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Corruption tops the risk list —yet again—in South Africa

◇ IRMSA

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INCREASING CORRUPTION IS the top South African risk for the second time in three years and is the fifth highest industry level risk for 2017, according to the third edition of the Institute of Risk Management South Africa's [Irmsa] *Risk Report*.

Water crises and structurally high unemployment/underemployment are the second and third highest national level risks for 2017, increasing modestly, according to Irmsa, from their respective positions as the fifth and sixth most prioritised risks the previous year.

The report, compiled with the help of 1,557 survey and workshop participants, also reveals: "Last year's top risk, insufficient electricity supply, has almost fallen out of the top 20 list of national risks completely.

TOP THREE

"The top three industry-level risks for 2017 have risen to prominence dramatically in the last year. Increasing strike action is the highest industry level risk, having climbed 17 places.

"Exchange rate fluctuations, the second highest industry level risk for 2017, did not feature in last year's top 20 and lack of innovation has risen from 20th to third in one year," it warns.

Gillian le Cordeur

Irmsa says South Africa's risk landscape continued to evolve at a rapid rate. Political, economic and societal risks still dominated the national top ten risk profile. Several negative consequences of these risks were experienced throughout 2016, making it increasingly difficult for the country's international reputation to remain in a positive light.

Michael Ferendinos, chairperson of the Irmsa risk intelligence committee, commented: "South Africa's risk landscape has been equally, or perhaps even more, volatile than the global environment during 2016. Recent uncertainties that have compromised the country's international reputation, some of which ended up having a positive outcome, ranged from another finance minister debacle, the #FeesMustFall student protests and the fight against corruption and state capture, to the worst drought to hit the country in decades and narrowly averting a credit rating downgrade."

He added: "The horizon in 2017 and beyond remains worrisome when considering that most of the risks in the country's risk profile do not only have a lengthy anticipated duration but are also expected to become even more of a concern in the next decade."

The good news is that although the political climate, described as 'noisy' by Moody's Investors Service, remains volatile as the country transitions to greater democratic maturity, key institutions have remained resilient despite the profound political uncertainty.

However, the report explains, the parties implicated in the *State of Capture* report, such as the Gupta family and former Eskom CEO Brian Molefe, reflect why widespread corruption in both the private and public sectors is such a concern for the South African risk management fraternity.

POINT OF VIEW

"It is not surprising that corruption has moved from the second highest national risk following surveys carried out between June and August 2016, to the highest risk after the November 2016 to January 2017 risk surveys," it states.

Gillian le Cordeur, CEO of Irmsa, commented: "The report clearly shows how risks cannot be viewed in isolation and therefore is indicative of how risk professionals should not work in silos but be allowed to influence and assist in all areas of the

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Exchange rates heaping pressure on emerging markets across Africa

◇ FINANCIAL RISK

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EXCHANGE RATE ISSUES CONTINUE TO climb the risk management agenda across Africa as countries battle to cope with low oil and commodity prices as well as a strengthening dollar.

In its annual risk report, the Irmsa highlights the issue, with exchange rate risk climbing to the second greatest risk among industry leaders.

MONETARY POLICY

The International Monetary Fund (IMF) has been urging African countries to allow the exchange rates to float freely as a way to manage external shocks.

And Fitch Ratings said support from the IMF has helped to mitigate external liquidity risks and reduced the medium-term default risks in several frontier markets that entered into new programmes in 2016.

However, it warned: "Potential improvements in sovereign credit profiles will depend on each country's level of compliance with IMF conditions and implementation risks are often high."

It said, in the two years leading up to their IMF loans, Fitch took negative rating action on five of the eight sovereigns that entered standby arrangements or extended fund facilities in 2016, including Kenya and Tunisia.

Egypt's stable rating outlook in the run-up to its programme reflected existing reform efforts before the IMF became involved, said Fitch, while Ivory Coast, which had been upgraded in 2015, signed a successor agreement in December 2016.

"A lack of currency flexibility was also a factor in pushing some frontier markets into IMF agreements," said Fitch. Egypt was an example of those who all ran down foreign exchange reserves at unsustainable rates trying to resist currency depreciation in a global environment of US dollar strength. However, they have allowed more flexibility since beginning discussions with the IMF, which has helped reduce pressure on their external balance sheets, the rating agency added.

GEOPOLITICS

Political upheaval has also been a theme. Iraq is involved in ongoing conflict with the Islamic State group, while government instability has paralysed parliament and led to mass protests. Egypt and Tunisia went through political revolutions in 2011 and both are still dealing with underlying tensions and security risks.

"IMF loans should alleviate external liquidity pressures and reduce the risk of sovereign default, particularly where IMF

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INSIDE–

Uganda forms oil and gas syndicate

◇ EAST AFRICA

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A SYNDICATE OF 16 INSURANCE COMPANIES IS AIMING TO COLLECT $100m in annual premium income from the oil and gas sector and to get exclusive rights to underwrite all those risks in the country, officials at the Uganda Insurers Association (UIA) have said.

The companies came together to improve their underwriting capacity in an industry that has high value business but whose risks are also high value. There are 29 licensed insurance companies according to the Insurance Regulatory Authority, 16 of which opted for the syndicate.

"The name is Uganda Oil & Gas Co-insurance Syndicate. It has been finalised by the market," said Miriam Magala, CEO of the UIA.

Earlier, insurers in Uganda had set a deadline of end of 2015 to raise $1m as the seed money for the syndicate, but it was not clear by the time of going to the press if the target had been met or surpassed.

Failure by the companies to form a co-insurance arrangement would have meant they were unable to underwrite high value business in the sector, resulting in that risk being underwritten abroad. Co-insurance is expected to optimise the total capacity in the market.

"We are cooperating to see that premiums are not taken abroad," said Azim Tharani, managing director of Goldstar Insurance in Uganda. He said with annual investments estimated at $10bn, the industry could easily generate $100m in premium income every year.

Ms Magala had told reporters earlier that the association is involved in lobbying the finance committee of parliament for the syndicate to be given exclusive underwriting of all oil and gas risks in Uganda.

However, to win this privilege, the industry must convince parliament that it has adequate capacity, beyond the $100m syndicate capital, to take even higher value risks and have strong reinsurance treaties.

Uganda has oil reserves of about 6.5 billion barrels, of which up to 1.7 billion is estimated to be recoverable. Production is expected to start in 2020, although there have been several issues including the collapse of the deal to construct the refinery and a spat with Kenya over Uganda's decision to abandon the Kenyan route for the pipeline.

