Country Risk: Career at the Crossroads

Joshua Loud from the European Bank of Reconstruction and Development (EBRD) came to BYU on 9 August 2018 as part of the Ask Me Anything series. In this interview, which was taken from that event, Loud talks about his professional path, shares insight into international country-risk careers, and addresses the exciting realm of emerging and "frontier" markets—as well as the value of an interdisciplinary perspective in the workplace.

What is country risk?

Country risk is a discipline that seeks to understand and manage the broad, macro risks that affect investments in a country, including economic, political, social, financial, security, or even environmental risks. Both the beauty and challenge of country risk is that it's such a diverse, interdisciplinary space; I can spend one day getting up to speed on Mongolian government debt markets and the next day studying Moroccan trade policies.

My job allows me to be involved in the big academic questions of international politics but with a practitioner's perspective. It requires a nuanced understanding of politics and economics; incentives, motivations, system constraints, and cultural trends all play an important role. I form expectations of how politics and the economy will develop and assess the implications for our investments. It is obviously not a matter of knowing every detail about the political or economic situations of eighty countries; rather, the key is to know enough to recognize where to spend my time and to have the proper toolkit to get up to speed as quickly as possible.

Who cares about country risk and how do they use that information?

Most large financial corporations, both in banking and in asset management, will have a country risk team. Similar teams exist in energy and telecommunications. I previously worked for General Electric helping to manage the risks from its complex global operations. There are also opportunities on the public side: the Treasury Department, the Federal Reserve System, and other sectors have people who look at these issues. I've found development banks to be a great place to work. The job exposes me to a unique set of issues in countries that are a bit off the typical investor's path, and I get satisfaction from knowing that my work is helping to make a difference. Ultimately, the information provided by country-risk teams helps organizations decide whether a given project proposal makes sense, how investments should be allocated across countries, and, in some cases, whether projects can be structured to help mitigate some of these risks.

How did you find your way into the field of country risk?

I was always torn between my interests in political science and economics, so I majored in both at BYU. Still unable to decide, I applied to graduate programs in both fields, and being accepted to a PhD program in political economics in Stanford's Graduate School of Business (GSB) allowed me to defer my decision a bit longer. While working as a teaching assistant for an MBA course at the Stanford GSB, I finally realized what I wanted to do. The course was called Strategy Beyond Markets, and it taught students how companies can navigate the various forces they face outside the traditional market environment, which includes dealing with governments, regulators, NGOs, the media, and so on. My section focused on companies operating in emerging markets, and as I was listening to students discuss their own experiences around the world, it clicked that this was for me.

Even once I had the goal in mind, it took a lot of effort to get there. My PhD program was geared toward helping students find academic jobs, and I had to be very entrepreneurial to find something outside of academia. Ultimately, I accepted an offer with the U.S. Treasury Department as a research economist looking at financial stability. This experience, specifically the exposure to practical finance, has been a huge asset to me.

I got my first job in country risk on a team at GE Capital. GE has complex operations all over the world, from building power plants to leasing jet engines, and the team helped GE's senior leadership make decisions about the appropriate size of total investments they should make in each of these countries. GE often invests locally in the domestic currency, and our job was to understand the potential problems in converting profits back to dollars and repatriating them to the states. I had primary responsibility for Europe and East Asia.

Since 2015 I've been in London managing country risk for the EBRD.

What is your current position?

As an associate director in the Risk Management Department and the head of the country risk team, I am responsible for all thirty-eight economies in which we invest, as well as around forty developed countries in our treasury portfolio, in which we invest our capital when it is not being deployed in our countries of operations.

In our country risk team, we have partially divided the responsibilities regionally, and I focus more on our higher-risk countries or those where we have the largest investments. I also oversee the analysis in the other regions because, ultimately, these are also my responsibility. Given the team's scope, each member has significant responsibility, and I'm fortunate to work with people who are extremely smart, very talented, and really hard workers.

There are a lot of economists at the EBRD and many more people who have in-depth knowledge about our countries, but my job is to be the devil's advocate—to think about the things that could go wrong with an investment, ask probing questions, and ultimately ensure our investments are secure.

Why do you consider yourself a "pseudo-diplomat"?

I'm obviously not a diplomat, in the sense that I do not represent the interests of an individual country. On the other hand, employees of international organizations are afforded certain diplomatic immunities. So while I don't have a diplomatic passport, I do have a diplomatic visa and diplomatic plates on my car. The thing that distinguishes the EBRD from a normal commercial bank is that our shareholders are the governments of sixty-seven countries, including developed traditional-donor countries, the countries where we invest, and, most recently, China and India. Each of these countries has invested capital in the EBRD, and my job is to protect this investment. I have the opportunity to travel to our countries from time to time to meet with government officials and other market participants to get a better understanding of the situation on the ground. So when I'm sitting across the table from a representative of the ministry of finance or the central bank, I represent the interests of our sixty-seven shareholder countries. It is my job to protect the bank's assets, which are their assets.

