Picking up the risk

African Trade Insurance Agency knows mitigating political risk is key to African industry. Andrea Bohnstedt examines how it is structured to promote participation in trade

Peter Jones is emphatic about the need to enable African countries to participate in world trade and investment flows on equal terms. As CEO of the African Trade Insurance Agency (ATI), he is in an ideal position to push this agenda.

ATI was founded in 2001 and is funded by its member countries using concessionary loans from the World Bank's International Development Association, with the mandate to "facilitate private-sector-led trade flows, investment and 'productive activities' through the provision of insurance, coinsurance and reinsurance, financial instruments and related services". Its products make up for the lack of financial products in most African markets and will mitigate what is often perceived as the continent's high risk profile, which Jones considers an exaggeration in many cases.

Having started out with seven members, ATI has now grown to 15 (see box, right). Alongside states, its membership includes regional institutions as well as the private sector, and ATI has partnered with global trade credit agencies and insurers Atradius, Lloyd's of London, OPIC, AIG, OND Ducroire and Zurich Financial Services Group. The institution currently has 22 staff in Nairobi, and hopes to place underwriters in Uganda, Zambia and Tanzania in the near future.

In the final stages of a capital restructuring, ATI will convert underwriting capital into common equity capital

Bolstered by an operating profit of US $430,503 in 2005, and hoping to complete a restructuring of its capital by the end of February 2007, ATI has set itself ambitious targets. ATI plans to expand its membership, looking especially to welcome west African states into the fold. As a pan-African institution, any member state of the African Union (AU) is eligible to join.

ATI has now also been opened to non-African member states, as well as to international financial institutions and official export credit agencies, with the proviso that African states must retain at least 51 per cent ownership, and resources are used to promote trade and investment into and within Africa.

ATI recently signed a Memorandum of Understanding with China's export credit agency Sinosure, providing another attractive opportunity.

By opening ATI to non-African countries, ATI expects that China and India will become members in the foreseeable future.

Restructuring pools resources

ATI's beginnings were in traditional political risk insurance for cross-border projects and trade transactions, providing cover for risks such as forced divestiture, currency inconvertibility and non-transfers (see box, next page). At the end of 2005, the ATI Board of Directors resolved to offer both commercial and sovereign non-payment cover as well as whole-turnover credit-risk insurance for exporters in ATI member countries – the latter is currently only offered under a reinsurance treaty. These additions are a further step towards completing ATI's product offering, following the initial expansion of the product range with non-payment cover on public/parastatal buyers in 2003.

A joint export credit agency (ECA) gives member countries access to several benefits, including economies of scale as well as portfolio diversification and reinsurance on the international market. This regional status effectively eliminates the political risk that would have remained had countries each set up their own ECA. As a multilateral institution established by international treaty, ATI is supra-national and, therefore, not subject to domestic political risk. This places stringent conditions on participating governments that contribute significantly to risk mitigation: member state governments have no direct influence on its business as they are legally unable to interfere, and have the legal obligation to reimburse ATI for political risk losses. As a consequence, Jones emphasises that ATI, despite being set up with public-sector funding, is able to implement a very private-sector management style. He commends the institution's governmental shareholders for their support and commitment. "Of course you have to communicate with the board and explain your actions," he says, "but that is no different from a private-sector board."

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ATI is currently in the final stages of a capital restructuring under which it will abandon the previous practice of underwriting its business on the back of individual member countries' World Bank-funded contributions, and will convert the underwriting capital into common equity capital. Pooling member contributions in this way will result in more scope for ATI to pursue portfolio diversification across countries, sectors and projects, higher country ceilings, and also to seek additional capital contributions.

Peer and market recognition

ATI has invested in a strong network of private and public sector partners, led by the world's second largest ECA, Atradius, and several syndicates at Lloyd's of London. In September 2003, ATI signed a Memorandum of Understanding with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group.

In a comparatively narrow market characterised by frequent co-operation agreements, the private sector's involvement has been encouraging. Banks and other insurers have come to appreciate ATI as an effective and knowledgeable partner to mitigate political risk for trade and investment into a region where many industrialised-country institutions have limited regional experience and knowledge. This often leads to an inherent conservatism in the face of what is perceived as high risk. ATI prides itself that, while it may not have a clear advantage on commercial risk, it certainly does on political risk. Similarly, it will differentiate itself not by structural advantages, but on the knowledge of its terrain.

Other insurance agencies recognise that they can benefit from this: even if their own underwriting policies are too conservative to allow them to take on deals in Africa directly, they are very willing to reinsure ATI's deals, enabling ATI, in turn, to expand its portfolio and increase its project and country limits.

"In all cases I found them responsive and professional," says Deepak Dave, an experienced African investment banker. "Their analysis of risks inherent in a country can be expected to be better than non-African private investors. Another advantage is that they are more likely to deliver in terms of timing and responsiveness – they know the basics of the countries already and can save on the level of analysis required."

The buy-in received from other institutions is reflected in the recent figures: by November 2006, ATI had facilitated $206.7 million in deals with $29.9m of its own resources. Cover extended so far includes deals in a combination of traditional and non-traditional sectors, including agribusiness, manufacturing, mining, oil and gas, real estate, services, telecommunications and tourism.

