

PROSPECTORS & DEVELOPERS ASSOCIATION OF CANADA



The African Copperbelt:
A Renaissance
Handling Investment Risk in the DRC & Zambia

Introduction

In starting today's presentation, I would like to do 2 important things:

1. Define Political Risk Insurance. It is insurance against events causing losses on a project or contract which are outside of the control of the investor, the exporter, and the buyer (unless the buyer is the Government). Such events can frustrate a contract, impair an investment, or threaten personnel.
2. The focus of this panel is specifically political risk in the copperbelt of the Democratic Republic of Congo and Zambia. For their in-depth knowledge, which they were willing to share, I would like to acknowledge and thank the following people:

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Economic and Political Situation

Democratic Republic of Congo is considered by analysts as a very high-risk country. The main reasons for this rating are:

1. The country is very poor; the GDP per capita was only \$120 in 2005.
2. It has a newly elected government. The election went quite well, but there are questions of how much control the Government has outside of the capital.
3. During the civil war, and even before, concessions were being granted by many different entities.
4. There is a new mining code, and a parliamentary commission is reviewing the mining contracts.
5. Inactive concessions are those most likely to be affected.
6. Gecamines is experiencing difficulties determining its good from its bad assets.
7. Chinese and Indian companies are very active.
8. Corruption is very high; DRC is ranked 156 of 163. (2006 Transparency International)

Zambia is considered by analysts to be more stable and a much lower risk than the DRC.

The major points of consideration are:

1. While Zambia remains a poor country, its GDP is growing at 5.1%, and the per capita GDP is \$627. (2005)
2. After the 2006 elections the Government is quite stable, but it must be noted that the populist candidate lost.
3. There is always pressure to reopen contracts to change taxes and royalties, but Zambia needs investors.
4. A risk in Zambia is its landlocked position and the need to move product through third countries.
5. There have been protests against working conditions in Chinese companies.
6. With respect to corruption, Zambia was in 111th place out of 163 countries and was tied with 8 others. (Note USA and Belgium are in 20th place – 2006 Transparency International)

Worldwide Economic Nationalism

With respect to extractive investments in developing countries around the world, the political risk is increasing due to the perception, by both Governments and the indigenous people, of a disparity in the level of benefits accruing to the various parties.

While governments will normally want to reopen negotiations rather than nationalize or expropriate an investment, this perception of being exploited may lead to civil commotion.

It is also important to note that people displaced in civil strife may make land claims when they are permitted to return.

Political Risk Insurance Coverages

The political risk insurance coverages available in the market can be divided into 4 areas:

1. Fixed assets or projects, the coverages are for:
 - (a) Confiscation, expropriation or nationalization of the assets or project by the government without reasonable compensation, including discriminatory regulations which can be construed as confiscation;
 - (b) Abandonment or denial of access to assets or a project because of war or civil commotion; and,
 - (c) The inability to convert or transfer dividends accruing from the assets.

2. For contracts involving services and the use of mobile assets, the coverages are for:
 - (a) Breach of contract by a government buyer, for example, the buyer may have to provide certain infrastructure;
 - (b) A government buyer elects not to pay or declares a moratorium on payments;
 - (c) The mobile assets are seized, confiscated or expropriated without reasonable compensation, or the mobile assets cannot be re-exported; and,

- (d) Political events, even cancellation of the contract by the government, which would frustrate the contract.
3. Personnel around the world are exposed to kidnapping and extortion for reasons of terror or just for the money. Kidnap, ransom and extortion policies cover:
- (a) The ransom or loss of the ransom in delivery;
 - (b) The negotiations;
 - (c) The additional expenses, salary and benefits, etc.; and,
 - (d) The risk management, including delivery of the ransom.
4. Most contracts with government buyers require bonds to secure the bid or performance. Coverages for bonds include wrongful call of the bond by the buyer or client, and rightful call of the bond due to a political event frustrating the contract.

Underwriting Factors

When underwriters are evaluating the insurability of a project, they will consider a number of factors:

1. They will want to be comfortable that the insured has a valid concession or contract, for example, in the DRC – is the contract with the correct authority and will it be upheld under the review of the concessions?
2. Is the project commercially viable – that is will the project pay for itself within a reasonable time?

The following 3 points, while they should be of concern to everyone, will impact most heavily on the national agencies, such as Export Development Canada and the international financial institutions such as the World Bank (MIGA):

3. The environmental impact of the project to ensure it will not be subject to problems arising from pollution;
4. The human rights of the local people to avoid the risk of exploitation or safety concerns; and,
5. The project is not based on corrupt practices, which may detrimentally impact it later.

Political Risk Insurers

The insurance market for political risk coverages are fairly active and open. All of the following companies would be open to considering coverage for risks in the Democratic Republic of Congo and Zambia, subject to their evaluation of the specific project risks:

Public	Export Development Canada
IFI	World Bank (MIGA)
Private	AIG Chubb Coface Lloyd's of London Zurich