What is the EBRD?

The EBRD is a multilateral development bank that is kind of like the World Bank in that the primary objective of our investments isn't necessarily to make a profit but rather to achieve a desired development objective. We're part of a community of regional development banks, each of which has a regional focus, such as the Asian Development Bank or the Inter-American Development Bank. Or, there are banks that focus on countries that share some common principles, such as the Islamic Development Bank.

What makes the EBRD different from other development banks?

Our focus is primarily on private-sector development, which is complementary to the more public-sector approach taken by other institutions. I think our emphasis on three criteria—transition impact, additionality, and bankability—is indicative of how our approach sets us apart. We assess each loan for its *transition impact*, or, in other words, the way in which a loan helps a country transition toward becoming a market-oriented economy. In addition to being good investments, the loans need to help us achieve our development objectives. *Additionality* means that our investments should be complementary to private finance rather than crowding other investors out. After all, the development of private financial markets is itself an important element of development. And *bankability* means that our projects should be commercially viable; we only lend to projects that we expect to succeed and generate sufficient profit to repay the loan. Our projects are loans, not grants.

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What types of projects receive funding from the EBRD?

The EBRD invests in a number of different projects across many sectors. In 2017 we invested €9.7 billion across 412 projects. The investments vary significantly in size, from a few hundred thousand dollars to several hundred million dollars for large infrastructure projects. We invest heavily in the energy sector, including in green energy projects like solar or wind farms, and we are also involved in the infrastructure sector, which would include things like a new stretch of motorway or a new metro system for a large city. And we lend money to individual corporate clients across a number of sectors, including manufacturing, agribusiness, and so forth. Lending money to local banks is also a significant part of our business. It can be difficult to get financing to small companies in remote areas, but lending to local banks allows us to leverage their branch networks and increase the availability of financing in these underserved areas. We can also work through the local banks to achieve development goals, such as lending money to the banks at favorable rates but with a specific mandate to use the funds for things like women-owned businesses or environmentally friendly projects.

The breadth of projects we see is part of what I find so exciting about the EBRD. For example, a few years ago the EBRD provided a Mongolian ice cream producer with the equivalent of a few million dollars to expand operations. Because the company primarily sells to the domestic market and earns its revenues in domestic currency, it preferred to borrow in Mongolian *tugruk*, but there weren't many lenders willing to lend in tugruk. The EBRD was able to lend them the money they needed in local currency, which enabled them to expand their operation without taking on unnecessary exchange-rate risk, and the company continues to grow and thrive.

Another example is a funding package for a series of large solar plants in the Egyptian desert that was signed in 2017. The EBRD worked with partners, such as the Green Climate Fund and the Islamic Development Bank, to provide $335 million in financing for a plant that will be the largest solar plant in Africa. It's exciting to look at a project like this one that will help meet the energy needs of Egypt's growing population and do so in a sustainable, environmentally friendly way.

How is the bank structured? Why do they need a country-risk team?

The banking team has the responsibility to find and propose projects, and once they submit a proposal, a number of other teams are given a chance to comment. Risk management will assess the financial viability of the project, a legal team will review the proposal, environmental specialists will assess the environmental impact of the loan, and a team of economists will assess the development impact of the project. Once all sides have had a chance to draft their opinions, the proposals are presented to our operations committee, which makes a decision on whether to pursue the project. If approved, we conduct additional due diligence, which may include things like site visits. Once all the additional information has been gathered, each team drafts an opinion based on all available information. Projects are again submitted to the committee, and those approved are then submitted to the board for final approval.

The country risk team's role in this process is multi-faceted. We determine a rating for each country that serves as a measure of a country's riskiness, and these ratings impact, directly or indirectly, every project we do, including pricing.

Some projects involve loans given directly to governments or to projects that will have a guarantee of repayment by a government. In these cases, I will write an opinion on the acceptability of the government as a financial counterparty—in other words, whether we can be confident that the government will have the means to repay us the proposed amount in full and on time. We also look at concentration risks. It would be imprudent to lend too much money in any one place relative to our ability to withstand losses, even if the probability of anything going wrong were remote.

We try to keep up-to-date on key developments in our countries to brief senior leadership. By keeping them informed of events and providing them with our views on future developments, we have a chance to influence the bank's decisions.

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What is the role of a shareholder in the bank?

Shareholders have delegated the responsibility for most of the day-to-day operations to the staff. While they retain final approval over projects, they primarily focus their efforts on bigger-picture issues. For example, in recent years they've asked us to concentrate more on environmental issues, and we have increased the share of our lending that goes to green projects. The board is obviously instrumental in large strategy questions, such as expanding our regional mandate.

