
Mr. Nabil Fawaz
Global Head
Agribusiness, Manufacturing and Services
Executive Summary

Increased cooperation on investment between the Africa and Arab regions is a critical goal that can go a long way towards creating jobs, building infrastructure, transferring skills, and improving living standards in both regions. Good will, resources, and expertise with respect to this goal all exist; the challenge is how to harness them more effectively.

While FDI outflows from both the Middle East and North Africa (MENA) and sub-Saharan Africa (SSA) are small by global standards, such investment has been growing for select countries from both regions. In MENA, high-income economies (such as Kuwait, Saudi Arabia, United Arab Emirates) have become active investors abroad in many sectors, while in SSA Nigeria and South Africa have been driving the region’s FDI outflows. Indeed, as companies from both regions seek diverse sources of skills and expertise, new markets, and more profit, their operations will continue to become more globalized.

Nevertheless, there are constraints. While FDI is an important source of growth, investors can be hesitant to cross borders due to many reasons, including perceptions of political risk. While perceptions do not always conform to the true risk that investors face in a given country and project, they nevertheless must be taken into consideration in order to attract and retain FDI as a source of capital. Risk contagion—where one country’s reputation is affected by its neighbors’—is also a recognized phenomenon. Moreover, fragile and conflict-affected states, as well as countries facing political transitions, do face genuine risks and are precisely those that need FDI to help them create jobs, growth, and links to the global economy.

Political risk insurance is a mitigation tool that can enhance confidence in a country as an investment destination and encourage investors to take advantage of the opportunities it may present. However, according to past surveys conducted by MIGA, a key constraint to the use of political risk insurance is lack of familiarity with the product. Consequently, increased awareness of political risk insurance within the investor community and governments is a key area where there could be improvement in support for cross-regional investment flows. Apart from private providers of political risk insurance, there are several public providers active in MENA and SSA, outlined in the paper.

There are other recommendations to be considered by actors in the regions to help achieve greater cooperation and attract more FDI through the use of political risk insurance. For example, political risk insurance providers, investment promotion agencies, chambers of commerce, and government agencies responsible for public-private partnerships and privatizations need to work together, and with investors and lenders, to encourage and ensure that key projects move forward. Hosting workshops and investor roundtables to familiarize companies and banks with political risk insurance products would be particularly helpful in promoting awareness.
Partnerships between political risk insurance providers and export credit agencies are also essential. Export credit agencies that do not provide investment insurance can refer national companies to other providers, such as multilaterals, when they embark on investments in MENA or SSA. Further,

collaboration among the various political risk insurance providers may be critical in gathering the necessary capacity to cover important large-scale projects.

In addition, political risk insurance providers operating in the regions may look towards adjusting their institutional offerings, such as increasing tenors and capacity or revisiting eligibility criteria.

Lastly, in countries with the highest risk profiles, the use of a first loss structure—usually funded by governments, multilaterals, and even foundations—may substantially reduce project risk so as to allow broader political risk insurance coverage of the project.

Overview

A key priority of the 2013 Africa-Arab Summit is to increase cooperation on investment between the regions. This is a critical goal that can go a long way towards creating jobs, building infrastructure, transferring skills, and improving the standards of living in both regions.

Sustainable and sustained foreign direct investment (FDI) is a critical part of many countries’ success stories and Arab and African states are no exception. How can the goal of increasing investments into these regions be achieved? Good will, resources, and expertise with respect to this goal all exist; the challenge is how to harness them more effectively. Indeed, investments that improve lives result from effective partnerships among the private sector, governments, and other actors that are able to add value and share experiences.

The benefits of FDI can also extend to investor countries. Cross-border investment can provide these countries, their companies, and citizens with a variety of benefits including access to new markets, expansion and diversification opportunities, increased trade, connections with supply chains, and access to both tangible and intangible assets—such as natural resources, expertise, and knowhow. In the case of sub-Saharan Africa (SSA)\(^1\) and the Middle East and North Africa (MENA),\(^2\) cross-border investment also allows investors to access markets that may have a higher return profile.

This paper explores some challenges to inter-regional investment in the Arab and African states, discusses how political risk insurance is an important arrow in the quiver of investors and host countries to address them, and surveys available risk mitigation resources.

