Gender-Based Violence:
A Hidden Indicator of Political Risk

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Global markets are in a phase of increased instability. A new approach pioneered by Criterion Institute could help analysts and investors better predict risk across sectors, products, markets, and asset classes.

What does gender-based violence have to do with predicting political risk? Probably quite a lot, according to a growing body of evidence. Criterion Institute has pioneered research on a critical but hidden component of financial risk analysis: the links between political stability and gender-based violence. Gender-based violence is ubiquitous and has demonstrated links to the stability and growth potential of companies, sectors, and markets, yet little has been done to translate that materiality into investment analysis.

For two years, Criterion, with support from the Compton Foundation, has led research into the evidence linking state stability and gender-based violence, how that translates into political risk, and how financial analysts might incorporate material gender-based violence data into their work. Our findings show that analysts would be able to more accurately price risk if they factored violence into fundamental analysis rather than treating it as an externality.

Incorporating gender-based violence data into fundamental valuing of opportunity and risk would have multiple impacts beneficial to investors as well as investees:

- More accurately price capital in a variety of contexts: insurance products, currency, public and private project financing, public equities portfolios, private debt and equity structuring, and much more.
- Aligning incentives: gender-based violence is costly to businesses, countries, and sectors. Incentivizing good behavior has the added benefit of lowering costs of capital.

Below, we lay out the evidence case for the materiality of GBV to political risk analysis, share findings from our research on influencing political risk analysis, and articulate some paths forward.

The Relationship Between Gender-Based Violence and State Stability

Gender-based violence in countries, sectors, and markets has significant costs to country and global economies. The cost of gender inequality in labor force participation alone has been estimated to rise to a staggering $12 trillion contribution to global GDP by 2025 that will not take place.

A growing body of research proves that rates of violence against women are actually a better indicator of state stability than many traditionally used measures such as wealth and the strength of institutions. Yet data about gender-based violence is currently not included in financial political risk analysis by asset managers, analysts, or government lenders.

Analyzing stability and instability is a complex exercise that the majority of investors, market analysts, and academics evaluate via a plethora of quantitative and qualitative factors. When analyzing patterns and trends that would impact how you value an investment in a particular sector, market, or geography, the status of women in states, and more specifically, the impacts of gender-based violence, are completely excluded.

The specific relevance of gender-based violence varies across asset classes, products, and return horizon—whether it is indicating a hidden instability that will hamper long-term economic growth or if it is a leading indicator of the possibility of a near-term crisis.

Criterion, working with thought leaders such as Dr. Valerie Hudson, a researcher on the links between gender and institutions, and Equilo, a pioneering gender data as a service platform that automates gender equality and social inclusion analysis, has mapped multiple correlations between facets of gender-based violence and common indicators used in political risk analysis. One such example is illustrated below.

Governance and Women's Physical Security

	Correlation		Predictive Power	
WGI Indicators	2014	2019	2014	2019
Voice and Accountability	Strong	Strong	Moderate	Moderate
Rule of Law	Strong	Strong	Moderate	Moderate
Political Stability	Moderate	Moderate	Moderate	Mild
Regulatory Quality	Moderate	Strong	Moderate	Moderate
Control of Corruption	Strong	Moderate	Moderate	Mild
Government Effectiveness	Moderate	Strong	Moderate	Moderate

Measures of women's physical security are consistently correlated with and predictive of leading governance indicators, including the World Bank's Worldwide Governance Indicators, shown on this chart.[1]

[1] Following the work of Valerie Hudson, we classify the relationship and predictive power between indicators according to Pearson's correlation coefficient and the adjusted r-squared value of the linear regression model, respectively. The Pearson correlation (r) categorization is as follows: 0 to 0.4 is considered weak, 0.4 to 0.7 is considered moderately strong, and 0.7 to 1 is considered very strong. The adjusted R-squared categorization is as follows: below 0.2 is considered weak, 0.2 to 0.4 is considered moderate, 0.4 to 0.6 is considered strong, and 0.6 and above is considered remarkably strong.

How Can Political Risk Analysis Incorporate GBV?

