

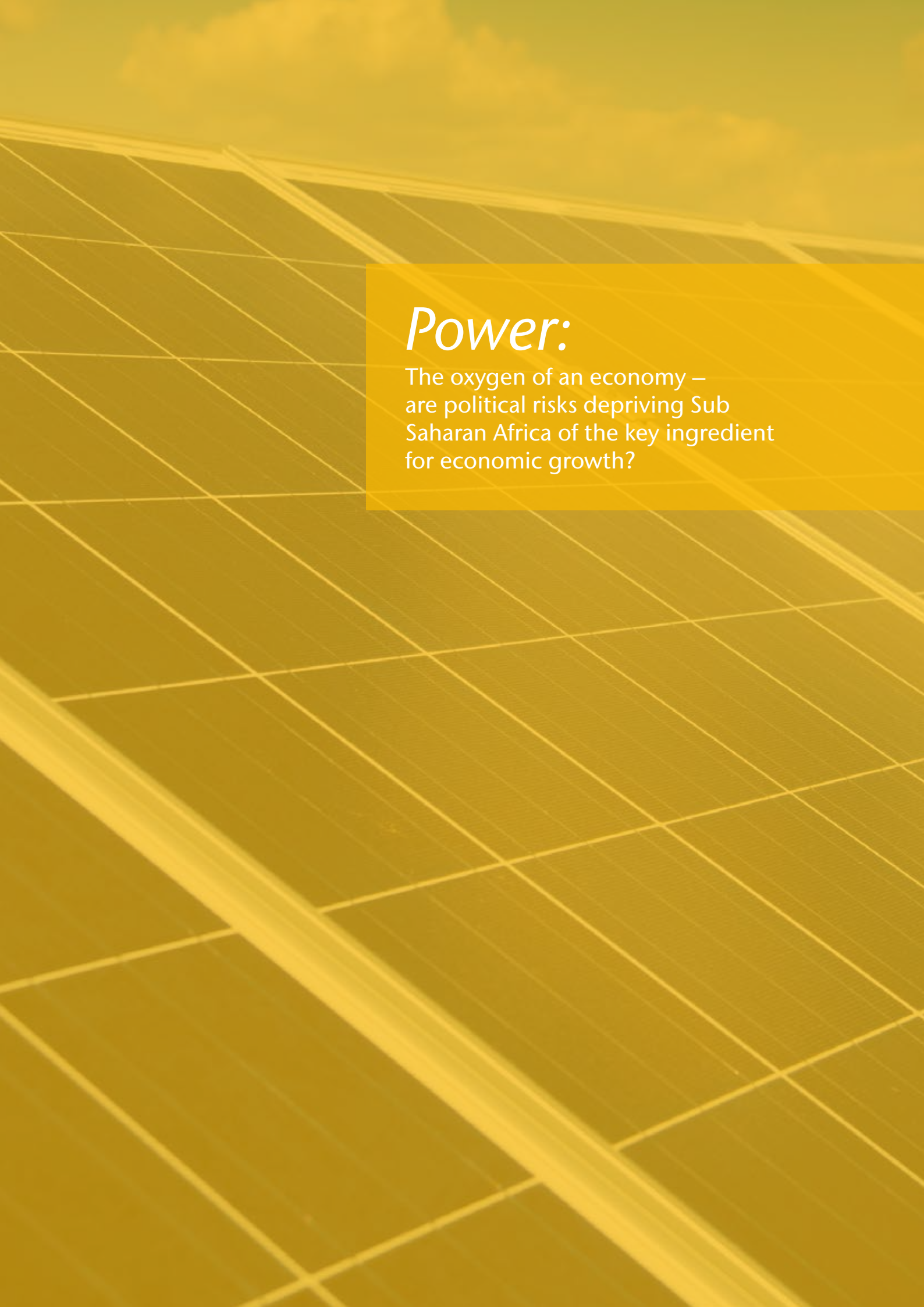
# Political Risks in Sub-Saharan Africa — A view from the Power Sector

2014 | Power



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# *Power:*

The oxygen of an economy –  
are political risks depriving Sub  
Saharan Africa of the key ingredient  
for economic growth?

# Introduction.

## *Power as the cornerstone to economic growth*

Over the last centuries the world has witnessed economic progress that has materially improved the lives of many, especially in emerging markets. Yet almost half the people in the world without access to electricity live in the 48 Sub-Saharan African countries. The World Bank estimates that the cost of financing access to electricity world-wide by 2030 will cost about USD 860bn and over 30% of this will be needed for Sub-Saharan Africa infrastructure.<sup>1</sup>

Globalisation and market liberalisation play a major role in economic growth, but an underpinning factor is the role of power generation and transmission. Peter Voser, Chief Executive of Royal Dutch Shell, explains in the World Economic Forum: “Energy is the “oxygen” of the economy and the life-blood of growth, particularly in the mass industrialization phase that emerging economic giants are facing today as their per capita GDP moves between approximately USD 5,000 and USD 15,000.”<sup>2</sup>

According to IRENA, Africa currently has 147 GW of installed capacity, a level comparable to the capacity China installs in one or two years.<sup>3</sup> The population of Africa is growing rapidly (2.3% per year). At the same time, per capita income levels are rising and Africa is urbanising. These three trends will drive energy demand, growth and consumption patterns in the coming decades.

Voser argues that the growth pace will outstrip the normal capacity in many markets. What is needed to keep pace with the thirst for growth is new means of collaboration across traditional borders including the public – private sphere and there must be frameworks in place that encourage collaboration.

