AFRICAN DEVELOPMENT BANK

ITALIAN GOVERNMENT

Initiative for Risk Mitigation in Africa (IRMA)

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BACKGROUND

- In the occasion of the Annual Meeting of the Infrastructure Consortium for Africa (ICA) – held in Rome in March 2009 in the context of Italy's G8 Presidency – the Initiative for Risk Mitigation in Africa (IRMA) was presented in a paper prepared by Filippo Scammacca of the Italian Ministry of Foreign Affairs and Karim Dahou of the OECD.
- The Italian government committed € 2.4 million to the financing of IRMA through establishing a Trust Fund.
- The AfDB and the ICA secretariat worked on the development of the project.
- On July 16th/2010 the Board of Directors of the AfDB and the Board of Directors of the African Development Fund adopted Resolution N° B/BD/2010/15-F/BD/2010/07 on the Establishment of the Initiative for Risk Mitigation in Africa (IRMA) for a two-year "pilot" period.
- The bank launched the procedures to procure advisory services from two long term consultants, to whom the mission of implementing IRMA would be entrusted. They are now both operative in the Private Sector Operations of the Bank.

Initiative for Risk Mitigation in Africa (IRMA)

- The objective of IRMA is to ensure that potentially viable African infrastructure projects are accurately analysed using risk evaluation and risk coverage tools.
- This would ensure better transaction structuring and would facilitate the mobilisation of private capital, through transferring certain risks from project financiers to creditworthy third parties (guarantors and insurers) that have a better capacity to absorb them.
- IRMA encourages the effective use of the Bank's risk mitigation products as a catalyst for mobilizing private investment for projects in Africa.
- IRMA supports the effective utilization of the African Development Fund (ADF) Partial Risk Guarantee instrument endorsed by deputies during the negotiations of the 12th replenishment of the ADF.
- IRMA promotes the awareness of available tools and to strengthen the skills of staff involved in the identification, design and appraisal of projects.

Risk Mitigation and Risk Mitigation Instruments - Definition

Risk Mitigation can be defined as the systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence”.

Risk Mitigation can be achieved by using Risk Mitigation Instruments

- Risk mitigation instruments can be defined as “financial instruments that transfer certain defined risks from project financiers (lenders and equity investors) to creditworthy third parties (guarantors and insurers) that have a better capacity to accept such risks”.
- The availability of appropriate risk mitigation instruments allows private sector lenders and investors to cover those risks that they are not willing to accept because they are perceived as excessive or beyond their control.
- When risk mitigation instruments are effectively used, it becomes possible to undertake commercially viable projects which would not get financing otherwise.