Finally, the paper offers recommendations to be considered by actors in the regions to help achieve greater cooperation and attract more investment flows. These include awareness-raising about investment guarantees; increased partnership among government, the private sector, and political risk insurance providers; providers’ consideration of increasing their offerings and capacity; and the use of first-loss structures.

The FDI context

Global FDI – a story of weak recovery

FDI flows have increased rapidly during the past decade, reaching a peak of over USD 2 trillion in 2007 before plunging in 2009 following the global financial crisis that began the previous year. FDI flows into both high-income and developing economies were affected by the crisis and have yet to recover to pre-crisis levels. In 2013 FDI flows into developing countries are estimated to have declined by 7 percent in light of moderating growth in their economies, a slow recovery in high-income countries, and the retrenchment of monetary policy in the latter that has led to capital outflows, at least temporarily, from some developing countries. Current projections for developing countries are for FDI flows to remain stagnant in 2014, but rebound in 2015.
Both MENA and SSA have seen FDI flows grow since the start of 2000, receiving similar amounts of such investment up until 2007. Since then, the trajectory of FDI flows diverged significantly, with flows into SSA increasing faster than those into MENA. The gap between the amounts received by the two regions is growing (figure 1). Following the onset of the financial crisis, FDI flows declined in both regions, but rebounded in SSA soon after. However, the “Arab Spring” events in MENA, followed by lengthy transition processes fraught with uncertainty, have continued to dampen FDI flows into MENA, even as the world economy began to recover. FDI flows into MENA remain below their record levels and below the levels received by SSA. Even in high-income MENA economies there has been a decline since the financial crisis, which has recently begun to taper off.

SSA has emerged as one of the fastest-growing regions for the flow of FDI. These flows have risen from relatively very low levels in the early part of the past decade to over USD 40 billion in 2013. SSA has experienced several years of solid, rapid growth and improved investment climates, all of which have contributed to a surge in FDI over the past decade. Having dropped in the aftermath of the financial crisis, flows are now projected to resume their increase. However, challenges remain in attracting investment that is beneficial to SSA countries, especially for the poorest and conflict-affected and fragile states.

**Figure 1 - Inward FDI flows into developing-country MENA and SSA (USD million)**

![Graph showing FDI flows into MENA and SSA](image)

*Source: World Bank*

FDI outflows from both MENA and SSA are small by global standards, but such investment has been growing for select countries from both regions. Figure 2 shows the general direction of these flows. In MENA, high-income economies (such as Kuwait, Saudi Arabia, United Arab Emirates) have become active investors abroad in many sectors, while in SSA Nigeria and South Africa have been driving the region’s FDI outflows. As companies from both regions seek diverse sources of skills and expertise, new markets, and more profit, their operations will continue to become more globalized.
Asymmetry in inter-regional FDI flows

When examining the inter-regional flow of FDI, a striking feature is the asymmetry that exists between FDI from MENA into SSA and from SSA into MENA. This should come as little surprise, given the wealth discrepancy between the regions. Because comprehensive inter-regional FDI data are not available, inter-regional greenfield investment data (capital expenditures by investors) are used as a proxy to identify general patterns. The number of projects and capital expenditures from MENA into SSA was growing up until 2008/09, but declined afterwards in response to the onset of the financial crisis, as figure 3 below indicates. Inter-regional investment activity picked up again in 2012 in terms of number of projects, though much less so in terms of their monetary value.

Figure 3, however, does not provide the complete investment picture for the two regions. There is ample anecdotal evidence of inter-regional mergers and acquisitions in sectors including finance, telecoms, extractive industries, agribusiness, and manufacturing. Again, however, the picture supports the asymmetry observed in inter-regional investments, with most flows directed from MENA into SSA.
A similar picture emerges from the data on the inter-regional stock of FDI, which includes all forms of investment, i.e., both greenfield projects, as well as mergers and acquisitions. As of the end of 2011, the latest year for which such data are available, the stock of FDI as reported by MENA countries into SSA was valued at USD3.8 billion. In contrast, the stock of FDI as reported by SSA countries into MENA was at USD28 million. Apart from Mauritius, an offshore financial center, popular destinations are resource-rich countries such as Nigeria, South Africa, and Zambia. Some key MENA investors into SSA comprise the high-income economies of Kuwait, United Arab Emirates, and Saudi Arabia, but also Bahrain, Egypt, and Libya.