An example of this is the crucial transmission grid linking the Eastern Africa Power Pool (EAPP) and Southern African Power Pool (SAPP) that will create the backbone for the Africa Clean Energy Corridor (ACEC), according to IRENA.

Whilst these are not ground-breaking revelations, many of these ambitions are harder to achieve in reality and these types of “economic stressors” can often lead to turbulence and political volatility.

In economies where the growth rate is very high the security of power becomes critical. Many investors and owners of power generation assets are turning their eye to Sub-Saharan Africa as the region provides them growth opportunity outside their local markets.

At the same time the world has witnessed political risk incidents such as the Arab Spring, unrest in Egypt, civil unrest in Vietnam and the Ukraine - regions and countries which in the past were deemed “stable”. In certain cases Aon has seen companies willing to take a rather substantial amount of risk on their own balance sheet to enable growth against a geopolitical landscape that is unknown and unstable and where unforeseeable risks can take place at a very short notice.

The Global Aon Power Specialty has teamed up with the German Aon Political Risk Team at Aon Credit International Insurance Broker GmbH (ACI) to gain insight into the opinions of some of the most experienced underwriters on this particular topic.

This paper aims to share the challenges, concerns and advice of leaders in the market to provide insights to companies investing in or owning a power generation or transmission asset in this region.

<sup>1</sup> Source: World Bank: [www.web.worldbank.org](http://www.web.worldbank.org)

<sup>2</sup> Source: World Economic Forum, Energy for Economic Growth Energy Vision Update 2012

<sup>3</sup> Source: IRENA, Prospects for the African Power Sector, 2012

## Methodology.

This paper is an opinion piece, not a scientific study. Aon chose key underwriters and other influential market participants to interview over the course of 3 weeks. The interviewees were chosen based on their broad experience in the market as well as their unique insight they could give us on the topic.

The term “emerging markets” for this paper has been defined as non OECD and EU countries. This is a definition that is the most common in the private political risk insurance market. Nevertheless, it is important to note that multilaterals such as the Multilateral Investment Guarantee Agency (MIGA) would broaden the definition to eligible and non-eligible countries without a direct distinction if a country belongs to EU or OECD.

The same applies for The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) or The African Trade Insurance Agency (ATI), which have eligible member countries listed on their homepages.

According to the volume and type of inquiries Aon has seen in certain markets we have focused our line of questions around Sub-Saharan Africa, as this is where Aon has seen the most demand for political risk cover in recent times in terms of emerging markets. Although each and every project needs to be assessed on its own merits, many observations regarding the necessity of political risk cover in this region have wider applications for all emerging markets.

### Definition of Political Risk

Political risk refers to losses caused by:

**The actions or inactions of a government (host or export country), a third-party country or supranational entity (e.g. UN, EU)**

These actions may deprive a client of its assets, prevent or restrict the performance of a contract and have an influence on the repayment of loans to financing banks and lenders. The risk is always outside the control of buyer and seller.

These risks can be caused by changes in a country's political structure e.g. prior or after elections. An exporter or investor might suffer losses based on e.g. :

- Public measures / state interference
- Breach of the underlying contract or concession agreements
- Import or export embargos or border closures
- Cancellation or non extension of licences
- Currency inconvertibility or transfer risks (CI & TR risks)
- Expropriation and creeping expropriation, confiscation, nationalisation or deprivation (CEND-risks)
- Acts of war on land or of civil war, civil unrest terrorism, sabotage (as part of political violence cover)
- Non honouring of arbitration award
- Fair and unfair calling of contractual bonds
- Non honouring of bank guarantees or letters of credit

Political risks are also classed as sudden changes in local certification rules or newly established unexpected security rules. The same applies also to higher import taxes or in provision changes regarding the local content or regarding the number of local employees which should be suddenly hired.

## Key challenges for the Power market entering Sub-Saharan Africa.

“Economic growth cannot be stimulated without power capacity”, Dmitry Lokshin, Member of the Managing Board from Garant Versicherungs-AG explains. He believes that investments in power help lead to economic growth.

*Jef Vincent Chief Underwriting Officer of The African Trade Insurance Agency (ATI), tells Aon that 30% of exposures he sees are related to Power business in Africa*

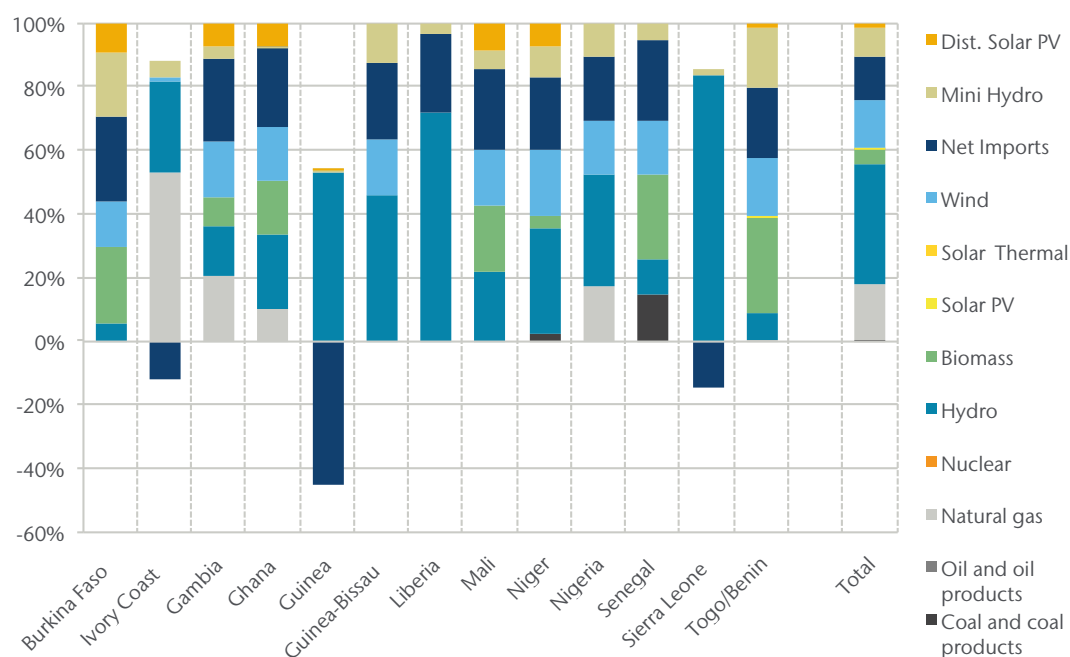
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Christopher Wilkinson Deputy Head of Political Risk, War and Terrorism from Lancashire adds: “There is a lot of power infrastructure needed in emerging markets and satisfying the demand is difficult in the face of certain political environments. We see immature regulations e.g. in parts of Africa specifically when we look at the nuts and bolts of certain Power Purchase Agreements (PPA) and the contractual arrangements within them as well as contracts with suppliers against the backdrop of certain hard economic times.”

