in England & Wales: Internal Control. [quoted 16.5.2014]. URL: http://portal.surrey.ac.uk/pls/portal/docs/PAGE/RISK/BACKGROUND/LEGISLATION/TURNBULL/REVISED%20COMBINED%20CODE.PDF)

Political risk is the type of risk which can appear, can be taken on or transferred. Usually it is connected with the granting of consent which is conditioned by a political decision at any level of the state apparatus or with the risk of political change which presumes consequences and estimated change of economic events. If a given political change changes the decisions of private investors or businessmen in their arranging their business plans, then we can speak of political risk. Political risk may be defined as a strategic, monetary or personnel loss, or as

non-market factors, for example macroeconomic or social policies (fiscal, monetary, employment) or events which relate to political instability (terrorism, hysteria, overthrows, civil war, insurrection). Individual governments may lessen these consequences and financial losses in diplomatic or military ways, or by other interventions with the result of political risk. A low level of observed political risk may be achieved by an equal degree of political liberty.

Political risk may be divided into risk caused by the macroeconomic and social policy of the government within its legitimate regulation functions in the areas of budget, taxation, investments, consumer protection and the like, and the risk brought about in illegitimate ways in relation to the existing political and governmental system (armed conflicts, overthrows and other insurrections). Political risk has a direct effect on business activity, it is not possible to "escape" it, it is possible only to correctly estimate and manage it.

M.R. Greene (1999) defines political risk as such uncertainty resulting from an unexpected intervention by the government or other organizations which has as a result losses of the society. F.R. Root states that "political risks are such events of a political type (wars, coups, revolutions, nationalizations, taxations, devaluations, currency controls, and imported restrictions) at home or abroad which cause losses of assets during the course of international operations.

Among the best-known authors belongs J.J. Kobrin (1996), who defined political risk as sensitivity to a change of value of investments or monetary resources as the result of government interventions. From the standpoint of a multinational corporation, such an effect may have a positive or negative value. J.J. Kobrin has classified contemporary political risks on two dimensions. The first dimension differentiated between macro-risk and micro-risk. The former is a risk which has influence on all entities in the given country. Micro-risk is a specific risk for a certain sector, enterprise or project. The second dimension differentiates between such political events which influence the ownership of assets, and those events which have an influence on the operation of companies, i.e. on financial flows and revenues. We can divide the definitions of political risk into two main categories. The first describes political risk as government interventions, while the second sees it as events.

In breakdowns or bad management of financial policy by an incorrect regulation of interest rates, monetary supply and the conditions for the provision of credit, conditions are created for the uncontrolled growth of the value of the assets of a certain segment. Consumers begin to act irrationally, creating a herd mentality. This "herding" brings about over-dimensioned demand which causes an expansion of free assets. This overvaluing effect is referred to as a speculation bubble. Speculation bubbles are found on stocks, commodities, currency and on debt markets.

For the estimation of the rate of risk it is possible to use quantitative methods and qualitative methods. The qualitative analysis follows from the hierarchic structure of risks and the description of their probabilistic occurrences. The result of the qualitative analysis is not a quantitative evaluation, but a system arrangement pursuant to the perception of the examined subject. The quantitative analysis uses for risk estimation a data base which is evaluated by means of mathematic-statistic methods and, based on scales of probability; it tries to allocate value expression to them.

Despite delays quantification of global risks and their impact is possible to use various tools to identify them on the basis of which it is possible to estimate their impact on the individual components of public finances as part of the tax received, but also identifying the consequences to their implementation brings. For quick and relative wide scale tool we used Human development index – which was introduced as a means of measuring quantifiable variables (poverty, literacy, education and life expectancy) in individual countries. It was recognized by the United Nations and is annually published in its annual report from the year 1993. For the calculation of the variables used to reach values in the range zero to one. Such quantification makes it possible to compose the different parameters in the summary of the indicator in which the intervals of the value limited by the maximum value that can be achieved by variable (max (x)) and the lowest (min (x)).

$$x - index = \frac{x - \min(x)}{\max(x) - \min(x)}. \quad (1)$$

Defining due to indicators mentioned above, states were divided into three groups - countries with high index value - the value of 0.8, a country with a mean index - the value of (0.8 to 0.5) and countries with a low index value: a value of less than 0.5. The Human Development Index is therefore an indicator of the application process of expanding opportunities and potential opportunities to live a quality life. Using holistic approach, which is measured by the applicability of man in terms of the whole development process will thus be able to assess risk, and that this process creates. Human Development Index as a socio-economic indicator to use for the Slovak Republic. The need for a global indicator was first necessary to define its significance depending on the basic macroeconomic indicators - GDP figures. For comparisons were set V4 countries.