Uganda has decided to abandon the Kenyan pipeline route

FINRISK: IMF urges African countries to allow currencies to float freely

CONTINUED FROM PAGE 1

assistance has been supported by other multilateral assistance or has improved access to global bond markets. However, all of these countries still have either large current account or fiscal deficits, or both. Reducing these vulnerabilities will be key to stabilising or improving their ratings," suggested Fitch.

Jamaica provides one example of how an IMF programme can be credit positive. Pakistan also managed to stabilise its economy after a period of loose fiscal and monetary policy during its three-year IMF agreement that ended in 2016. However, without sustained commitment from the authorities, longstanding weaknesses may remain unaddressed and there is a risk that governments will back away from reforms in the face of public opposition. Fitch reported that Zambia is among those who have announced their intent to seek IMF assistance, highlighting that further IMF loans are likely to be agreed with several other frontier markets in 2017. Conversely, it said, the Angolan government last summer broke off talks with the IMF over a potential loan.

The IMF halted disbursements to Mozambique last year after the government revealed previously undisclosed debt.

Earlier this month, IMF officials urged the Angolan government to do more to counter the effects of the low oil price to help shore up its economy.

In a new report, the IMF notes: "The oil price shock that started in mid-2014 has substantially reduced fiscal revenue and exports. Growth was estimated to come to a halt in 2016, with the non-oil sector contracting by 0.5%, dragged down by the industrial, construction and services sectors; industrial production, despite the potential for import substitution, was constrained by shortages of imported inputs due to limited availability of foreign exchange."

It also warns that annual inflation is estimated to reach 45% by end 2017 – the highest rate in more than a decade – reflecting higher domestic fuel prices, a weaker kwanza and the lagged effects of loose monetary conditions until the first half of the year.

The IMF applauds the Angolan authorities for taking steps to mitigate the impact of the shock, but urges further measures to stabilise macroeconomic conditions and address more forcefully the dependence on oil and diversify the economy. It underscores that monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market but welcomed the recent measures taken by the central bank to tighten liquidity conditions,

Meanwhile, in nearby Mozambique, on 18 January 2017, the government missed an interest payment on its dollar-denominated bond notes.

S&P Global Ratings commented: "We believe that restructuring talks on the notes will probably be held and we will likely reassess the foreign currency rating on Mozambique on completion of any restructuring.

"In the next several months, we anticipate the completion of an independent evaluation of the government's debt position by risk consulting firm Kroll, followed by a debt sustainability assessment (DSA) by the IMF before the IMF and other donors can begin providing any support. On completion of the DSA, it is likely that the authorities will push hard to negotiate a borrowing package with the IMF.

IRMSA: 'Risks cannot be viewed in isolation or silos'

CONTINUED FROM PAGE 1

business.

"If risk management is properly embedded within an organisation and a strong risk management culture adopted, we will see more organisations being able to maintain stability during times of difficulty and take the 'opportunities' that come their way to prosper."

As the report highlights, events in South Africa have not been ignored by international observers. Ratings agency Standard and Poor's, for example, downgraded Eskom's corporate credit from BB+ to BB in November, demonstrating a vote of no confidence in the state power utility and its leadership. South African organisations have been on "tenterhooks" about the country's ratings in recent times, noted the report, with the country having narrowly escaped three downgrades within the past year.

In November, Fitch revised its outlook for South Africa to negative, but kept its rating unchanged at BBB-; Moody's kept its sovereign rating unchanged at Baa2; and in December, Standard & Poor's downgraded South Africa's local debt by one notch to BBB but kept its sovereign credit rating unchanged at BBB-, one level above junk status.

South Africa has also struggled with drought in the past year and risk managers agreed that a worsening of the current drought affecting much of the country remains one of South Africa's greatest risks. Closely tied to this is the longer-term water crises risk, which has been receiving increasing attention during 2016. El Niño (dry) and La Niña (wet) are opposite phases of the El Niño-Southern Oscillation cycle, with La Niña is expected to continue to March 2017 and, in South Africa, will be accompanied by extreme wet-weather conditions and floods. The dry phase is expected to resume after that again, which means that organisations need to be flexible enough to rapidly transition to the opposite set of controls in a very short window, the report warns.

◆ *See p12 for more on Irmsa and other risk reports*

SSA remains near bottom of the global corruption index

◇ CORRUPTION

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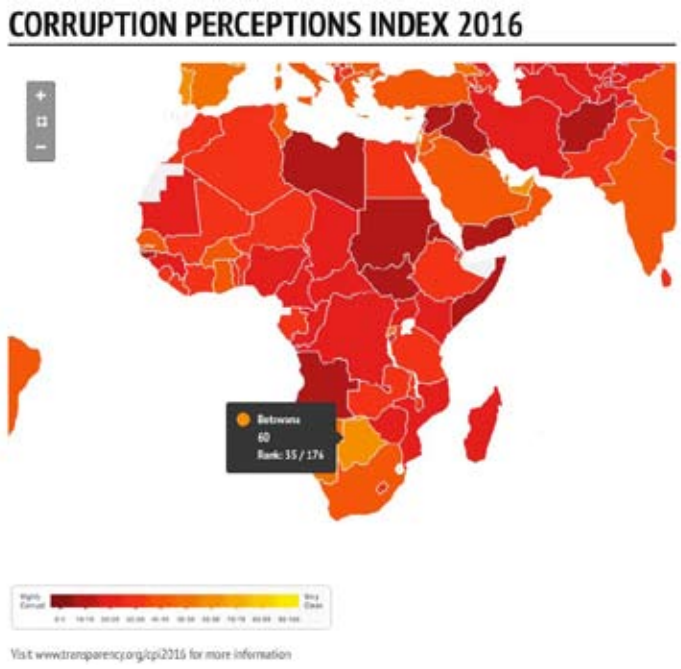
BOTSWANA REMAINS the least corrupt country in Sub Saharan Africa, according to Transparency International's Corruption Perceptions Index 2016, in a year when more than two thirds of the 176 countries and territories in this year's index fall below the midpoint of the scale of 0 (highly corrupt) to 100 (very clean).

However, even Botswana – which sits at 35th in the table – has slipped a point from its 2015 levels. In contrast, Cape Verde, at 38th in the table, has improved its rating from 2015 to 2016, to 55 points.

For the tenth year running, Somalia is the worst performer on the index, this year scoring only 10. South Sudan is second to bottom with a score of 11, followed by North Korea (12) and Syria (13).



PUBLIC OPINION

The analysts at Transparency International say the elections held across Africa in 2016 provide a good reflection of corruption trends in the region.

"In countries like Ghana, which is the second worst decliner in the 2016 Corruption Perceptions Index in the region, the dissatisfaction of citizens with the government's corruption record was reflected in their voting at the polls," the report states.