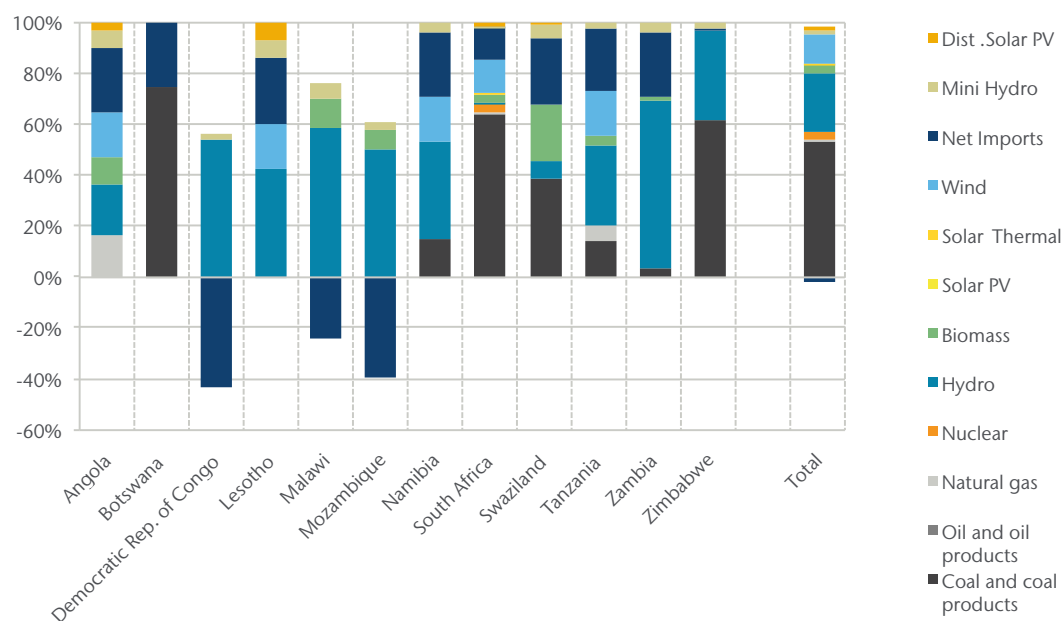
Jef Vincent Chief Underwriting Officer of The African Trade Insurance Agency (ATI), tells Aon that 30% of exposures he sees are related to Power business in Africa. He believes the main challenge in respect of political risks for most of the African States is the high level of debt they have and that they are under IMF control. For that reason most African states will go to independent power producers to generate additional power they need, as this will not affect the level of borrowed debt they are allowed to have under IMF regulations.

He states: “85% of the population in Africa does not have access to power and therefore its economic growth cannot be unlocked. For example, there is no slaughterhouse in the Masai Mara region, where there is 1 million of cattle, because there is no power for the refrigeration. As a result, the lodges in the national park have their meat flown over from Nairobi. Incidents like these are just mind boggling.”

Electricity production mix by country and fuel, 2030.