Despite the representation depending HDI for the V4 countries during the reporting period, the results revealed no significant dependence on observed historical data. The common trends or mutual covariance, the communal movement of the indicators were not confirmed by measuring.

For the Slovak Republic was therefore studied historical data series adapted to dynamic aspects of public finance - personal income tax revenue from employment during the reporting period. Extraction of data, we investigated the dependence of HDI. The results thus obtained correspond to the tightness of the statistical correlation file can be found in Figure 2.

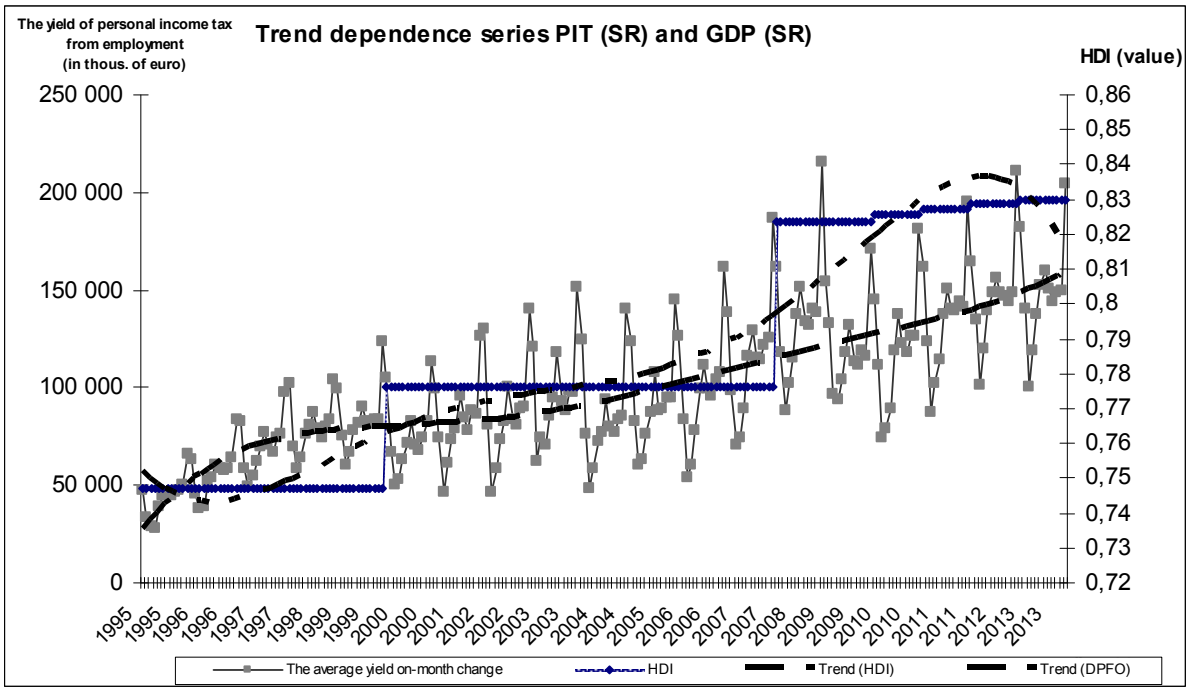

Fig. 2. Trend dependence series PIT (SR) and GDP (SR)

Summary

Based of the processing of the regression analyzes, Human Development Index can be defined as global identifier for risks of global risk including the field of public finance. It is necessary; however, to define the exact parameters of the examined model, because only using interaction with a given set of other variables, we can evaluate the development - as in examined variables - average growth rate of income tax from individuals of the territory of Slovak Republic. The model is simply linearized with a coefficient of determination values in excess of 0.62 and 0.917, as due to Cohen's interpretation of the values of reliability, can be the model considered as sufficiently large applicable. Therefore, in spite of short history of the index, its versatility and relative simplicity, is the index appropriate tool for comparing and valuating of global risks.

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