"South Africa, which continues to stagnate this year, has witnessed the same. Joseph Kabila's Democratic Republic of Congo and Yahya Jammeh's Gambia, which both declined, demonstrate how electoral democracy is tremendously challenged in African countries because of corruption," it continues.

Transparency International notes that Cape Verde and São Tomé and Príncipe are the most improved African countries in the 2016 index. Both countries held democratic presidential elections in 2016: "It is no surprise that the independent electoral observer teams labelled the Cape Verde elections for 2016 as 'exemplary'. The election, that saw Jorge Carlos Fonseca re-elected, was held in a framework of a continuously improving integrity system, as observed by various African governance reviews.

"In São Tomé and Príncipe, elections held in July 2016 led to a smooth change of government, which is increasingly a challenge in the African region."

There is bad news elsewhere, however. "Despite being a model for stability in the region, Ghana, together with another six African countries, has significantly declined. The rampant corruption in Ghana led citizens to voice their frustrations through the election, resulting in an incumbent president losing for the first time in Ghana's history," the report reveals.

Some other large African countries have failed to improve their scores on the index. These include South Africa, Nigeria, Tanzania and Kenya. South African president Jacob Zuma was in court and in the media for corruption scandals. This included his own appeal against findings in a report by the public prosecutor, Thuli Madonsela, regarding undue public spending in his private homestead in Nkandla.

PROGRESS

Kenya – despite the adoption of a few anti-corruption measures including passing a law on the right to information – has a long way to go. President Uhuru expressed frustration that all his anti-corruption efforts were not yielding much. He may need new strategies as Kenyan citizens go to the polls in 2017.

Right at the bottom of the list is Somalia, whose parliamentary elections were marred by malpractice and corruption, and whose presidential elections were postponed three times last year and are yet to be held.

"African leaders that come to office on an 'anti-corruption ticket' will need to live up to their pledges to deliver corruption-free services to their citizens," suggests Transparency International. "They must implement their commitments to the principles of governance, democracy and human rights. This includes strengthening the institutions that hold their governments accountable, as well as the electoral systems that allow citizens to either re-elect them or freely choose an alternative."

Insurers must adapt if they are to meet insureds' demands for the future

◇ CYBER

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INSURERS ACROSS AFRICA NEED TO BE preparing now for massive changes ahead, warns one South African insurance boss.

Stuart Wenman, managing director insurance [Africa] at Liberty Holdings, told *Commercial Risk Africa*: "The risks on the general insurance side of the business are changing.

"Motor insurance could be wiped out in the next ten years because the case for owning a car is becoming increasingly difficult to justify."

Driverless cars are on the way and he said insurers, many of which rely on a solid motor book of business, will have to change their approach. "Risks around motor insurance will be very different and a big chunk of that business will fall away. Clearly it is something to think about."

CYBER

Another issue for the future will be cyber risks. Mr Wenman said there is already a much more interconnected world but he is not convinced that in the short term, insurers have really come to grips with the consequences for risk.

He said it has been a tough year for insurance across the continent but he believes that being able to grow and develop in the hard times will place companies in a good place when the tables turn and economies start to boom again.

Mr Wenman advised risk managers to take a look at their insurance coverage and to identify the gaps. For example, he said, it might be a good moment to check protection for company directors and officers, as the legislation in South Africa changes.

Elsewhere on the continent, he pointed to changes to the regulations around marine insurance. The Kenyan regulator has mandated that local insurers should have the first opportunity to accept risks – something Wenman believes will create a new vibrancy.

For Liberty, the priority in its pan-African operations is building its commercial insurance book and he said the company is seeing new distribution channels opening up, which is helping the business develop further across the continent.

NEWS IN BRIEF–

Credit insurer ATI backs Ethiopian Airlines

◆ THE AFRICAN TRADE INSURANCE AGENCY (ATI) has concluded its first deal in Ethiopia, backing a $159m loan from the African Development Bank (AfDB) to fund Ethiopian Airline's fleet expansion with the purchase of an Airbus A350-900 jet. ATI sees this as an important step for backing future AfDB projects across the continent. The transaction is the first covered by ATI since Ethiopia formally became a member in 2016. ATI expects this to unleash many more projects in its growing pipeline of undertakings in Ethiopia.

Nigeria's first recession since 1994 impacts rating

◆ FITCH RATINGS HAS REVISED THE OUTLOOK on Nigeria's long-term foreign and local currency issuer default ratings (IDRs) to negative from stable and affirmed the IDRs at B+. The issue ratings on Nigeria's senior unsecured foreign currency bonds have also been affirmed at B+. The country ceiling has been affirmed at B+ and the short-term foreign and local currency IDRs have been affirmed at B. The rating agency blamed tight FX liquidity and low oil production, contributing to Nigeria's first recession since 1994. The economy contracted through the first three quarters of 2016 and Fitch estimates GDP growth of -1.5% in 2016 as a whole.

Angolan infrastructure boost

◆ THE FUNDO SOBERANO DE ANGOLA (FSDEA), Angola's sovereign wealth fund, has committed $180m to a strategic deep sea port in Angola. The commitment is made as part of FSDEA's $1.1bn infrastructure fund. José Filomeno dos Santos, chairman of the board of directors, FSDEA, said: "Investments in the industrial sector and infrastructure support trade in the Sub-Saharan region have shown high rates of profitability and resistance to the risks associated with the countries on our continent." This investment will create the first deep sea water port in Angola.

Good governance key in developing countries

◆ THE WORLD BANK HAS URGED DEVELOPING countries and international development agencies to rethink their approach to governance, as a key to overcoming challenges related to security, growth and equity. As part of that, governments should harness private sector expertise. The 2017 *World Development Report: Governance and the Law* has explored how unequal distribution of power in a society interferes with policies' effectiveness. It said power asymmetries help explain, for example, why model anti-corruption laws and agencies often fail to curb corruption, why decentralisation does not always improve municipal services; or why well crafted fiscal policies may not reduce volatility and generate long-term savings.

German companies expecting business boost to South Africa

◆ GERMAN COMPANIES ARE EXPECTING increased export activity during the next few months, according to new research from credit insurer Coface. The report comes as Germany's statistics office reported a new all-time high for total monthly exports in November, totalling Đ108.5bn, 5.6% more than November 2015. In 2016, Germany was one of South Africa's five biggest export destinations, with an 8.2% share of South Africa's total exports.