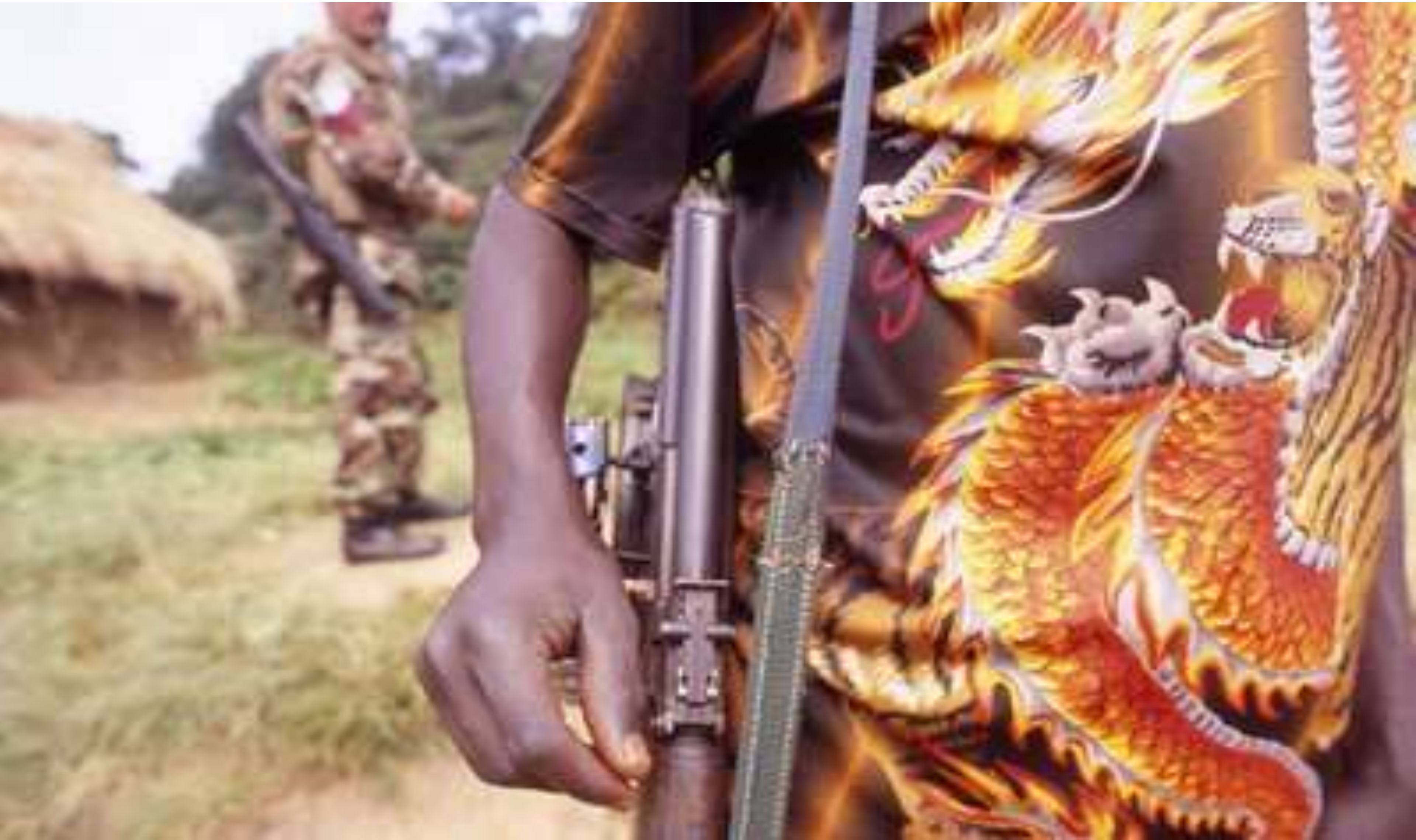
Categories of Risk Mitigation Instruments