**Opportunities for greater cooperation and linkages**

Although inter-regional FDI flows between MENA and SSA are limited they represent an important opportunity for growth and development and are in line with a global trend of growing South-South linkages. In the case of MENA and SSA, there is strong potential for increasing investment flows that arises from the inter-regional trade relationship (with Dubai being a key port for much of the trade with Africa), the rise of Arab multinationals and African conglomerates, and strategic initiatives supported by governments in key sectors such as agribusiness and infrastructure. To this list, investment opportunities arising from the rapid growth of SSA as a key consumer market, in addition to its resource-rich endowments, can be added.

SSA has witnessed solid growth of over 4 percent for a number of years and rising per capita incomes. Some countries have also benefitted from changing perceptions that have accompanied recent political stability, key structural changes, and improved business environments. SSA offers a spectrum of country profiles—from the more advanced economy of South Africa, to the middle-income countries of Nigeria and Kenya, to fragile and conflict affected states such as the Democratic Republic of Congo, Liberia,
Sierra Leone, and South Sudan. SSA also offers diversity in opportunities, with potential to access sectors such as natural resources, agribusiness, infrastructure, telecommunications, consumer products, banking, and tourism. Moreover, it must be underlined that SSA offers the highest return on FDI for investors that are comfortable with and able to manage the higher risk profiles of the region.

Contributing to the potential for greater investment flows is the emergence of Arab multinationals that are expanding their international presence. Many of them already operate across MENA and around the world. They have faced challenging risks and regulatory environments. Their higher risk tolerance and experience in emerging markets coupled with the proximity of SSA and its market opportunities bode well for their ability and desire to invest in SSA. The telecommunications sector is a good example where companies such as Orascom (Egypt), Qtel (Qatar), Saudi Telecom (Saudi Arabia), Zain (Kuwait), and Etisalaat (UAE) have a global presence in multiple regions. Their footprints are seen in SSA in countries such as Benin, Central African Republic, Côte d’Ivoire, Nigeria, South Africa, Togo, and Zimbabwe. In addition to Arab multinationals, a growing number of MENA-based private equity funds are looking for opportunities in SSA as they seek higher returns for their investors.

State-supported actors are also well-positioned to support increased investment flows between the regions. For example, Saudi Arabia and South Africa launched an initiative in 2012 to facilitate greater investment whereby Saudi Arabia SA Holding would have access to USD2.4 billion and would act as a facilitator for investment into South Africa. Under this initiative, knowledge transfer is highlighted as a key benefit sought and the mining and agribusiness are key targets. Sovereign wealth funds of the Gulf countries are some of the largest in the world with significant investment experience. These sovereign wealth funds are considering direct and indirect opportunities to invest in Africa as they diversify their portfolios and consider sectors of strategic value. According to UNCTAD, the value of FDI directed by all sovereign wealth funds into Africa was approximately USD 6.9 billion in 2012 (another USD 2.5 went into MENA). In SSA, resource-rich countries such as Angola and Nigeria have also launched sovereign wealth funds that could consider investment opportunities in MENA.

As investors from both MENA and SSA consider cross-border projects, their comfort level and familiarity with country environments will be important. Of course, the increasing number of trade and investment missions and conferences, such as Kuwait’s Africa-Arab Economic Forum, play a role in increasing familiarity and boosting cooperation. In addition, the recent announcement of the Dubai Chamber of Commerce’s long-term strategy for Africa and its decision to open six offices in the region bodes well for future linkages. More tangible cooperation agreements, such as bilateral investment treaties and international investment agreements, should also play a very important role. Currently, MENA and SSA countries have concluded about 40 such treaties with each other, a mere 1.4 percent of the universe of such treaties worldwide. Of assistance to the Arab states of Africa, MENA countries are currently negotiating the revised Unified Agreement for the Investment of Arab Capital in the Arab States, for which a draft text was adopted early in 2013. The agreement ensures free movement of capital and provides national treatment and most favored-nation status to investments. Arab states in Africa stand to benefit from this, when adopted.