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Insurance & Risk Management News

COMMENT

Welcome to the new world order

IT SEEMS EVERYONE IS AN expert on everything right now. Turning on the breakfast news this morning, I was greeted with an interview of a Hollywood actor (albeit a good one) pronouncing on the new world order and on how politicians would never deliver the hoped-for results.

And that seems to be true of everything. Whenever anything happens, the whole world seems ready and waiting to comment and give their verdict.

That's a hard thing to risk manage. How can any company predict and plan for absolutely anyone in the world having an opinion on their product or service and then sharing that opinion with their four million closest friends?

Speaking to some brokers in South Africa a couple of weeks ago, it is clear they are extremely worried about reputational damage and how companies can best protect themselves.

Like so many risks that businesses face right now, finding the right insurance for such a risk can be challenging.

This is something raised in the various risk reports launched in the past month. From the World Economic Forum to the Institute of Risk Management South Africa [Irmsa], the reports show shared concerns worldwide.

Risk management is no easy task right now, with risk professionals challenged to address issues from the macroeconomic to the extremely local. But in common, they are all increasingly interconnected and, as Dr Dana Gampel, Irmsa notes in the Irmsa report: "Interestingly, the risks that have become increasingly significant are all beyond the control of individual organisations."

A challenge indeed for risk managers.

The need for good governance has never been more critical. The World Bank has stressed the role it can play in helping build emerging market economies and it is clear that it will help eradicate the number one risk cited by South African risk managers this year – corruption.

Transparency International's Corruption Index is also out now. It never makes pretty reading for African operators – this year even the usual African star (Botswana) has slipped a little.

Better news here for South Africa, however, despite the slightly more depressing Irmsa report findings.

And, as with all these things, there is a balance. There are signs that certain African states are doing somewhat better than others in curbing corruption and instilling good governance throughout their governments, private businesses and beyond. Take Ivory Coast, for example, now seen as one of the emerging markets worth investing in.

As always, the team at *Commercial Risk Africa* is keen to engage with risk managers across the continent and today, as this issue hits your desks, I am in Nairobi meeting the first group of risk managers taking part in our annual survey.

To take part (and possibly win a trip to Europe), please click here: https://surveymechanics.com/s/africa.

It really will only take you a couple of minutes and it's so important in measuring the changes taking place across the continent. As part of that, I am hoping to meet many more of you in the coming weeks.

The other exciting news of our own is that we have launched a new website. *Commercial Risk Africa* now sits on a global platform with our sister publications from Europe and Asia, so risk managers from across the world will be able to see what is happening in the sector.

I hope you find plenty to read in this issue and to explore on the new website, which can be found at: www.commercialriskonline.com.

Liz Booth
EDITOR

Atradius reveals world's top emerging markets

◇ EMERGING RISKS

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IVORY COAST IS AMONG THE global leading emerging market economies (EMEs) to watch, according to trade credit insurer Atradius.

However, it also warned businesses to take a proactive approach to risk management as they make any investments.

The trade credit insurer said: "These economies have been boosted by higher yields, reduced concern surrounding a hard landing of China's GDP growth and a stabilisation of commodity prices.

POST-CRISIS PLAN

"Despite mounting uncertainty in 2017, these markets are predicted to weather global volatility due to strong domestically-driven growth, favourable demographics and supportive policy. Each market is dominated by young, growing populations, marked by an expanding middle class which boosts consumption and increases demand for investment and imports."

Looking at Kenya and Ivory Coast in more detail, Alun Mosley, senior risk underwriter at trade credit insurer Atradius, said there are several pros in supporting the two countries: "Kenya's broad-based economy reduces its vulnerability to commodity price shocks. Good road, rail, air and shipping liner connections to neighbouring countries facilitate regional and international trade. Positive outlook for this market is based on low oil prices, good agriculture performance, supportive monetary policy and ongoing infrastructure investments.

"As part of its post-crisis economic reconstruction plan, the government of Ivory Coast actively encourages foreign direct investments and has identified five key sectors in which to attract investment: agribusiness, non-agricultural resources (mining, oil and gas), structured industries (steel, cement and chemicals), consumer products and light industry. The government also pursues an ambitious $20bn national development plan, which aims at developing the country's infrastructure and at increasing the share of the industrial sector in the economy from 25% to 40% by 2020."

Against investment, he said there remains the potential for political and/or economic instability.

"In Kenya, [this is] due to upcoming presidential elections in August 2017, which may create uncertainty in the business market and could have an impact on currency rates and foreign exchange. In particular, a depreciation of the currency would render imports more expensive and put pressure on businesses relying on imported raw materials. The elections could also spark ethnic tensions, while terrorism remains a concern," Mr Mosley warned.

MILITARY MUTINY

"In Ivory Coast, the recent mutiny of several units of the armed forces in early 2017 is a reminder that stability is not assured and there remain challenges to peace, especially beyond 2020 when President Alassane Ouattara will finish the second of the two terms to which he is constitutionally limited."

On the financial front, Mosley also said: "In Kenya, access to credit remains difficult due to high lending rates and the high level of security required by banks. In recent months, bank lending to the private sector has slowed, due to the effects of the lending rates cap introduced in August 2016. The law caps the maximum lending interest rate at 4% above the base rate set by the Central Bank of Kenya, and has tightened lending by commercial banks to businesses. At the same time, inflation has accelerated to 7% in January 2017 due to an increase in food prices driven by the ongoing drought.

"Ivory Coast is the world's largest producer and exporter of cocoa beans, and a significant producer and exporter of coffee and palm oil. Consequently, the economy is highly sensitive to fluctuations in international prices for these products and in climatic conditions."

According to the report, the best performing sectors are:

- **FOOD:** New long-term opportunities can be found in Bulgaria thanks to rising demand and a fragmented food market. Meanwhile, Kenya and Peru are also experiencing increasing demand for imported food and beverages.
- **CHEMICALS:** India's chemicals imports are growing substantially, with a positive outlook as industrial activities grow. Higher industry and household demand is also rising in Bulgaria, where 80% of chemicals are imported.
- **CONSTRUCTION:** Demand for infrastructure and investment growth are fuelling opportunities in all of the top EMEs, largely thanks to a variety of large government infrastructure projects.
- **RETAIL:** Good prospects and growth are forecast in the retail sector in Ivory Coast, Chile and Peru. India anticipates a boost in rural incomes, which will drive demand for consumer goods.

However, Atradius warns that, while there are increasingly new opportunities as with any trading economy, new opportunities are not without new risks.