Criterion has undertaken a cross-sectional review of the state of the field of political risk assessment. Although this research primarily focused on political risk measures that intersect with systems of finance, the research also included other approaches of political risk assessment spanning comparative measures used by global and multilateral organizations, to approaches used in forecasting for global security and policy purposes. By engaging a wide variety of actors and methodologies used for political risk evaluation we have found that:

- The majority of approaches are based on proprietary and private models.
- There is a widespread convergence in methodologies towards indexes constructed of several subindexes. The inputs of these subindexes include openly available indicators as well as proprietary "black-box" indicators.
- Most approaches combine qualitative and quantitative approaches and there are varying levels of importance given to subjective and objective measures.
- Although the field is wide, there are several actors that have become *de facto* leaders, and therefore their metrics have predominance in the literature and modes of thinking.

The state of the field revealed that despite the diversity and varying levels of complexity involved in political risk assessments, there is a widespread common omission of gender-based violence across methods and approaches. In fact, it seems that gender-based violence is absent altogether despite the aforementioned materiality and ubiquity of the risk.

Take the example of sovereign credit ratings, the most fundamental metric of country risk for private and government investors. Within finance, there is a general acceptance and expectation that a country's sovereign credit spread contains within it any and all considerations of political risk. However, credit spreads are not broken down into components so as to make transparent how much political risk components contribute to credit spreads, obfuscating how much political risk—and which components of it—are reflected in this pricing signal.

Academia has advanced new indicators aiming to make this more explicit in the form of "political risk spreads," but these have yet to be adopted by financial systems as significant inputs into the cost of finance. Moreover, academic reviews have challenged notions that political systems are determinants of economic outcomes, while the status of women and the prevalence of gender-based violence have been demonstrated to be strongly correlated with political, institutional, and economic stability. The unavoidable conclusion is that there is a conspicuous omission of gender factors in the mainstream evaluation of political risk despite a robust data case for its relevance.

Influencing Finance to Value Gender-Based Violence Data

Criterion's research has uncovered that the main pricing signals—risk spreads, cost of capital, and insurance premiums—exclude gender-based violence. In financial terms, this means that financial calculations are currently discounting to zero the effect that societal gender-based violence has on political risk, economic outcomes, and the future of investments. This discounting does not reflect an appropriate evaluation of the effect that gender-based violence has on outcomes.

Having pioneered this field, Criterion has determined that influencing finance to incorporate gender-based violence data requires a two-pronged strategy. As our decades of research have shown, influencing finance is not only about making the best data case: it requires addressing entrenched power dynamics that dictate what expertise is valued, what data are seen as valuable, and how new fields develop and become influential. Thus, one part of our work is to highlight the relevant data and develop methodologies that can result in the inclusion of gender-based violence into financial systems as a risk factor. Criterion and Equilo will shortly release an analytics tool, the GBV Risk Score, that enables investors and analysts to assess country-level gender-based violence risk based on aggregating the best available sources of gender-based violence data in real time, including data on prevalence, access to support services, laws and policies, and gender norms and perceptions, with clear guidance on the "so what" and what to do about it.

The second part of our work is about engaging and influencing those in finance to recognize the materiality of gender-based violence data and the value of gender-based violence experts. One of the dangers in finance is that fields develop based not on the best available data, but on the easiest available metric. We have seen this happen in gender lens investing, where simple metrics about gender representation on boards/staff dominate and limit the effectiveness and reach of the field. Gender dynamics and gender-based violence are complex and rooted in multiple cultural and economic factors. For finance to more accurately price political risk, we must translate the knowledge of gender researchers, the Women, Peace & Security community, and organizations on the ground into approaches to political risk analysis.

Financial systems have significant power to deliver social outcomes, as the climate finance movement continues to demonstrate. Criterion is working to demonstrate how the wide adoption of a more comprehensive risk assessment can result both in better financial decision-making/returns and the reduction of gender-based violence.

This research was led by Tia Subramanian and Pablo Freund, with contributions from Joy Anderson, Dr. Valerie Hudson, Jessica Menon, Lisa Taylor, and Vanessa Rivera-Quiñones.