Obstacles to engaging in more inter-regional investment may include commercial considerations, but perception gaps are an important piece of the puzzle. For example, according to the 2013 Ernst and
Young attractiveness survey for Africa, 86 percent of businesspeople operating in Africa believed that the region will continue to improve as a place to do business, while only 47% of those with no business presence in Africa thought the same.

In addition, according to a recent MIGA-Economist Intelligence Unit survey of investor perspectives vis-à-vis developing countries—including those in MENA and SSA—investors felt that political risk is consistently one of the most important obstacles to investing in developing countries. This is where political risk insurance comes in as a tool to address such investor concerns.

How does political risk insurance help?

While FDI is an important source of growth and diversification for investors, they can be reluctant to cross borders due to many reasons, including perceptions of political risk. While perceptions do not always conform to the true risk investors face in a given country and project, they nevertheless must be taken into consideration in order to attract and retain FDI as a source of capital. Risk contagion—where one country’s reputation is affected by its neighbors’—is also a recognized phenomenon. Moreover, fragile and conflict-affected states, as well as countries facing political transitions, do face genuine risks and are precisely those that need FDI to help them create jobs, growth, and links to the global economy.

Political risk insurance is a mitigation tool that can enhance confidence in a country as an investment destination and encourage investors to take advantage of the opportunities it may present. Typically, political risk insurance for investments covers expropriation; currency inconvertibility and transfer restriction; war, terrorism, and civil disturbance; breach of contract; and may also include non-honoring of financial obligations by sovereigns, sub-sovereigns, or state-owned enterprises.

Increasingly, in addition to protection against these risks, the ability to enjoy capital relief drives the decisions of many investors and lenders who purchase political risk insurance, as it can help reduce risk-capital ratings of projects and lead to lower borrowing costs and longer tenors. Moreover, in the case of some investments, the use of political risk insurance as a credit enhancement tool can foster more stable, long-term partnerships. For example, energy projects inevitably involve an insurable commitment from a sovereign or sub-sovereign (for example, in the case of a state-owned utility company) and they often benefit from political risk insurance.

Once a decision is made to obtain political risk insurance, the investor needs to choose between the private and public insurers. The industry consensus is that while private insurers are generally more price-competitive on short term transactions, public insurers (like MIGA) are generally better placed for long-term deals in difficult markets and are typically willing to take on riskier projects due to their development mandate that sees beyond the traditional bottom line. MIGA, for example, goes where often other insurers will not: countries emerging from conflict or political upheaval, particularly in the Middle East and Africa; nations that have vast needs for investment but are underserved by other insurers; and countries with underdeveloped financial markets.

For investors concerned about their reputations and for governments that are attentive to the impact of investments on their populations, another advantage of public insurers is that these institutions seek to ensure through thorough due diligence and monitoring that investments are financially sound and environmentally and socially sustainable. Moreover, environmental and social safeguard policies, like
those used by MIGA are also a powerful tool for identifying risks, tightening development costs, and improving project sustainability.

Another advantage to using public and multilateral insurers is that they work hard to resolve disputes before they reach a claims situation. MIGA, for example, has been involved in more than 100 disputes between investors and governments in its 25-year history. In all but two cases the disputes were resolved before they reached a claims situation. While it is clear why this is important from the insurer’s perspective, the benefit that accrues to the insured is also important: few would disagree that what most investors want is to keep their projects on track. From the host countries’ perspective as well, it is best to keep productive investments moving forward inasmuch as they create jobs, provide infrastructure, and stimulate economic dynamism.

In the case of MIGA, the Agency also works closely with the World Bank and International Finance Corporation to leverage private sector investment, particularly for the large infrastructure projects that are so urgently needed to underpin a country’s growth.

**Trends in Political Risk Insurance**

According to the Berne Union, the leading international organization for the export credit and investment insurance industry, demand for political risk insurance has grown sharply since 2005. In fact, the demand for political risk insurance has outpaced FDI growth.

While the overall demand for political risk insurance is largely being driven by increased levels of FDI going into emerging and frontier markets, investors are more cautious than they were in the early 2000s. The main drivers of this increased caution have been recent events in the Middle East and North Africa; expropriations in Latin America; contract renegotiations in resource-rich economies; as well as capital constraints and increased regulation for financial institutions, which make financing with political risk insurance an attractive option.