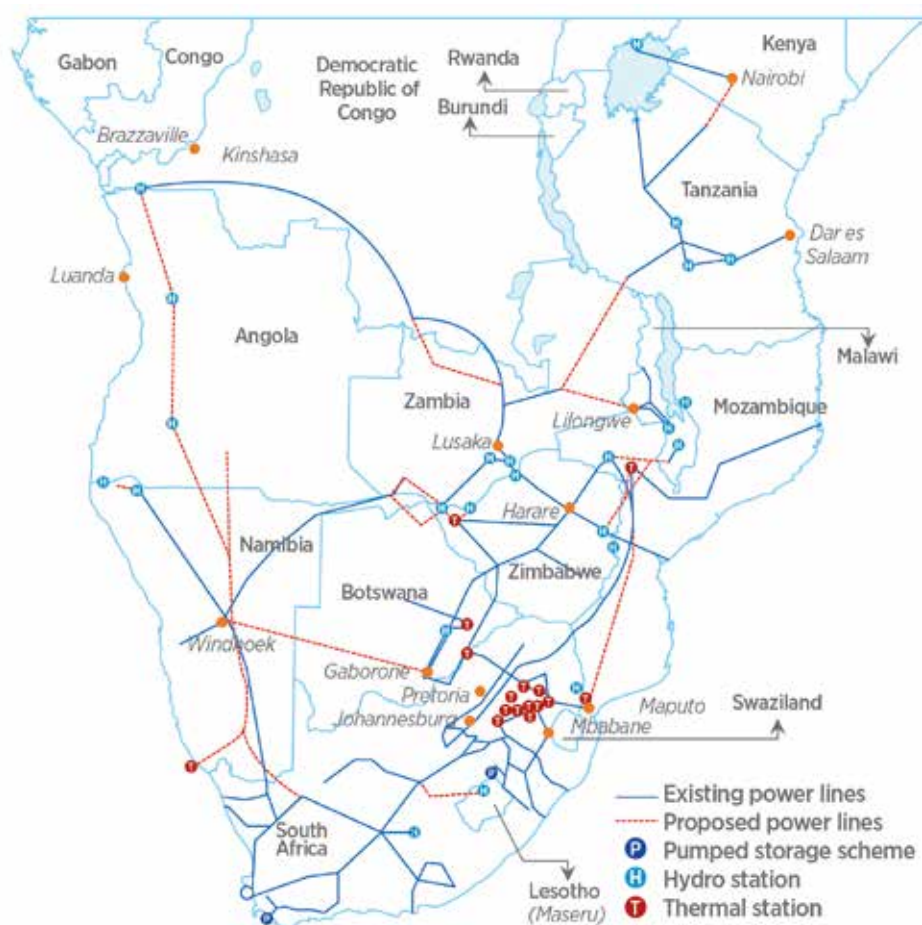
Source: IRENA, 2011



Source: IRENA, 2011

The below map highlights the planned upcoming projects identified under the Programme for Infrastructure Development in Africa called PIDA. The North South Transmission Corridor will equal to 8000 km of transmission from Egypt through Sudan, South Sudan, Ethiopia, Kenya, Malawi, Mozambique, Zambia and Zimbabwe to South Africa. This line should be completed by 2020. The Central Africa Transmission Corridor which covers a length of 3800 km will link the DRC to South Africa through Angola and Namibia and to Chad including Equatorial Guinea, Gabon and Cameroon. (Source: Irena 2011 / Prospects for the African Power Sector)

Apart from these crucial transmission lines, several local projects are taking place. All these projects could face risks covered by an “all risk policy type” but also political risks based on various kind of political tensions fuelled by poverty, ideology or ethics. These phenomena may be supported by scheduled or unscheduled elections, general civil unrest in the border regions of the respective countries, hostilities between the different religious or ethical groups or fights regarding various kind of commodities (oil & gas, minerals) for example. Violent attacks are often politically and financially motivated. Western companies are often critical to a region’s energy needs and tend to get targeted due to terrorism or political violence.



Source: Irena

## Long term investments amidst sudden political shifts.

Werner Richter Regional Head of Credit, Surety and Special Risk of Kiln Europe S.A. (KILN) explains that there is a discrepancy between long term investments needed for power projects versus the short time frames in which the political landscapes can change.

Underwriters are cautious to give long tenors for political risk cover under these circumstances. “A lot of analysis goes into this (tenor of policy) and careful consideration goes into the tenor of political regimes but you cannot predict if these might be forcibly changed. During election times this becomes

challenging, so we try to tailor the tenor of the insurance policy to a manageable period. There would be a maximum tenor of 10 years but we have taken an active decision to moderate the tenor to 3-5 years in most cases,” he says.

Thomas Dietz, Head of Global and Special Products for Central and Eastern Europe tells us that Atradius Special Products also does not look at very long tenors: “Depending on the project we would look at 7 years e.g. based on a Ministry of Finance Guarantee”.

### Upcoming elections in Sub-Saharan Africa

| Country                                                                                           | Date        | Type of election               |
|---------------------------------------------------------------------------------------------------|-------------|--------------------------------|
|  Guinea-Bissau | 3/16/2014   | General                        |
|  South Africa  | 05/07/2014  | General                        |
|  Guinea-Bissau | 5/18/2014   | Presidential                   |
|  Malawi        | 5/20/2014   | General                        |
|  Nigeria       | 31/12/2015  | Presidential                   |
|  Chad          | 02/2015     | Parliamentary                  |
|  Ethiopia      | 05/2015     | General                        |
|  Mauritius     | 21/06/2014  | Presidential                   |
|  Burundi       | 06/2015     | General                        |
|  Ivory Coast   | 10/2015     | Presidential                   |
|  Tanzania      | 31/12/ 2015 | Presidential and Parliamentary |
|  Mozambique    | 15/10/2015  | Presidential                   |
|  Namibia       | 31/10/2014  | Presidential                   |
|  Togo          | 31/03/2015  | Presidential                   |
|  Comoros       | 02/11/2014  | Presidential                   |

## Understanding the complexity of the projects.

Constructing a power project often involves many different stakeholders, joint venture partners and different lender structures when entering emerging markets. The ownership as well as supply chain structure are critical for underwriters to understand in order to be comfortable with a project.

Jef Vincent of ATI informs us that “the problem is that in order to underwrite the risk, you need to understand the whole supply chain. There is also often too much emphasis on power generation in comparison to power transmission. For example there is a new power plant in the Mombasa region that cannot operate at full capacity because the transmission line needs to be upgraded. Therefore e.g. in Nairobi there is a lack of power.

So you need to look at the feasibility of the whole project i.e. who pays for it, what is the offtake agreement and will there be an infrastructure upgrade.

I have seen a wind project where all different project partners had different insurers and so the project had many complex layers. Construction was also delayed because the transmission line was not finished. Yet under the PPA the project had to be ready by a certain date.”

Underwriters will want to know how the deal is financed and will ask the question if a project is just another white elephant.

