Political Risk Insurance and Project Finance for Emerging Market Investments

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What is OPIC?

- **OPIC** is the U.S. Government’s development finance institution and mobilizes U.S. private capital to support sustainable economic development in emerging markets.
- **OPIC** supports investments by U.S. businesses with:
  - *Political risk insurance* (3-20 year terms)
  - *Long term project financing* (up to 20 years)
  - *Support for investment funds*
- **OPIC’s** programs are available for projects in 150+ countries and emerging markets. Since its founding in 1971, OPIC has financed over 4,000 projects representing $200 billion of investment in emerging markets.
- **OPIC** has the only public political risk claims record and has paid almost $1 Billion in compensation for 300+ insurance claims.
OPIC – Where We Work

Blue shading denotes OPIC-eligible countries.
OPIC Priority Sectors

• Renewable Resources
• Renewable Energy
• Power Africa
• Impact Investing
• Agriculture, Aquaculture & Food Processing
OPIC – Clients Supported

• U.S. Investors/Shareholders
• U.S. Banks/Lenders
• U.S. Contractors
Political Risk Insurance
What are Political Risks?

- **Political Risk Definition:**
  - The threat that **political changes** may affect the **profitability** or **viability** of an investment.

- **Three Major Categories:**
  - **Inconvertibility** - conversion & transfer
  - **Expropriation** - confiscation & nationalization
  - **Political Violence** - assets & business income loss

- **Causes**
  - **Economic crises** (devaluation of currency, economic collapse)
  - **Political crises** (coup or change in political leadership following a normal election can lead to internal or external violence)
Currency Inconvertibility

**Currency inconvertibility** protects the investor against the inability to:
- convert local currency into a hard currency (US$)
- transfer local earnings out of the host country

**Examples:**
- Excessive delays in acquiring foreign exchange caused by host government action or failure to act
- Adverse changes in exchange control laws or regulations, or
- Deterioration in conditions governing the conversion and transfer of local currency (does not include devaluation)
Expropriation covers losses of an investment due to expropriation, nationalization, or confiscation by the host government.

- Coverage includes both direct and “creeping” expropriation
- Contracts with foreign government entities can be insured against expropriation via breach of contract, including non-payment of an arbitral award and denial of justice.
**Political Violence** insurance protects the investor against loss of assets or business income due to political violence, such as declared or undeclared war, hostile action by national or international armed forces, civil war, revolution, insurrection, civil strife, terrorism, sabotage.

- Can provide coverage for temporary loss of use of assets, damage to or loss of use of critical infrastructure, extraordinary expenses, and forced abandonment.
### OPIC PRI Covers Various Forms of Investment

<table>
<thead>
<tr>
<th>Investment</th>
<th>Form of Investment/Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Equity, including retained earnings, subordinated debt</td>
</tr>
<tr>
<td>Debt</td>
<td>Bank loans, bonds, and capital or operating leases from third party financial institutions</td>
</tr>
<tr>
<td>Assets</td>
<td>Tangible property, including consigned equipment</td>
</tr>
<tr>
<td>Private Contracts</td>
<td>Contracts among private parties to provide services, including construction, procurement, management, technical services, “know how” or franchise agreements</td>
</tr>
</tbody>
</table>
| Contracts with Foreign Governments | Contracts with a foreign government agency or company:  
- Bid bonds or guaranties, including advance payment, performance, warranty or customs bonds  
- Tangible assets used to perform the contract  
- Loans to Governments or SOEs  
- Government contracts to provide goods or services |
Capital Markets: Access to long-term capital markets financing has become crucial to the completion of critical infrastructure projects in emerging markets.

To address this, OPIC has created two specialty PRI products that:

1. Reduce risk to capital markets investors, enabling their participation in emerging market transactions where they otherwise would not participate.
2. Provide access to long-term capital (e.g. 20 years) on commercially viable terms that allow host governments to complete critical infrastructure projects.
Breach of Contract and Non-Honoring of a Sovereign Guaranty Products

Breach of Contract for Capital Markets (BOC): Designed to support financing of qualified projects where a host governmental entity (the sovereign, a sub-sovereign, a state owned enterprise, or some combination of these entities) is both the buyer of goods and services, and the borrower under the financing.

Non-Honoring of Sovereign Guaranty (NHSG): Designed to support financing of qualified projects where the host government provides an explicit, irrevocable sovereign guaranty for project-related debt.

- These coverages are available to U.S. capital markets investors (144A issuances and private placements), and to U.S. commercial banks and financial institutions.
Reinsurance Agreements

• OPIC can reinsure projects covered by private market insurers or international public insurance companies who wish to transfer some of their risk to another carrier

• OPIC can provide reinsurance if:
  
  ➢ The reinsured party is an Eligible Investor
  ➢ There is an Eligible Investor involved in the project in which the insured investment is made
Terms and Conditions of Insurance

• Eligible U.S. investor

• 20+ year coverage

• Coverage of up to $250 million per project

• Retained risk requirement: OPIC coverage ranges from 90% (10% self-insurance) for equity to 100% coverage for commercial bank loans or leases (from unrelated third parties).