RISKS OF TRADING

Richard Reynolds, head of regional brokered sales at Atradius, said: "The combination of strong consumption, investment-led GDP growth, increasing populations and improving policymaking offer attractive opportunities within these emerging market economies. "Nevertheless, businesses must be aware of the risks of trading with new markets. While the outlook for these EMEs is currently relatively benign, they are threatened by the effects of developments in the US, such as interest rate hikes and any change to trade policies made by the newly inaugurated president, which might impact currency depreciations and growth.

"In today's economy, new global opportunities must be seized upon but the key for businesses operating in these new markets is protection. Businesses must be aware of the risks and take positive action to mitigate against them with robust risk and credit management strategies."

◆ *For more on Kenya, see p17*

Kenya's insurance compensation more than doubles

◇ KENYA

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POLICYHOLDERS OF COLLAPSED INSURANCE companies in Kenya will be paid up to $2,500 – an increase of more than 100% – in a move expected to improve public confidence in the industry.

The current law restricts maximum compensation to $1,000, an amount that was seen as too low, leading to an actuarial study that revealed the Policyholder Compensation Fund (PCF) can more than double the amount based on its current reserves.

"The board of trustees of the Policyholders Compensation Fund gives notice that the amount payable as compensation on any one claim for all classes of insurance shall be capped at KSh250,000 (about $2,500) until further notice," said John Keah, the PCF head of secretariat, in a gazette notice.

The industry, through the Association of Kenya Insurer,s had also recommended that the PCF increase the amount.

Kenya has experienced the collapse of several insurance companies, especially in the 1990s and early 2000s, which damaged the reputation of the industry – scaring off potential policy buyers. The fact that at that time there was no mechanism to compensate policyholders made it even worse.

But in 2004, the PCF – modelled on the same lines as the Kenya Deposit Insurance Corporation – was established by parliament.

Since the PCF was formed, four insurance companies have collapsed. But no policyholder of the collapsed insurers has so far been compensated, which is attributed to the lengthy process of liquidating the companies.

Officials say the company has in excess of $53m in reserves, most of which is invested in government securities instruments. To fund the body, policyholders and insurance firms contribute 0.25% of premiums payable in respect of a policy issued by an insurance company. The insurance company is responsible for remitting contributions to PCF on a monthly basis.

GIC Re records Africa annual growth of 125%

BRINGING ITS EXPERTISE and experience from India across to Sub Saharan Africa, GIC Re has seen growth of 125% in the past year in its African operations.

Zeeshan Ahmad, chief underwriting officer at GIC Re South Africa, said South Africa is seeing most of the business – some 60% of the book – but he said that was no surprise since the country is home to the continent's largest and most mature insurance market.

"The growth has been across the board," he said, "but one area which has not been doing so well is marine energy. Again, that is no surprise because of the regulatory restraints on that sector imposed by the Nigerian authorities."

Speaking about the regulatory changes in GIC's home market, Mr Ahmad said GIC was not worried by the opening up of the market to competition because there is "huge potential and enough space for everyone". He saw very much the same pattern across Sub Saharan Africa, where there is more than enough room for new entrants.

—Liz Booth

◇ AGENDA

21 FEBRUARY
Johannesburg, South Africa
◆ Institute of Risk Management South Africa, 2017 Risk Report launch, Johannesburg. For details www.irmsa.org.za

23 FEBRUARY
Cape Town, South Africa
◆ Institute of Risk Management South Africa, 2017 Risk Report launch, Cape Town. For details www.irmsa.org.za

28 FEBRUARY
Durban, South Africa
◆ Institute of Risk Management South Africa, 2017 Risk Report launch, Durban. For details www.irmsa.org.za

8 MARCH
Windhoek, Namibia
◆ Institute of Risk Management South Africa, 2017 Risk Report launch, Johannesburg. For details www.irmsa.org.za

3 MAY
London, UK
◆ Commercial Risk Africa will be hosting a one day Africa summit in London. For details, please contact awhite@commercialriskonline.com

21-24 MAY
Kampala, Uganda
◆ The 44th Conference and Annual General Assembly of the African Insurance Organisation will take place. For more details, go to: www.african-insurance.org

22 MAY
Johannesburg, South Africa
◆ The Institute of Risk Management South Africa will be holding a one-day corporate governance event. For details www.irmsa.org.za

7-8 JUNE
Johannesburg, South Africa
◆ *Commercial Risk Africa* and Crest Advisory Africa will be hosting a two-day supply chain risk conference. For details, contact awhite@commercialriskonline.com

12-13 JULY
Johannesburg, South Africa
◆ The Institute of Risk Management South Africa will be holding the annual Cruywagen-IRMSA Risk Laboratory. For details go to: www.irmsa.org.za

19-20 JULY
Cape Town, South Africa
◆ The Institute of Risk Management South Africa will be holding the annual Cruywagen-IRMSA Risk Laboratory. For details go to: www.irmsa.org.za

23-26 JULY
Sun City, South Africa
◆ Insurance Institute of South Africa holds its annual conference, together with FIA and SAIA. For details: https://confsa.eventsair.com/the-insurance-conference-2017/delegate/Site/Register

3-4 AUGUST
Durban, South Africa
◆ The Institute of Risk Management South Africa will be holding the annual Cruywagen-IRMSA Risk Laboratory. For details go to: www.irmsa.org.za

27-29 SEPTEMBER
Johannesburg, South Africa
◆ The Institute of Risk Management South Africa will be holding its annual conference. For details go to: www.irmsa.org.za

◆ *If you want to promote your insurance event in* COMMERCIAL RISK AFRICA, *please email details to news@commercialriskafrica.com*

French risk managers continue support of African colleagues

The risk management community across Francophone Africa is on the up but growth comes at a time when the insurance markets are facing new challenges in the shape of tough restrictions on the transfer of insurance out of the region. COMMERCIAL RISK AFRICA *looks at the risk management picture*

◇ FRENCH MARKET

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FRENCH RISK MANAGEMENT association AMRAE continues its investment in support of the growing French-speaking Africa risk management community as it held its third Francophone Club Risk Management day at its annual conference at the start of February in Deauville, Normandy.

The Francophone day takes place immediately before the start of the main AMRAE conference and is designed as a platform for discussion and networking between French risk managers with activities in Africa and the Africa risk management community.

The event is also attended by leading insurers, brokers and other service providers keen to build their businesses in this region.

The club was formally launched at the conference in February 2014, and is led by former AMRAE president and current secretary general of the Federation of European Risk Management Associations, Gilbert Canameras.

HOME GROWN

The basic aim of the club is to provide the emerging French-speaking African risk management communities with training, education and latterly helping them to create their own risk management associations, notably in Morocco and Tunisia.

During the recent Francophone day, the topic in focus was matters related to construction insurance in French-speaking Africa.