“It is critical to understand ownership structures. This is a critical path of what we do. Some clients have difficulty in describing the ownerships and contractual relationships. In these instances we can give a broad indication of our appetite but until we have the final picture we cannot issue any cover,” Wilkinson says.

Leonardo Pinto, an independent Credit Risk and Insurance Consultant with experience in the Latin American markets says: “Many companies in Latin America are more adapted to emerging markets when you compare them to companies in Europe for example, so they have a good understanding of the clients dynamics and become more flexible and prepared for unforeseen events rather than relying on what has been agreed in the contracts.”



## Established vs new technology for the African power generation mix.

Many underwriters are increasingly seeing more frequent enquiries for the cover of renewable energy projects in Africa. Whilst the size of the projects might be small they remain technically complex. “The technology has not been tested in these countries and so it requires a lot of time for us to assess whether the project will be successful”, Dr. Khalid Khalafalla, Senior Underwriter of Investment Insurance Business from the Multilateral ICIEC says.

Vincent states: “All countries (in Africa) are desperate to attract Independent Power Producers (IPPs). They want “quick and dirty and expensive solutions”. These types of projects are usually emergency power plants whose the price for energy is very high. The envisaged political risk is that in 5-10 years when cheap and clean energy is available the PPAs of the expensive projects will be revised by a new government. Also during elections the existing government and contenders could be tempted to revise the PPAs as prices are falling and new technology is more productive.

Dietz adds that if a project was increasing the levels of pollution they would not underwrite the risk as the environmental long-term impact has a high risk increase e.g. in respect to breach of contract. Some public parties might be more reluctant to breach a contract if more environmentally friendly projects give a higher return on investment. “We have seen that some governments will use environmental concerns over a project such as nuclear or an obligation for clean coal to enact creeping expropriation”, Alexandre Egnell from Liberty Paris explains.

Yet traditional sources of energy such as coal and gas have been around for a long time and they are less dependent on government subsidies.

*“The political risk is that in 5-10 years when cheap and clean energy is available the PPAs of the expensive projects will be revised by a new government.”*

.....

Egnell states: “We also have seen that the shift to renewables causes frictions in places where there is an unstable regulatory environment especially as these projects depend on subsidies from the government. This is particularly important for countries in Sub Saharan Africa.” He adds that “There is a question mark around renewable energy projects in emerging markets in particular in terms of their viability. We have seen such disappointment in this respect. Their project model has to be extremely robust for them to obtain the insurance they require.”

## Change in type and demand for political risk cover.

During the interviews underwriters disclosed that they had witnessed governments quickly blaming foreign contractors for circumstances where they have an energy crisis marked by black and brown outs. Creeping expropriation then often occurs through new taxes, price fixing and new burdens on import tariffs. Egnell says “this makes life for the investors impossible. Many of the governments particularly in Africa often feel pressured to enact these measures by the local population who are protesting against the high prices and means of distribution.”

Underwriters over the past years have seen companies wanting to know how to cover risks in markets where there is a deregulated transmission and distribution market.

Traditionally insurers will cover breach of contract and breach of concessions – normally based on the non-honouring of an arbitration award. However, the market has seen some losses in this sector and so underwriters have become very cautious about this cover, according to Egnell.

Many companies are also eager to protect themselves against changes in feed in tariffs. Dietz says “this is extremely difficult to insure”. However, in certain cases MIGA considers covering changes in feed in tariffs. It believes governments may have the right to change the underlying contract, but companies must in this case be compensated for any loss of earnings by the respective government. Khalid adds that “feed in tariffs are part of the

power offtake agreement so any breach of this agreement would be covered by insurance once it has gone through the arbitration process. Yet what it does not cover is certain regulatory risk. This is for example, if a government decided to devalue a currency we could not cover the changes this would make to the feed in tariffs.” Aon points out that it is vital that the scope of cover offered is analysed well in advance so that all parties involved are in agreement to which perils will be covered in case of a claim.

“Many investors want the same level and breadth of coverage for each country but the premium rates will vary greatly based on the country risk and the legal surrounding,” Lokshin explains.

*“If a government decided to devalue a currency we could not cover the changes this would make to the feed in tariffs.”*

Before 2009/2010 confiscation cover almost disappeared from the market. “But ever since such incidents like the Arab Spring we have seen an increased demand,” Lokshin adds.

Egnell says “there is the contractual side of the Power generation sector which is most concerned about default of a counterpart as a lot of these entities live from subsidies in emerging markets.

They are also most concerned with expropriation and creeping expropriation as well as breach of concessions.”

*“we see some investors become extremely clever at how they manage to repatriate dividends with the help of local corporations.”*

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Another type of cover that is more frequently requested is contingent business interruption following political violence and cover against non-transfer of dividends. As a loss mitigation process “we see some investors become extremely clever at how they manage to repatriate dividends with the help of local corporations,” Egnell says.

Vincent adds: “Market practice is to insure arbitration award default, but arbitration is expensive so insurers hope that both parties will come to a commercial agreement. Here we have seen an increase in demand for political risk cover.”



## The role of multilateral organisations and export credit agencies (ECAs).

Large long-term projects in the region tend to need to have either the involvement of multilaterals such as MIGA (Multilateral Investment Guarantee Agency part of the World Bank Group), ICIEC (The Islamic Corporation for the Insurance of Investment and Export Credit part of the Islamic Development Bank Group), ATI (African Trade Insurance) or the support of an export credit agency (ECA). Depending on the project and its financial structure, Aon is seeing a greater collaboration between these entities and the commercial political risk insurance market to combine know how and capacity.