• Premium rates fixed for full term of coverage
U.S. Investor Eligibility

- U.S. Citizens
- Corporations established in the U.S. and more than 50% owned by U.S. citizens or corporations
- Not-for-profits established in the U.S.
- Entities established outside the U.S. at least 95% owned by U.S. citizens or corporations.
Benefits of OPIC Insurance

- Experience in 150+ countries and high levels of risk
- Can mobilize larger pool of capital and long-term financing for projects
- Full faith and credit of the U.S. government
- Deterrent against detrimental government interference ("Halo Effect")
- Advocacy:
  - OPIC will work with the State Department and US Embassy to resolve the issue between the Investor and the foreign government
  - OPIC has successfully resolved disputes for many investors in countries such as Turkey, Bolivia, Iraq, Egypt and Cambodia.
- Cooperation with private insurers and multilaterals
OPIC Claims Overview (1971-2014)

- As of December 31, 2014, OPIC has paid approximately $1 billion in settlement of 300+ insurance claims.
- OPIC’s overall recovery rate is ~90% with expropriation claims recoveries at 95%.
- OPIC has paid over 90% of its claims.
- OPIC’s incidence of claims is less than 1% over OPIC’s history thanks to its ability to advocate for the investor.
Financing Projects with OPIC
Introduction to OPIC Finance

- OPIC complements private sector investment in countries where conventional financial institutions are reluctant or unable to lend on such a basis

- Medium- to long-term funding solutions such as direct loans and loan guaranties to eligible investment projects
Eligibility: Significant U.S. Involvement

- OPIC requires **U.S. involvement** in the project company equivalent to 25% of the project company’s equity.

- **How Does OPIC Finance Define U.S.?**
  - U.S.-organized entity generally at least 25% U.S.-owned.
  - Foreign organized entity generally must be at least majority U.S.-owned.
Is this type of project eligible?

Investors and project proposals must satisfy certain policy criteria to receive OPIC financing and insurance.

<table>
<thead>
<tr>
<th>Eligibility Criteria for Investors</th>
<th>Policy Standards for Projects</th>
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<tbody>
<tr>
<td>To be eligible for OPIC financing and insurance, applicants must:</td>
<td>OPIC supported projects must:</td>
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<tr>
<td>✓ Have a <strong>commercially viable business plan</strong> and successful track record</td>
<td>✓ Contribute to <strong>sustainable development</strong> goals</td>
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<tr>
<td>✓ <strong>Involve the U.S. private sector</strong> in a meaningful way in the project seeking OPIC support</td>
<td>✓ Be located in one of our ~150 eligible countries</td>
</tr>
<tr>
<td>✓ Maintain <strong>private sector control</strong> (&lt;50% government ownership)</td>
<td>✓ Comply with international <strong>environmental standards</strong></td>
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<td></td>
<td>✓ Support international <strong>human rights</strong> and <strong>worker rights</strong> regulations</td>
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<td></td>
<td>✓ Cause <strong>no loss of U.S. jobs</strong> or adverse impact on the U.S. economy</td>
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# Key Terms for OPIC Loans

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<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>Loan amount</td>
<td>$350,000 to $250 million</td>
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<tr>
<td>Tenor</td>
<td>5-20 years</td>
</tr>
<tr>
<td>Interest Only Period</td>
<td>6 – 36 months to correspond with construction and ramp up schedule</td>
</tr>
<tr>
<td>Leverage</td>
<td>Financing for 50-65% of the project costs for new ventures and Up to 75% for expansions</td>
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# Characteristics of Strong Application

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<tr>
<td><strong>Financially and commercially-sound project</strong></td>
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<tr>
<td>▪ Adequate cash flow to pay:</td>
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<tr>
<td>‒ Operational costs</td>
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<tr>
<td>‒ Debt service</td>
</tr>
<tr>
<td>‒ Return on investment</td>
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<tr>
<td><strong>Track Record</strong></td>
</tr>
<tr>
<td>▪ Experience in same or a similar industry</td>
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<tr>
<td>‒ Several years of successful operations</td>
</tr>
<tr>
<td>‒ 3+ years of audited financial statements</td>
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<td><strong>Completion Support / Limited Recourse</strong></td>
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<td>▪ Contingent source of capital that can be called in the event of:</td>
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<tr>
<td>‒ Delayed completion</td>
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<tr>
<td>‒ Cost overruns</td>
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<td>‒ Early operating problems</td>
</tr>
<tr>
<td>▪ May include the following:</td>
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<tr>
<td>‒ Letters of Credit</td>
</tr>
<tr>
<td>‒ Stand-by equity</td>
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<tr>
<td>‒ Guarantees (Bank, Personal, Corporate)</td>
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www.OPIC.gov
Questions?

Contact Information

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