Speakers and delegates discussed the main changes in Article 308 of the Conférence Interafricaine des Marchés d'Assurances (CIMA) code of ethics and the guarantees applicable to construction and insurance requirements, with particular attention to the difficulties associated with claims assessment.

Brigitte Bouquot, president of AMRAE, told *Commercial Risk Africa* that the Francophone Club has been a great success and will continue to be an important focus for AMRAE in 2017 under Mr Canameras' able leadership.

"This is good for everyone. It ensures that our partners in Africa do not feel alone. They came to us and asked for help with education and training and we see it as our duty as France to support the region and establish a connection and pursue common interests. We share a common language and culture. This is a club where stakeholders meet," she explained.

FRANCOPHONE DESTINY

"The proposal is to support the creation of their own associations. Gilbert is doing a great job with not great resources. He is helping to create something in these markets that they can follow up in their own time. Some countries are very interested because they want to become a hub, while other countries in Africa are part of the English-speaking world. The French-speaking countries of Africa can take their destiny into their own hands. There are already two new associations in Morocco and Ivory Coast," she added.

Changing CIMA regulations expected to spark wave of mergers, acquisitions

◇ MERGERS

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A LARGE WAVE OF MERGERS AND acquisitions is expected across the French Africa region, following the recent reforms under the Conférence Interafricaine des Marchés d'Assurances (CIMA) Code, according to one French consultant operating in the region.

AREAS OF REFORM

The Code, established in 1992 to cover 15 African states, was reformed in June 2016. The reforms covered three key areas, including an increase in local retentions rates from 25% to 50%. It also changed the maximum transfer of reinsurance overseas from 75% of premium to 50% of premium – and no transfer at all in some classes.

Finally, employee, group or individual insurance (health, life, death and retirement) and reinsurance with foreign reinsurers, which was unrestricted before, is now prohibited. At the time, Willis Towers Watson said: "The overarching rule is that any reinsurance or insurance relationship with regard to businesses, assets or people located in the CIMA countries, can only be performed by brokers licensed in those geographies.

"Non-admitted policies are not allowed except for very specific lines of business. Clients should be aware that any current employee benefit insurance arrangements reinsured out of a CIMA country, are, in all likelihood, no longer compliant."

It added: "Going forward, one issue to monitor is the possible reintroduction of restrictive measures against self-insurance. The changes may encourage foreign reinsurers (or reinsurance captives) to invest and establish operations, creating more competition among providers."

Now, consultant Finactu has said: "As part of its long-term technical assistance mission carried out for the Atlantic Group since 2014, Finactu was mandated to conduct the acquisition process of Assurances et Réassurances du Golfe de Guinée."

NEW ACCREDITATION

The transaction was approved by the supervisory authorities in early 2016.

More recently, and in the wake of the CIMA Code changes, Finactu conducted for the Atlantic Group the application process for a new accreditation for a non-life insurance company in Benin. The process was successfully carried out and Atlantic Assurances Bénin was accredited during the last session of the CRC last December, in Libreville.

Africa Re supports major agricultural insurance project in Senegal

AFRICA RE HAS ADDED ITS support to a project to lead the reinsurance programme of 40,000 cotton and maize farmers in Senegal, jointly with AXA CS and CICA Re, as its CEO said insurers had a golden opportunity to step up and make a difference as the world faces climate change.

Agriculture, a key sector of the African economy, employs 60% of the working population and accounts for 35% of the GDP. This sector is exposed to several climate-related risks such as drought or floods, which undermine food production and jeopardise food security. Until recently, projects to insure farmers against such risks in Africa were mainly microinsurance pilot projects limited to regions or villages and did not enable real development of agriculture insurance.

With the technical assistance of consultancy firm FINACTU, the West African Development Bank and the National Agriculture Insurance Company of Senegal initiated a national index-based insurance project in Senegal, to promote agriculture insurance in the West African Economic and Monetary Union.

Africa Re claimed this project was "innovative in Africa in as much as it targets all the farmers of a sector and makes positive use of the institutions of the sector". It added: "Indeed, the project targets about 40,000 farmers of the cotton sector, which is very well structured in Senegal; 5,000 of them are also maize farmers."

Previously, only non-African reinsurers reinsured agriculture risks in Africa.

Corneille Karekezi, CEO and managing director of Africa Re, said: "Global warming is diversely threatening the human race in almost every part of the world."

At the same time, he said: "On the international scene, so many changes are taking place. The world is changing indeed and the situation calls for change in every aspect of human endeavour: business, politics, environment, social, etc.

"This change, in my humble opinion, should be for the insurance industry a wake-up call to find innovative solutions for its internal problems and to face the many external negative factors. The industry, to remain relevant to our customers, communities, businesses and institutions, must continually reinvent itself, adopt with enthusiasm information and communications technology and build human capacity to protect the hundreds of millions of people and businesses that are at the mercy of man-made accidents and natural events, mostly as a result of climate change."

◆ *Agriculture, see pages 22 to 25*

Learning from each other

Last year, Tsitsi Chitsamatanga participated in our Risk Frontiers Africa survey along with more than 900 other risk managers and 450 individuals from the world of risk transfer. One of the participants would win a trip to Europe to attend an event organised by COMMERCIAL RISK AFRICA'S *sister paper* COMMERCIAL RISK EUROPE. *Ms Chitsamatanga was picked from the hat as the lucky winner. We caught up with the Zimbabwean during her three-night trip to Brussels to find out what she made of the experience, learnt from the conference and how knowledge can be shared between the global risk community. We also discussed the state of risk management in Africa and the current risk landscape in her native Zimbabwe*

◇ INTERVIEW

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TSITSI CHITSAMATANGA WAS WELCOMED TO Brussels by the *Commercial Risk Europe* team last November to attend its Risk Frontiers: The New Unknown conference and European Risk Management Awards gala dinner.

She was pleased that the weather was not as cold as expected and extolled the virtues of the event as an opportunity for the risk community to come together, share knowledge and work towards a better future. The African risk manager was also adamant that there is much that can be shared between risk professionals in her continent and in Europe.

"I am pleased to report that the weather is not as cold as I expected. I came with a suitcase full of warm clothes but most were not needed. I was able to spend a day going into Brussels to look around the city, which was very enjoyable," said Ms Chitsamatanga.

"It was such a wonderful event and informative, where European risk professionals and insurance professionals came together to engage and share knowledge. It is a very good initiative to help risk managers succeed," she added.

One of her key takeaways from the event was that risk managers cannot succeed alone. They must share insights with each other through forums such the conference in Brussels and other opportunities afforded by associations and, in her part of the world, *Commercial Risk Africa*, she said.