Aon has witnessed that the multilaterals and ECAs will often look at projects that are difficult to cover purely in the commercial market. They are also often able to provide longer tenors for projects, which is often crucial for Power projects. Khalid says: "We can offer a 15 year tenor and in some cases up to 20 years. In cases of strategic projects of bigger investment amounts beyond our internal capacity, we can front the insurance and obtain reinsurance support from other multilateral insurers and the Lloyd's market." Aon has also witnessed MIGA offering similar lines even up to USD 200M for tenors between 10-12 years for certain projects.

As the demand is changing, these multilaterals and ECAs have developed further solutions. For example, the ATI can issue letters of credit to help overcome the waiting period in a claims case to stop payment defaults occurring.

Vincent explains that many governments are unwilling to give a Ministry of Finance (MoF) Guarantee, as the state does not want to have this on its balance sheet, as a MoF Guarantee adds to national debt and this is monitored by the IMF. Instead of the MoF Guarantees, governmental bodies often issue a type of letter of comfort. However, many believe that only a MoF Guarantee holds a true and secure value.

Depending on the sovereign risk and on the need for power in a certain country, multilaterals might request a MoF Guarantee as a security. In this case the risk the multilateral covers is the non-honoring of this MoF Guarantee. The non-honouring of a MoF Guarantee is also offered by the commercial political risk insurance market. Prior to any policy inception it is vital to carefully check the exact scope of cover to be bound.

MIGA on the other hand does not require a MoF Guarantee. Antonio Barbalho, Global Head of

Energy & Extractive Industries MIGA, explains: “We do not request these as we assess the utilities or off taker directly and they need to meet the MIGA criteria. If they don’t we would then make suggestions to a client as to what letter or guarantee they would need from the government.”

Barbalho believes MIGA can help many companies during the early stages of the project development through providing it with additional security: “We approach governments pro-actively to see what their appetite for projects 2-3 years down the line are. This means we have a priority list for projects and can see early on if a project would get approval from the host country.”

Barbalho informs that MIGA is there to increase the certainty of a project rather than make it better. “The project still has to be sustainable in the long term,” he says. He adds that MIGA is increasingly seeing new client groups like pension funds, Chinese or Indian investor groups seeking cover for the debt they are offering projects in the African markets. These types of lenders and investors often add new pressure to the insurance costs, as cover solutions need to be affordable but need to meet certain regulatory requirements or return on investments.

According to William Pu from Aon Cofco “the role of the Chinese banks becomes more and more important for the world economy. Most major Chinese banks are state-owned and listed already now on the Fortune 50-list. In the future these banks will have new requests for political risk cover. These banks, e.g. Exim Bank of China, are seeking various kind of cover options through the commercial insurance market and multilaterals.”

*“Aon is seeing a greater collaboration between these entities and the commercial political risk insurance market to combine know how and capacity.”*

Barbalho also revealed that MIGA is seeing many entrants from the Chinese market.

He added that although MIGA plays a large role for projects in this region there is space for all market players: “We tell clients that there are situations where the private market is more competitive and they should to procure coverage there MIGA is most helpful when the credit of a project needs to be improved.”



## Regional Overview.

Our interviews revealed that it is hard to forecast, if the commercial political risk market or the multilaterals have appetite for a certain country or type of project. The exact location of a project is vital to understand, as many countries are large and the political stability and legal framework can substantially vary. The experience of the investors and financiers is material to understand. Therefore, the following underwriter comments should be viewed as appetite indicators.

Barbalho from MIGA says that we will start to see more cross border initiatives in Africa itself such as Mozambique and Tanzania or Ivory Coast and Guinea. Furthermore, the South-South-trading activities are increasing. For example, Brazilian companies are seeking business across the whole of Africa rather than just in Angola or Mozambique. The new challenge for any underwriter will be to support these transactions for substantial amounts of capacity and lengthy tenors.

Dietz says: "There is a lot of activity in Congo but this is a difficult country for us. Other interesting countries are Ghana, Tanzania and Uganda. We would consider projects in Kenya, if the underlying projects parameters are acceptable."

"Ghana has generally been one of the better countries, but a little while ago they had an internal audit of certain PPA contracts that had been awarded under a previous government, fearing that there had been corruption in awarding these contracts. Angola, Mozambique and Tanzania are also interesting countries, where we see large demand for energy infrastructure," Wilkinson from Lancashire explains.

"In terms of regions we are seeing good economic development in places such as Angola and Liberia in comparison to a few years ago where nobody really wanted to invest there," Lokshin says.

Vincent says: "Historically most projects have been hydro. In East Africa we are seeing a lot of potential for geothermal technology especially in Tanzania, Kenya and Ethiopia. This is expected to be a game changer. For projects in Kenya the hole has already been drilled, the availability of steam is guaranteed and there are already offtake agreements in place."

# Aon Political Risk Tools.

15 years of data to support rate tracking and exposure mapping

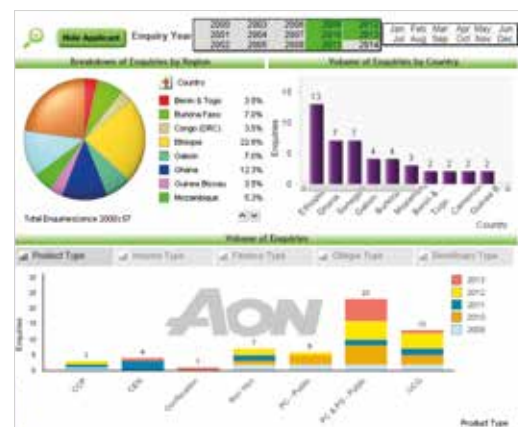
The Aon Political Risk Map measures political risk in 163 countries and territories, in order to help companies assess and analyse their exposure to exchange transfer, legal and regulatory risk, political interference, political violence, sovereign non-payment and supply chain disruption. Aon's long-standing strength in Political Risk management is complemented by partnering with Roubini Global Economics (RGE), an independent, global research firm founded in 2004 by renowned economist Nouriel Roubini, in order to take advantage of RGE's unique methodology.