As a result of growing demand for political risk insurance, the number of providers entering the market is expanding and capacity is growing. For investors concerned about political risk this means that there are a variety of providers who can help manage risk, and the healthy competition in the industry will result in the availability of effective and well-priced policies.

That said, many private providers are not willing to enter the riskier markets as a primary insurer or may be reluctant to offer long tenors that are so critical for infrastructure and other capital-intensive investments. In these cases, public providers such as MIGA and export credit agencies can take the lead, ceding risk to other players in the market.

**The Increasingly Important Role of PRI in MENA and SSA**

Political risk insurance can play an important role in the MENA and SSA regions, in particular with respect to MENA countries that have been affected by the recent turmoil, as well as fragile and conflict-affected states in both regions. These countries have higher risk profiles and perceptions, a fact that must be addressed. However, these are issues that will take time to improve. In the meantime, investors can turn to risk-mitigation mechanisms, like political risk insurance.
**Middle East and North Africa**

Over the last few years, risk perceptions in the region have become cloudier and demand for political risk insurance has increased, as regional turmoil and political instability impact MENA economies. In those countries directly affected, there have been significant disruptions in economic activity, including trade, tourism, and FDI flows. Currently, investors are showing hesitation to re-engage in the countries affected. According to an investor survey carried out by MIGA in July 2013, the majority of investors have not changed the level of their current investments in developing countries in MENA. However, very few investors have indicated plans to increase investments in the region. An important minority of investors have withdrawn investments from North African countries. Of course, regional data does not take into consideration the differing risk profiles in individual countries, which have been affected to varying degrees.

The main political risks that were highlighted as areas of concern by investors surveyed were political violence – war and civil disturbance, as well as terrorism. But they also were mindful of the impact of the situation in MENA on the risks of breach of contract and adverse regulatory changes. The hesitation of investors vis-à-vis MENA may quickly shift or come to an end should the political situation stabilize and the transition process proceed smoothly. As an example of a rapid shift in investment flows, FDI into Egypt plummeted from over USD6 billion in 2010 to a net divestment of nearly USD500 million in 2011, only to rebound to USD2.8 billion in 2012.

**Sub-Saharan Africa**

Demand for political risk insurance in SSA is particularly high as the continent works to tackle its infrastructure deficit and investors are looking at new opportunities in growing markets with an emerging consumer base. The abundant natural resources on the continent are only beginning to be properly tapped, but investors will remain concerned about political fragility and resource nationalism and will continue to seek out risk mitigants such as political risk insurance cover. Moreover, with increasing numbers of new players entering these markets (especially in the form of South-South investment), the unfamiliar nature of the terrain may also drive the ongoing expansion of both private and state-backed political risk covers.

Indeed, the demand for political risk insurance in the region is expected to grow further as aid budgets shrink and countries are increasingly looking toward private investment and commercial debt to address their significant capital needs to develop their economies. This need can most notably be seen in the case of fragile and conflict-affected states where there may be a gap between economic recovery and the return of private investment. Tools such as political risk insurance can be useful in supporting investment to flow back into these regions and providing investors comfort to be able to enter these countries that may be facing heightened challenges of institutional sustainability, unemployment, impaired infrastructure, and concerns about the re-emergence of conflict.

As can be seen by the figure 3, once economic recovery has started and official development assistance begins to taper, there is a gap before FDI returns to the country. For many conflict-affected and fragile countries, access to finance is extremely limited and FDI plays a critical role for infrastructure and services as well as private sector activity that leads to job creation and growth. The use of political risk insurance can reduce the time until foreign investors re-engage, thus helping to bridge the gap.
MIGA’s experience in fragile and conflict-affected states is significant and represents a growing part of the agency’s portfolio. In fact, MIGA supported more than USD 1 billion in guarantees for projects in such countries and these activities accounted for 41% of MIGA’s overall business in fiscal year 2013.

Institutional landscape for political risk insurance in MENA and SSA

The political risk insurance industry comprises public, private, and multilateral providers that are members of the Berne Union—the association of national and private export credit insurers—and private insurers that are members of the Lloyd’s syndicate, a specialist insurance market located in London.