FAST FACTS

- Member governments: Burundi, DR Congo, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia
- Corporate and regional members: Atradius, COMESA, PTA Bank, PTA Reinsurance (ZEP Re), Eastern Southern Trade and Development Bank
- Operating profit of $430,503 in 2005

Development mandate

In response to its development mandate, ATI is looking beyond insurance products in its commitment to stimulating trade and investment to and with African states through other means. This agenda includes addressing the lack of credit information, but also educating financial institutions, promoting local financing, establishing risk ratings for local banks, and mediating in conflicts between investors and host governments. As a public insurer owned by African states, ATI has the ability to resolve disputes successfully before they reach the point of no return. According to Jones this is crucial, considering that the investments in question are typically long term: "A quick cheque is not, in fact, what an investor is looking for. To the investor, it's the success of the long-term venture. The host government of course equally

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has an interest in retaining investment, production and employment."

In international trade, Jones emphasises that domestic financial market conditions often put African exporters at a serious disadvantage in the global markets. "Typically banks only lend against fixed assets and they are very reluctant to lend against receivables. So the availability of short-term trade finance is extremely limited," he says. "When we get involved, banks will lend more, and at better conditions. Companies then have funds to grow their business. Being able to trade on an open account improves African companies' ability to compete in the international marketplace."

Risk cover products available	
Inability to transfer contractual payments in hard currency	Breach of concession rights
Inconvertibility of the local currency deposited for transfer into hard currency	Forced abandonment
Expropriation or seizure of goods	Forced divesture
Embargo	Political violence
Goods/equipment in transit	War and civil disturbance
Confiscation	Insolvency/bankruptcy
Deprivation	Non-payment by private, parastatal and sovereign obligors

ATI notes that this has been an educational process for local banks, even if they are subsidiaries of international banks. Export credit insurance, an established product in industrialised countries for decades, has been one of the missing links in Africa.

Attesting to the success of institutions like ATI, Ben Cattaneo, Practice Leader Mining and Metals at risk management firm Control Risk, affirms that the concept of political risk insurance has become considerably more familiar over the past few years. "Investors need to look beyond the areas such as civil disturbance and expropriation that are now traditionally covered by political risk insurance to political risks emanating from other resources, for example activist NGOs," he cautions. "The same country risk does not necessarily imply the same project risk."

This perspective shows that political risk insurance has to be part of a broader risk management approach that often includes close co-operation with NGOs and governments, and ties in with Peter Jones' perception that sustainability issues are increasingly recognised in international investments.

Finally, regional integration is a key concern for ATI. Jones argues that the co-operation of the ATI governments is a tangible step towards this objective, as is the commitment to convert underwriting contributions into equity. Although there are currently more inbound inflows of

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investment, ATI hopes that their services will eventually encourage intra-continental investments. Roland Pladet, ATI's Chief Underwriting Officer, highlights that access to export credit insurance gives contractors from industrialised countries an easy advantage over most African competitors.

"Take a Zambian contractor participating in a major public tender in Africa," he says. "The company may be comfortably shortlisted for its technical proposal, but it will then lose out in the final selection because it cannot provide the same financial backing. ATI products change this."

While ATI is very aware that there are significant obstacles that will continue to be beyond its power to remove, most notably trade barriers into industrialised markets, clients' responses and peer and market recognition show that ATI is well on the way towards helping African business compete internationally on equal terms.

For more information on the Africa Trade Insurance Agency (ATI), contact CEO Peter Jones (Peter.Jones@africa-eca.com) or Chief Underwriting Officer Roland CJ Pladet (Roland.Pladet@africa-eca.com or underwriting@africa-eca.com); tel: +254 20 271 9727, 272 6999; website: www.africa-eca.com

ATI in action

Huawei Technologies Ltd/RSA & China – Onatel/Burundi	
Supplier credit from Huawei Technologies Ltd China to Office Nationale de telecommunications in Burundi ("Onatel"), for the supply and installation of GSM network in Bujumbura, Burundi's capital and installation of a wireless loop network in Burundi's rural areas.	
Insured:	Huawei Technologies Ltd, China
Description of transaction:	Extension of the delivery/grace period for the installation of GSM and WLL networks
Type of cover:	Parastatal/Public Buyer Non-payment Cover Pre-delivery political risk cover: unilateral cancellation, revocation of import license, war and civil disturbance etc
Risk country:	Burundi
Broker & country of origin:	Direct-China
Transaction value:	$10m
Indemnity:	90%
ATI's Line:	$2,580,000
Co-insurers:	Lloyd's of London
Policy period:	4 years

Shelter Afrique/Kenya – SIMKHA/DRC	
ATI has issued a policy to Shelter Afrique providing political risk insurance for a $2m loan to Société Immobilière Khasam (SIMKHA) for a housing project in Democratic Republic of Congo (DRC). The loan is part of the $5m financing of construction of two residential blocks, comprising 24 apartments each, in Gombe-Kinshasa, DRC. SIMKHA funds the additional $3m through equity capital. This marks ATI's first ever support for a transaction in DRC.	
Insured:	Shelter Afrique - Kenya (Multilateral)
Borrower:	SIMKHA – D R Congo
Description of transaction:	Construction of housing
Type of cover:	Lenders interest PRI
Transaction value:	$2m
Indemnity:	100%
ATI's line:	$2m
Policy period:	5 Years

Redland Roses/Kenya – Various Buyers/Europe, Australia, Japan and Middle East	
Credit risk insurance policy issued to an exporter of flowers in Kenya. It has been re-insured with Atradius.	
Insured:	Redland Roses, Kenyan flower exporter
Description of transaction:	Export of flowers to Europe
Type of cover:	Whole Turnover Credit Insurance Cover I
Risk countries:	Europe, Australia, Japan and Middle East
Broker & country of origin:	Direct-Kenya
Transaction value:	$5m
Indemnity:	Reinsured 100% with Atradius
ATI's line:	None
Policy period:	1 year (renewable)
Indemnity:	85