On the right there are diagrams from the Aon Rate Tracker tool. This is a live rating guide for political risk insurance, which provides historic and current market rates and capacity for transactions. It facilitates accurate and instant benchmarking for clients and can be used as a valuable reporting tool. At this stage it contains approximately 5,000 transactions, 90,000 insurer indications, and 190 number of countries with 50 insurers in 30 product lines.

The first diagram shows a general overview of the enquiries so far uploaded since 2000 in respect of Power Sub-Saharan Africa. In total we have 57 cases which are divided amongst the

stated countries. Based on this snapshot the most enquiries are from Ethiopia and Ghana. The scope of cover is spread between the cover solutions:

Chart 1: Volume of Enquiry by Country and Type of Enquiry for the Power Industry



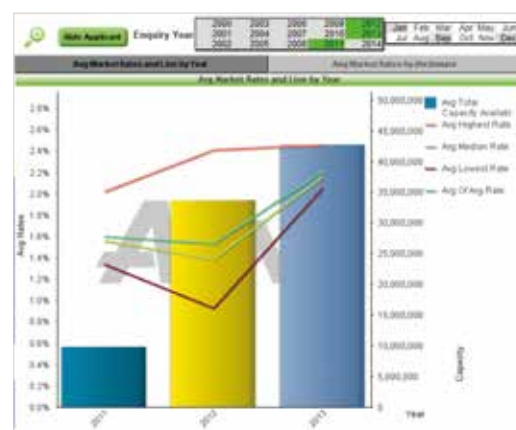
*“In total we have 57 cases which are divided amongst the stated countries. Based on this snapshot the most enquiries are from Ethiopia and Ghana”.*

The Aon Political Risk Map, 2014



The diagram on the right shows the average market rates and average capacity by year. It is a snapshot regarding the past 3 years. The requested enquiry volume has substantially increased. Therefore in certain regions there might be some capacity issues which is also reflected in the development of the premium rates.

Chart 2: Average Market Rates for the Power Industry



| Abbreviations on Chart 1 | Descriptions                                                     |
|--------------------------|------------------------------------------------------------------|
| PC & PS Public           | = Pre and Post-Shipment Public Obligor                           |
| UCG                      | = Fair & Unfair Calling of Guarantees                            |
| Non Hon                  | = Non Honouring of an Obligation by a Government / Post-Shipment |
| PC- Public               | = Pre Shipment Public Obligor                                    |
| CEN                      | = Confiscation, Expropriation, Nationalisation                   |
| CCP                      | = Comprehensive Contractors Plant                                |
| Confiscation             | = Confiscation                                                   |

## The evolving political risk landscape - What your organisation needs to know.

Lokshin explains it was not imaginable a few years ago that a country such as Ukraine would find itself in such a political crisis: “There are about 200 incidents around the world similar to Ukraine i.e. the local people are not satisfied with the balance of political power. Even though these might not be such acute risks compared to Ukraine, there is the potential that they could escalate. On a European level we could name Scotland, Catalonia, Ireland, Latvia, Romania and even Belgium where groups are hoping for independency from the central government.”

Most of the underwriters interviewed believe companies do not have the means to cope with these political risks. Lokshin states companies often like to try and do business under a local context: “Many companies will also try and save where they can save and if they have done a few similar projects they might try and simplify things. On the other side it should not be underestimated that global commercial war is developing with governments using and abusing economic and trade sanctions in any potential diplomatic conflict, which, as a consequence is increasing volatility and costly uncertainties for the global economy in general and sometimes respective projects in particular. It has to be said though that for large

power projects there are usually banks involved who will scrutinise the risks.”

The advice he gives is to try and budget for these kind of risks early even if they do not end up being transferred via insurance. He sees that many companies have not budgeted for these risks and then want attractive cover from the market, but the market will not respond to this as it is too late. Even big businesses can underestimate these risks.

Multilaterals such as ATI admit they are not equipped to cypher through data. “We want to have an experienced partner or consultant who can guide us through all the technical questions”, Vincent says.

He adds that the IMF requires parts of the loans to be concessional so they will scramble to get these and a lot of companies realise this is too late.

Pinto says “companies should also pay attention to their arbitration clauses and preferably chose a chamber outside a host country and one which is perceived to be neutral such as Canada.”

Many underwriters see a lot of projects on their desk very last minute. A significant proportion of projects with tight deadlines that are rushed end



up not getting cover, as the projects are usually complex and underwriters need to get comfortable with the ownership structures of a project.

Wilkinson's advice is to come to market early: "The more information we have the better. It also makes a huge difference hearing the information from the horse's mouth so to speak as projects can be very complex and we would like to have the opportunity to ask questions directly. Many dynamics of the project are usually unique. When we work closely with the project we have high success rates."

Kiln recommends approaching the projects through risk mapping and part of this will be risk mitigation and another option is transferring risks to insurers.

"Some have the attitude that they should just go to the insurance company to get rid of the risk and get it covered for virtually free – companies need to start thinking what is this risk worth to them," Werner Richter says. He adds that those less experienced in risk management or political risks should speak to an experienced broker or an underwriter and take their advice that if the market does not want the risk then why should you?