SHARING KNOWLEDGE

"You need to share with and learn from others, because what keeps you awake at night is the same as risk professionals in other nations and organisations. Sharing risk knowledge and experience is of paramount importance for risk managers to succeed in this volatile environment. I learnt that whether you are in Africa or Europe we all have the same concerns, and it is vital to come together and help each other," Ms Chitsamatanga said.

In a world that is becoming increasingly connected, the risks that affect risk managers in Africa also affect those in Europe, she continued.

Regardless of where risk managers are based, they can share information on key risks and, crucially, their mitigation strategies, she added.

There is little difference between the risk models and physical mitigation strategies used across different continents, Ms Chitsamatanga stressed. However, when it comes to using insurance the approach differs greatly between Africa and Europe, she explained.

"The only real difference is the use of insurance as a mitigation strategy. Insurance is not as fully utilised as a mitigating measure in Africa as it is in Europe, where insurance is a big mitigating strategy for risk managers," she said.

Tsitsi Chitsamatanga

"The only real difference is the use of insurance as a mitigation strategy. Insurance is not as fully utilised as a mitigating measure in Africa as it is in Europe, where insurance is a big mitigating strategy for risk managers. This is one area where African organisations can learn a lot from their European peers. There could be information passed onto Africa risk managers about how European risk managers buy insurance, so that we can learn how to better use this risk mitigation strategy..."

TSITSI CHITSAMATANGA

This is one area where African organisations can learn a lot from their European peers, she added.

"There could be information passed onto Africa risk managers about how European risk managers buy insurance, so that we can learn how to better use this risk mitigation strategy.

"Risk managers in Africa need to learn how to use insurance to transfer some of their risks and develop that strategy. This is definitely something that we need to learn from our colleagues across the world. We have an insurance market but it is not being fully utilised," said Ms Chitsamatanga.

This is mainly due to a lack of knowledge on the benefits of insurance among African risk managers and their companies, she explained.

"Organisations know that it is an option but it is traditionally used to only insure tangible assets. It is for intangible risks that we need to develop an insurance-buying knowledge base and culture," she added.

RISK MANAGEMENT

Outside of insurance, Ms Chitsamatanga is pleased to report that risk management is advancing in Africa and Zimbabwe.

"It is definitely going in the right direction and advancing – proof of this is my being in Brussels to plug into the knowledge and support on offer around the world," she pointed out.

Commercial Risk Africa is playing a big part in that development, Ms Chitsamatanga said. It is helping to bring the risk community together in the absence of associations and other forums in many parts of Africa, she added. Ms Chitsamatanga hopes we will soon extend our list of African events to her home country of Zimbabwe.

"Risk managers come together in Africa through *Commercial Risk Africa* predominantly. We thank *Commercial Risk Africa* because you are bringing risk managers in Africa together to share their knowledge and experience. This is a good thing. *Commercial Risk Africa* has done events in Botswana, Namibia and South Africa – I now really hope to see you in Zimbabwe sometime soon. It would be a good time to have an event in our country," she enthused.

Ms Chitsamatanga also hopes that the Institute of Risk Management will follow through with its plans to set up in Zimbabwe this year to develop the risk profession.

Despite the positive direction of travel for risk management in Africa and Zimbabwe, it is not an entirely rosy picture. Cost cutting within company budgets and risk management departments is making things tough and creating new threats.

"This is a big challenge we have. When we adapt to cost-cutting measures, other than coming up with other innovative strategies of addressing the issues at hand, we are actually shooting ourselves in the foot. Cost-cutting measures are good strategies to a certain extent but if we continue to resort to cost cutting, we usually compromise the quality of service and as a result we expose our organisations to disrepute," said Ms Chitsamatanga.

LOCAL PICTURE

Doing business in Zimbabwe is challenging, especially for local companies because of foreign currency shortages.

"For locals, it is a difficult environment, especially for those that import products and services from other countries. There is a payment gridlock in our financial sector due to foreign currency shortages," said Ms Chitsamatanga.

But these challenges also present good opportunities for multinationals holding stronger currencies to invest in Zimbabwe, she continued, adding: "I think this is the right time for them to set up their ventures – if they don't do it now we will do it ourselves."

However, she noted that government policy demanding foreign investors take a 49% ownership in any new Zimbabwean venture, with the rest put in the hands of local firms, is putting many multinationals off and crippling foreign direct investments.

"Political risk is one of the biggest risks followed by liquidity risk in Zimbabwe. Increasing compliance demands are another risk. We have extensive regulatory demands and they are growing as a result of foreign currency shortages. This is impacting our business operations," said Ms Chitsamatanga.

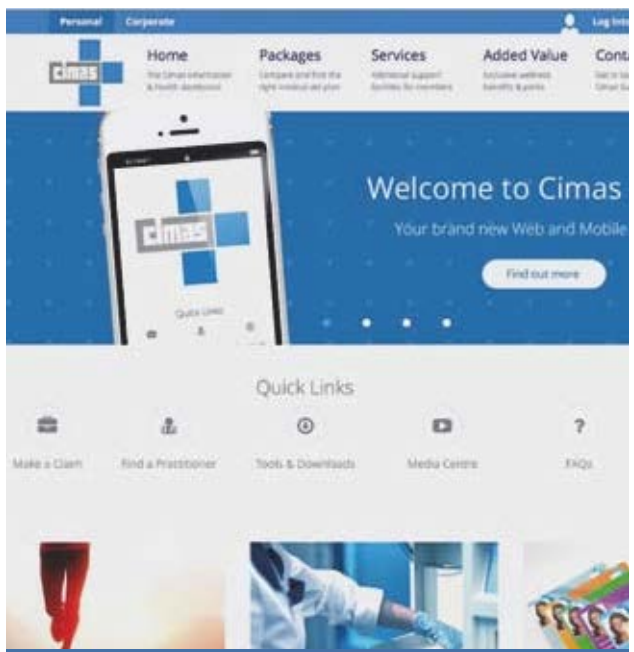
Risk Frontiers Africa Survey 2017

Commercial Risk Africa's annual survey of the African risk management and insurance community is now open - your chance to participate in this pivotal benchmarking project - and one lucky winner will win a trip to Europe!

Your opinion on the key risk concerns of industry professionals will help to form the basis of this year's Risk Frontiers Africa 2017 survey, to be published in May.

Please take a couple of minutes to complete this short questionnaire:

https://surveymechanics.com/s/africa



In the day job...