Political risk insurance providers are active in both MENA and SSA. New issuance by public and private Berne Union political risk insurers into SSA has seen a marked increase over the past few years, doubling in value between 2011 and 2012 (figure 4). New issuance in MENA has been more volatile, but also following an upward path. For the first half of 2013, new political risk insurance issuance in both regions was around US$5 billion, a figure that suggests that volume will remain high in 2013 as well, though new issuance by the Lloyd’s members would need to be added to get the full picture of the demand and capacity of the political risk insurance industry in MENA.)
The number of political risk insurance providers from within MENA and SSA is relatively small. There are four multilateral providers: The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Arab Investment and Export Credit Guarantee Corporation (Dhaman), the Africa Trade Insurance Agency (ATI), and MIGA. Private-sector insurers active in the regions include AIG, Atradius, FCIA, Hiscox, Sovereign, and Zurich. The African Development Bank is also looking into risk management schemes, such as the use of partial risk guarantees. In addition, Export Credit Insurance Corporation of South Africa insures South African investments overseas. Reinsurance is of course possible and some of these providers may use it.

Figure 5 provides a snapshot of how the political risk insurance industry has been addressing the needs of investors vis-a-vis MENA and SSA. All new political risk insurance issuance by all members of the Berne Union for MENA and SSA during 2005 through the first half of 2013 was valued at USD109 billion. This comprised USD7.6 billion in guarantees issued by multilateral or export credit agencies—the African Trade Insurance Agency (ATI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), MIGA and the Export Credit Insurance Corporation of South Africa (ECIC SA)—USD 48.6 billion issued by private providers, and USD 52.3 issued by public providers based outside MENA and SSA.
The political risk insurance industry’s issuance picture lends itself to a few observations. First, unquestionably, the role of the private sector in insuring investments in both SSA and MENA is important and investors depend highly on its capacity to support their projects in the two regions. Yet the private sector can be fickle and have limited risk appetite or even be off-cover if a country’s situation deteriorates. Furthermore, tenors may be shorter than what public and multilateral providers offer, and country limits lower.

Second, the political risk insurance industry’s picture, when assessed in terms of support for inter-regional investments between MENA and SSA, is relatively limited. Providers like ATI support only intra-regional investments in SSA. ICIEC does support investments into some, but not all, countries in SSA. Besides membership restrictions, other limitations may include Shariah compliance, requirements that the investment be new or an expansion of an existing investment, capacity limits, and approval by the Reserve Bank of South Africa in the case of ECIC SA, to name a few (table 1). Such limitations can hamper the ability of these providers to support inter-regional investors to a full extent.
Table 1 — Political risk insurance providers located in MENA and SSA

<table>
<thead>
<tr>
<th>Provider</th>
<th>Eligibility</th>
<th>Max. tenor</th>
<th>Capacity limit (USD million)</th>
<th>Reinsurance Available?</th>
<th>Cover existing investments?</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICIEC</td>
<td>Shariah compliant investment; host country must be a member country</td>
<td>20 years</td>
<td>81.0 per project</td>
<td>yes</td>
<td>No, though reinsurance can</td>
</tr>
<tr>
<td>Dhaman</td>
<td>Investor can be from member or a non-member country. Investments made by nationals of the host country can also be eligible provided the funds come from abroad</td>
<td>10 years, 5 year option</td>
<td>360.0 country limit, 72.0 project limit</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>ATI</td>
<td>Investor or investment must be located in African member state</td>
<td>10 years</td>
<td>100.0 for standard political risks, 150.0 for non-honoring</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>ECIC SA</td>
<td>26% of investment must have South African ownership</td>
<td>usually 10, 15 under special circumstances</td>
<td>Country and investor-specific</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>MIGA</td>
<td>Host country approval. Investors must be member-country nationals (179 member countries)</td>
<td>15, in some cases 20</td>
<td>220.0 per project, 720.0 per country</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

Recommendations

*Increased Awareness of Political Risk Insurance*

Political risk insurance can facilitate cross-border investment by providing risk mitigation to investors and lenders, increasing comfort levels, improving the cost of capital on projects, and providing formal coverage of specific risks that projects may be facing.