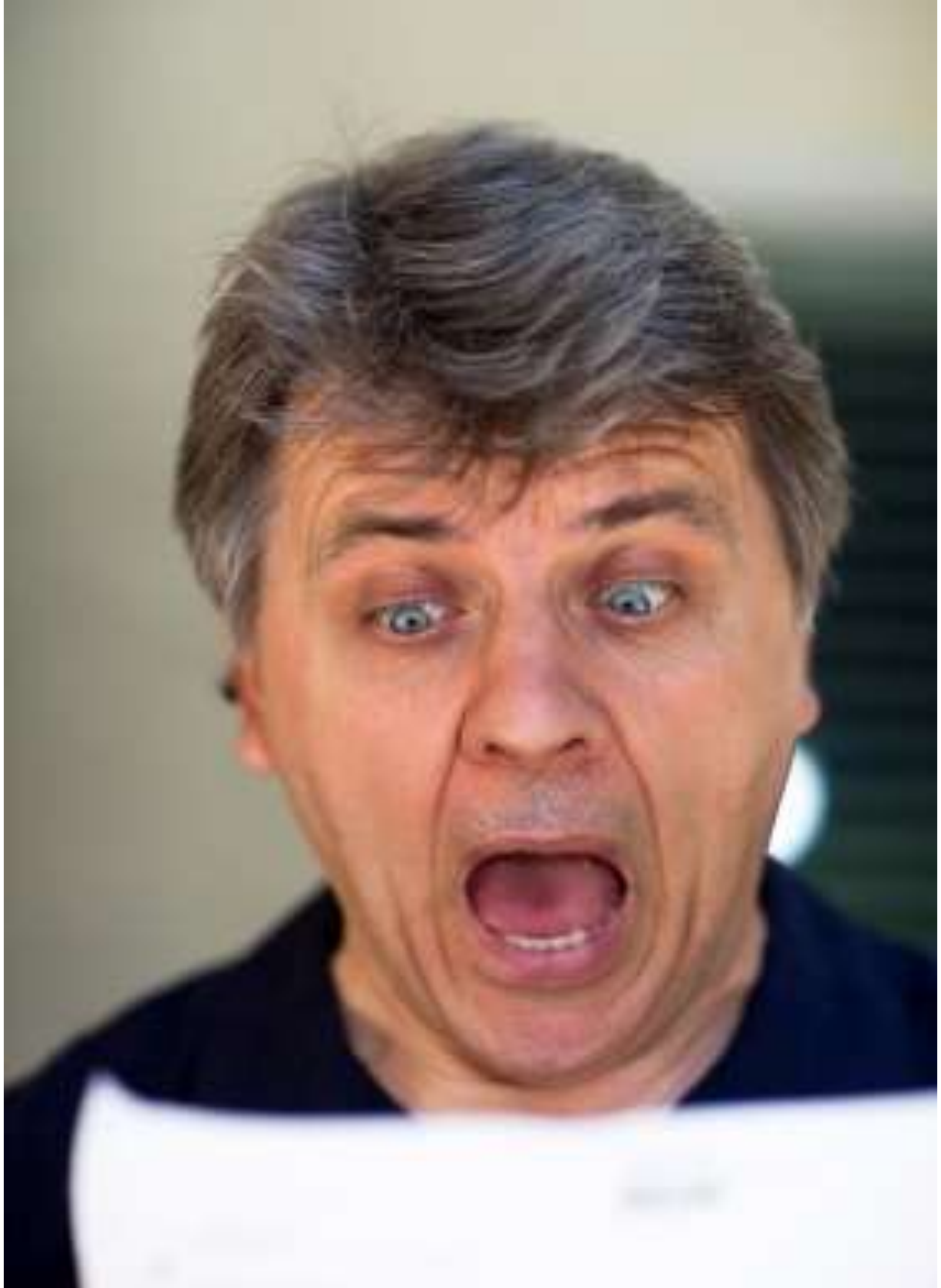
1. *Credit Guarantees* cover losses in the event of a debt service default regardless of the cause of default
    - *Partial Credit Guarantees (PCGs)* fall into this category and cover "part" of the debt service of a debt instrument (regardless of the cause of default).
2. *Export Credit Guarantees or Insurance* cover losses for exporters or lenders financing projects tied to the export of goods and services.
3. *Political Risk Guarantees or Insurance* cover losses caused by specified political risk events
    - *PRGs cover commercial lenders in private projects. Payment is made only if the debt default is caused by risks specified under the guarantee.*
    - *PRI,* or *investment insurance,* can insure equity investors or lenders. PRI can cover the default by a sovereign or corporate entity but only if the reason for a loss is due to political risks