How do the shifting political tides (in primary shareholder nations and in nations receiving loans) affect your work?

Shareholder politics have less of an effect than you may think. Our overall mission hasn't changed since the bank's inception, and we don't change course every time a shareholder elects a new prime minister or president. Our board represents such a diverse set of countries, and given that even our largest shareholders control only around 10 percent of the vote, our institutional structure creates a certain stability. In terms of nations that receive loans, it can make quite a difference. In an extreme case, a new regime could elect to nationalize an industry in which we're invested. Even significant changes in regulations could make currently performing projects unprofitable. A change in government can have big consequences for sovereign creditworthiness.

What does your day-to-day workload include?

I keep on top of material, political, and economic developments in our countries on a daily basis. I'm frequently looking at project proposals, but I also spend a lot of time writing or updating our country risk assessments, which other colleagues can leverage when considering projects. My team keeps a library of these reports available as a resource to the bank's staff to inform others on our thinking. Every few months I'll travel to one of our countries to meet with government officials, representatives of other international organizations, and key players in the business community. It's amazing how much more you can learn on the ground than relying solely on desk-based analysis sitting in London.

How would you describe the work-life balance of your current job?

While we work hard, those who work in development banks have an excellent work-life balance. It's not like working at an investment bank or a big law firm. I tend to get to the office by 7:30 a.m. and can usually leave by 6:00 p.m., and I rarely have to work weekends, although I am usually tethered to my email. The EBRD gives us twenty-six vacation days—double what I got at GE. And London is a very convenient hub for travel to Europe, so my family and I have the opportunity to do quite a bit of exploring during my time off.

What are the most interesting places your job has taken you?

Traveling to interesting places is one of the most rewarding aspects of my job, and I enjoy different places for different reasons. I love Turkey—a beautiful country with an incredible history and culture—and Istanbul may be my favorite city. I love Cairo because Egyptians might be the warmest people I know. If you ever have a chance, do yourself a favor and try Georgian food—it's easily my favorite cuisine across our region. But my favorite individual trip was to Uzbekistan in the summer of 2017. I'll admit I didn't know much about Uzbekistan prior to joining the EBRD, but Uzbekistan has a history and cultural heritage that would compare favorably to anywhere on earth. And Samarkand is one of the most beautiful cities I have ever seen.

What is the most fulfilling part of working in country risk?

There are many things to love about country risk: It provides an opportunity to work with interesting people from interesting places. It allows me to indulge my various interests in economics, politics, and financial markets. It has provided me the opportunity to travel to fascinating places. But probably the thing I love most of all is that I’m constantly learning. Every day presents a new set of issues, and I love the challenge of trying to understand just enough of an issue to make an informed decision before I have to move on to the next thing.

What is the future of country risk?

This is a great question that I’m not sure I can answer. In more developed countries, the availability and quality of data continues to improve, which allows for more sophisticated models and analyses. But this isn’t true everywhere, so analysts will continue to need good qualitative assessment skills. And as long as political and social factors are an important element of country risk, I’m not sure it can be a purely quantitative discipline. My hunch is that there will always be a role for judgment; I think it is fair to say that in the future it will be critical that analysts have the quantitative skills to work with increasingly complex models.

What advice can you give to students or young alumni interested in working in country risk?

Probably the most traditional path into country risk would be to attend a well-regarded master’s program in international affairs (see APSIA.org), such as Johns Hopkins SAIS or Columbia SIPA, and then look for an internship or entry-level role. The number of openings in financial institutions is somewhat limited, but if this is your goal and it isn’t happening right away, finding an opportunity that will help you build your toolkit, perhaps in the public sector, is a great way to make yourself a stronger applicant. My working on domestic financial stability issues may have seemed like a lateral move given what I ultimately wanted to do, but the skills I gained while at the Treasury Department made me a much better analyst and a much stronger applicant.

If you’re interested in a career in country risk, graduate school is critical. It probably goes without saying that stronger programs will open more doors. But you should also think carefully about the type of program you choose. Country risk is a broad discipline, and you could benefit from a number of different backgrounds—international affairs, economics, or even an MBA with an international focus—but you still need to be able to convince a hiring manager that you have a basic working knowledge of economics and finance.

And it never hurts to network.

What are some essential books that you would suggest reading to learn

about country risk?

I suppose it depends on your background. If you have less exposure to economics, Ruchir Sharma has a few books that are interesting and accessible. I'm currently reading David Lubin's new book, *Dance of the Trillions*, which has been really good. *Prisoners of Geography* by Tim Marshall convincingly demonstrates the role that geography plays in modern geopolitics. Given my background in economics and politics, history has always been a relative weakness for me and has been a focus in my reading. With that in mind, *The Silk Roads* by Peter Frankopan is the best book I've read in the past few years.