Of course, many investors choose to take on risk and manage it themselves, while others may opt to use other risk mitigation strategies, both formal and informal.
However, according to past global and regional surveys conducted by MIGA, a key constraint to the use of political risk insurance is simply lack of familiarity with the product. Consequently, increased awareness of political risk insurance among the investor community is a key area where there could be improvement in support for cross-regional investment flows. Political risk insurance providers—private, public, and multilateral—must increase and improve knowledge about this tool, its value-added, and their various programs offered. In addition, other national organizations involved in supporting cross-border investment (such as investment promotion agencies) can also play a role in increasing awareness of political risk insurance as a risk mitigation tool to those actively considering investments in MENA and SSA.

**Partnership among governments, the private sector, and political risk insurance providers**

Political risk insurance providers, investment promotion agencies, chambers of commerce, and government agencies responsible for public-private partnerships and privatizations need to work together, and with investors and lenders, to encourage and ensure that key projects move forward. This is an important point, as often times investment promotion agencies and other parts of the government (for example, privatization bodies) know in advance of upcoming projects and engage with investors that are considering such opportunities. In cases where investors are concerned about political risk, face issues in bringing other investors to the table, or are having difficulty obtaining loans or making projects bankable, political risk insurance could make the difference that ensures a project goes forward—likely at more attractive terms for the host country. Hosting workshops and investor roundtables to familiarize companies and banks with political risk insurance products would be particularly helpful in promoting awareness.

Partnerships between political risk insurance providers and export credit agencies are also essential. Export credit agencies that do not provide investment insurance can refer national companies to other providers, such as multilaterals, when they embark on investments in MENA or SSA. Further, collaboration among the various political risk insurance providers may be critical in gathering the necessary capacity to cover important large-scale projects.

**Adjustment in institutional offering and capacity**

As discussed above, current political risk insurance providers may face capacity limits in supporting bigger projects in the region. This may be attributed to the project limits that they face as well as their ability to reinsure projects with the private sector. Co-insuring with other providers may resolve these issues. Reinsurers may also participate in projects through established relationships and agreements with providers. Export credit agencies that already cover political risk for trade transactions may also wish to extend their offerings to include investment insurance in cooperation with existing providers. Further adjustment in political risk insurance program aspects may be considered. Tenors overall seem to be shorter than typically sought for larger infrastructure related projects. Also, investor nationality restrictions may limit the amount of support that can be provided overall for cross-regional MENA-SSA investment.
First loss structures

In countries with the highest risk profiles, political risk providers may face significant restrictions to supporting projects or may even be unable to conduct business. In such cases, the use of a first loss structure, usually funded by governments, multilaterals, and even foundations, may substantially reduce project risk so as to allow broader political risk insurance coverage of the project. First loss structures can be a critical tool for countries emerging from tumult of the Arab Spring, as well as fragile and conflict-affected states, because they allow insurers to take on riskier projects. Not only can first loss structures be useful in ensuring that political risk insurance providers are able to support key transactions, but they also allow for private-sector reinsurance of projects. Consequently their impact extends beyond the amount for which they are utilized and can mobilize much more investment on the ground than would otherwise be the case.

MIGA has significant experience with such structures, which it is using for conflict-affected and fragile countries, especially for strategically important projects that are otherwise not typically supported by the Agency. In Afghanistan, Bosnia and Herzegovina, and Palestine MIGA’s trust funds have bolstered critically-needed private sector growth and development. MIGA’s newly launched Conflict-Affected and Fragile Economies Facility also uses a first loss structure to support projects with positive development impacts in multiple countries in both MENA and SSA.

Conclusion

Many sources of political risk mitigation already exist that can be accessed to increase FDI in MENA and SSA. Certainly, greater awareness of the tool among investors and governments, in tandem with more cooperation among providers, will go a long way toward increasing the use of investment insurance further.

However, the goal is not to increase the use of political risk insurance for its own sake, or even to increase FDI flows in general terms. Rather, the goal is to attract FDI as a means by which African and Arab states can benefit from the new capital, technology transfer, and overall improvement in their citizen’s lives, while securing resources and expanding opportunities. As inter-regional investment yields dividends in increased—and hopefully broad-based—prosperity, it will also increase the regions’ prospects for stability and other forms of cooperation.

---

1 SSA is defined as all countries in sub-Saharan Africa, including Arab states in that region.
2 MENA is defined as all countries in the Middle East and North Africa, except Iran and Israel.
3 The source of these data is the IMF.
5 UNCTAD database of bilateral investment treaties.