*"There are about 200 incidents around the world similar to the Ukraine i.e. the local people are not satisfied with the balance of political power. Even though these might not be such acute risks compared to the Ukraine, there is the potential that they could escalate."*

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Egnell admits it is hard to have a Plan B and know what is going on in each country: "We see many companies close to the government who are able to do a lot of lobby work. We do advise to have robust contingency plans around political violence and security which many companies do have."

Dietz says: "If they are involved in long term projects they often realise the changing political landscapes when it is in the papers. That is already too late and they will not be getting any cheap cover."

## Conclusion.

Underwriters are all in agreement: Africa is growing – and they are willing to help breathe life into the projects that help build the foundations in countries that have yet to unlock their true economic potential.

Whilst political risk insurance for Africa is not a new product and it is already on most companies' radar, the request timing for a cover is crucial. Based on Aon's long term experience, it is vital that the investor or developer submits their enquiry to the market at the bidding phase as even based on preliminary facts the appetite of the underwriters can be ascertained. In certain cases underwriters might be able to give valuable insight as to how the underlying contract could be optimised in order to gain further market appetite. On the other hand the investor or developer can obtain non-binding indications including premium rates which can be added to budgets and quotations. Furthermore, the investor or developer might face the necessity to submit sureties & bonds i.e. bid or performance bonds. Aon can support market participants to find adequate solutions for this. In addition to the bonds itself a product called "fair & unfair calling of bonds" should be sought, as in the past several claims have occurred based on the fact that bonds without proper due dates can be drawn in a wrongful fact even after projects have expired.

All underwriters have pointed out that each and every project is assessed based on its own merits. It is therefore vital to understand the underlying project structure and how it is going to be financed. The underwriter needs to understand how the

stand-alone project fits into the whole complex landscape. In the underwriting process the following questions are usually raised. Who are the parties that will benefit from the project, how are the prices of the tariffs fixed, how realistic are these prices, how are the local people involved in the project, how many new jobs are created and most importantly what is the previous experience of the exporter/investor with similar projects in the region or in that specific country. The less experience the company has the more vital it is to have sound advisors and brokers involved.

It should also be pointed out that there will always be an entrepreneurial risk the company will bear when entering this region. Thus the onus is also on the company to evaluate if it is happy to invest money there. Whilst some insurers might be uncomfortable offering cover for certain projects in this region under current political situations, prudent risk mapping and management can help underwriters take comfort in writing very niche and bespoke solutions e.g. "special pre-shipment-solutions" for sub-contractors in connection with an ECA-cover.

The majority of underwriters interviewed stated that whilst some major multinational companies have the means to monitor political risk – smaller and maybe less experienced companies do not. This means that it is even more vital for the small and mid-sized companies to engage experts to understand the exposure to political risks and how negligence can have critical impacts on any size of project.

*With Special thanks to*

**Atradius Credit Insurance N.V.**

Thomas Dietz  
Head of Global and Special Products  
for Central and Eastern Europe

**The African Trade Insurance Agency  
(ATI)**

Jef Vincent  
Chief Underwriting Officer

**Aon-COFCO Insurance Brokers Co., Ltd.**

William Pu  
Executive Director & National Practice Leader -  
Trade Credit

**Garant Versicherungs-AG**

Dmitry Lokshin  
Member of the Managing Board

**Lancashire**

Christopher Wilkinson  
Deputy Head of Political Risk, War and Terrorism

**Leonardo Pinto**

Credit Risk and Insurance Consultant

**Liberty Paris**

Alexandre Egnell  
Global Financial Risks

**Multilateral Investment Guarantee  
Agency (MIGA)**

Antonio Barbalho  
Global Head of Energy & Extractive Industries

**The Islamic Corporation for the  
Insurance of Investment and Export  
Credit (ICIEC)**

Dr. Khalid Khalafalla  
Lead Underwriter of Investment Insurance  
Business

**KILN**

Werner Richter  
Regional Head of Credit, Surety and Special  
Risk of Kiln Europe S.A.

# Contributors.

## *Aon Global Power*

Aon's Power Specialty has a dedicated power resource of over 200 professionals servicing the power and renewable energy sectors and related service sectors worldwide. The Global Power Specialty's sole function is to meet the diverse and complete insurance and risk management needs of the power generation and transmission industry. This team places over USD 750M premium into the global markets annually and uses this leverage alongside superior technical knowledge, expertise and coordination to negotiate the best pricing and coverage for our clients.

### **Gemma Avey**

Strategic Development Global Power  
+44 207 086 4948  
gemma.avey1@aon.com

### **Denis Waerseggers**

Chairman of the Global Power Executive  
Committee & Head of European Power  
+32 2730 9575  
denis.waerseggers@aon.com

## *Aon Credit International*

Aon Credit International (ACI) is the leading global specialist broker in purchasing credit insurance policies around the globe. Our focus lies in advisory and broking service regarding balance sheet protection, debtors management, international trade credit programs, top-up cover solutions, factoring, fidelity insurance, value chain management as well as political & special risks including advisory services for the German ECA. As an integral part of the worldwide Aon Group, ACI is delivering distinctive client value through technical expertise, sector knowledge and depth of resource.

### **Silja-Leena Stawikowski**

Head of Political and Special Risks  
+49 40 3605 3331  
silja-leena.stawikowski@aon-credit.de

### **Michael Timmermann**

Head of Sales and Member  
of the Executive Board  
+49 40 3605 3370  
michael.timmermann@aon-credit.de

Aon Risk Solutions  
8 Devonshire Square  
London EC2M 4PL  
United Kingdom  
+44 (0)20 7086 5500

**aon.co.uk**



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