Perception or Reality

Libya – 40 major claims – US$500M mainly trade related

Political Risks:
War and insurrection



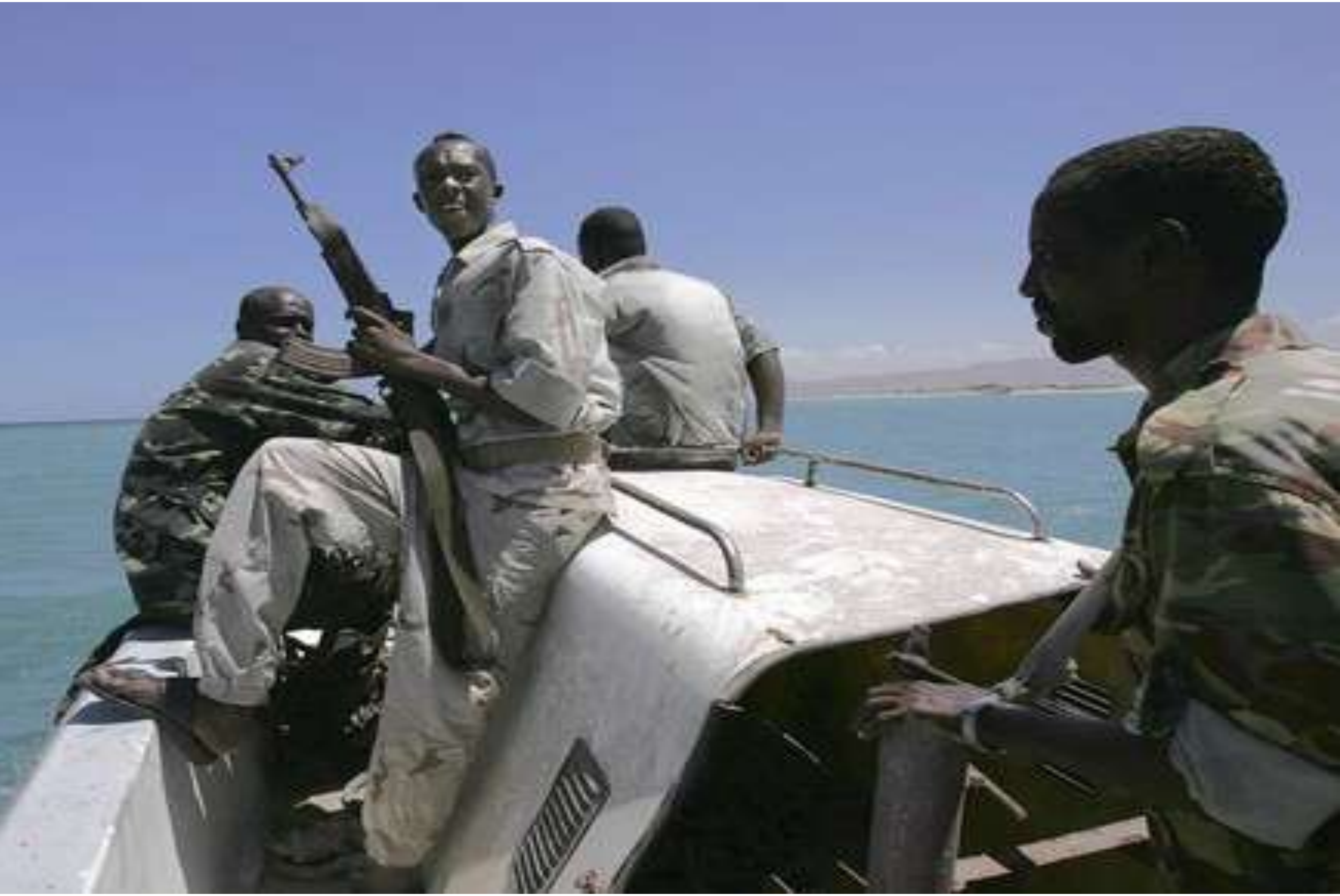


Political Risks:

- Expropriation
- Creeping Expropriation
- Nationalisation
- Licence Revocation
- Taxation changes
- Power Purchase Agreements not honoured

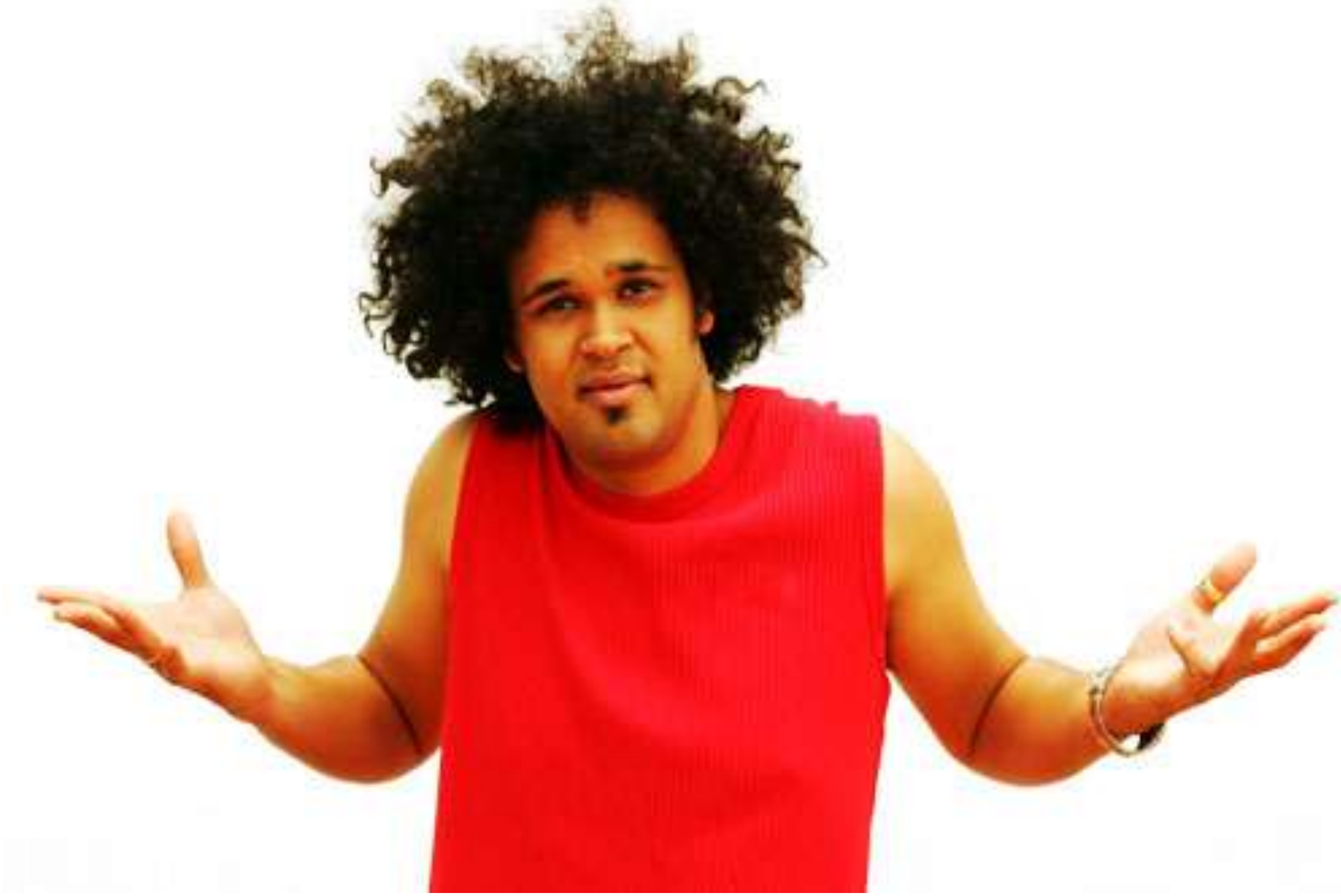
Political Risks: Currency Inconvertibility

Piracy



Credit Risks: Insolvency

Credit Risks:
"Can pay, but won't pay"
- Protracted Default



Terrorism and Sabotage Insurance

"On September 11, enemies of freedom committed an act of war against our country."

- Act of Terrorism
- Political Violence
- Sabotage
- Riots
- Strike
- Civil Commotion
- Malicious Damage
- Burglary
- Insurrection
- Revolution
- Rebellion
- Mutiny
- Coup d'Etat

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THANK YOU FOR YOUR ATTENTION