TSITSI CHITSAMATANGA IS RISK COORDINATOR at Cimas Medical Aid Society in Zimbabwe. She has a wide-ranging role with several key responsibilities. One of her main tasks is to encourage a risk-aware culture across her organisations and establish a common risk management language through training and workshops. She also provides support to management through the maintenance of risk registers by facilitating identification, assessment and treatment of risks. She reviews and provides opinion on the quality of risk assessments.

Ms Chitsamatanga reports on emerging risks and their potential impact on business operations. She reports key risks to the audit and finance committee, to ensure oversight and informed decision making.

Product recall legislation on the rise in southern Africa

◇ LEGISLATION

Max Ebrahim
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RISK MANAGERS NEED to be aware that South Africa's Consumer Protection Act 68 of 2008 (CPA), which came into effect in April 2011, was the country's first foray into consumer rights legislation and has dramatically altered the legal landscape around product recall and product liability more generally.

And it is a growing issue across the region. In Zimbabwe, a Consumer Protection Bill (informed by South Africa's legislation) has been debated since 2014 and in Botswana, consumer protection legislation has been in place since 1999.

PUBLIC SAFETY

Until South Africa's CPA came into force, product recalls were an entirely voluntary undertaking. The CPA changed this position, vesting power to order the recall of a consumer product in the newly established National Consumer Commission (NCC). Section 60(2) of the CPA provides that if the NCC has reasonable grounds to believe that a good is unsafe or poses a risk to the public it may, by written notice, require the producer of the good to either conduct an investigation into the safe use of the product or in fact carry out a recall programme on the NCC's own terms.

Once a recall has been initiated, the NCC must be notified in writing and such notice must set out the nature of the defect or dangerous characteristic affecting the implicated product. If no notice is given, a supplier is guilty of an offence.

Even in the event that a recall is undertaken voluntarily, the NCC fulfills an oversight function and it is plain to see from the NCC's set of Recall Guidelines (published in June 2012) that that the NCC will involve itself at an early stage where a recall is anticipated. Where a supplier becomes aware of a possible safety hazard in a product, the guidelines require it to immediately conduct an investigation and to inform the NCC that such an investigation has been undertaken. Such advance warning enables the NCC to engage the supplier concerned and use the threat of compulsory recall to achieve cooperation from an affected supplier.


South African Parliament Building

> "Until South Africa's CPA came into force, product recalls were an entirely voluntary undertaking. The CPA changed this position, vesting power to order the recall of a consumer product in the newly established National Consumer Commission..."

The guidelines then call for the affected supplier to produce a recall strategy, which must be submitted to the NCC; to proceed with the actual recall; and then to report back to the NCC on the process followed. It is worthwhile noting that the guidelines provide moderate relief for international purchasers too.

BIGGEST TEST

Since its inception, the NCC has been involved in various recalls. On 9 April 2014, together with Massmart stores, it announced the recall of a toy baby doll after it was found that the circuit board in the doll's chest was defective; and in May 2016, it oversaw the voluntary recall of 180 KIA Cerato vehicles due to a defect affecting automatic transmission cooling hoses.

In the past 12 months, the NCC has faced its biggest test. In December 2015, a South African man was killed after being trapped in his burning Ford Kuga after it caught alight. The incident has, understandably, captured the public's attention. By January 2017, and after 39 further confirmed engine fires (11 of which took place during the summer month of December) and a highly publicised criminal inquest into the death, Ford was summoned before the NCC, allegedly under threat of a compulsory recall.

FORD RECALL

Shortly thereafter, Ford announced a nationwide voluntary recall of all Kugas manufactured between 2012 and 2014 fitted with the allegedly problematic engine. In the space of 24 hours, it was announced that owners of the affected vehicles had joined forces with a view to instituting a class action (another very recent development in South African law).

Given the regional integration between southern Africa, it will come as no surprise that that only four days after the Kuga recall was announced in South Africa, the recall was extended to Botswana.

Recalls are an expensive business and the associated costs often have to be borne by insurers. In South Africa, product liability policies will not typically cover the costs of a recall by default, although extension can be purchased. Most recall policies will only respond if the defective product presents a danger to third parties.

◇ **LEGAL EYE:** THE BRIEFS

Warning on keeping patents safe in Africa

◇ TO OBTAIN AN INTELLECTUAL PROPERTY PATENT, it is not enough just to invent something. A good business environment and a suitable, reliable and enforceable legal system are necessary, warns Vitor Palmeda Fidalgo, a patent and trademark attorney at Inventa International. This is the current problem in Africa. Despite all the efforts made by stakeholders, from major multinationals to tiny companies (or inventors), protecting a patent does not pay off and/or can be useless. Excessive red tape and the lack of available information are among the factors involved. Solutions lie in constant patent surveillance as well as in cease-and-desist letters. Seeking redress through the courts court in some African jurisdictions should be the last resort, he warned.

US lifts sanctions on Sudan

◇ LAWYERS AT STEPTOE & JOHNSON REPORT THAT ON 17 January 2017, the US Treasury Department's Office of Foreign Assets Control published an amendment to the Sudanese Sanctions Regulations (SSR), 31 CFR Part 538, authorising all transactions that had previously been prohibited under the SSR, including transactions that involve the government of Sudan. In addition, the US Commerce Department's Bureau of Industry and Security amended the Export Administration Regulations to set out a favourable licensing policy for certain exports or re-exports to Sudan of items for the safety of civil aviation or the safe operation of fixed-wing, commercial passenger aircraft, along with certain items related to railroads. Both moves will open significant new opportunities for business and will greatly simplify non-commercial activity there, the lawyers said.

Court rejects Nigerian claims against Shell

◇ LAWYERS FOR MORE THAN 40,000 NIGERIANS WILL appeal an English High Court judgment handed down, which ruled that two polluted communities in the Niger Delta cannot seek redress against the oil giant Shell in the English courts, according to lawyers at Leigh Day. The judge concluded that Royal Dutch Shell (the parent company) has no legal responsibility for the systematic pollution of the Nigerian communities by its Nigerian subsidiary, the Shell Petroleum Development Company of Nigeria. Mr Justice Fraser held that the claim against the London-based parent company, Royal Dutch Shell, had no prospect of success and, therefore, that the claim against Shell Nigeria could not proceed.

Risk management to the fore in 2017

Global, regional and local risk reports highlight the need for good risk management through 2017

◇ RISK REPORTING

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GOOD RISK MANAGEMENT will be key in the year ahead, as businesses face myriad challenges, both new and old.

The third edition of the Institute of Risk Management South Africa's (Irmsa) *Risk Report* involved 1,557 survey and workshop participants, who agreed increasing corruption is the top South African risk for the second time in three years and is the fifth highest industry-level risk for 2017.

Water crises and structurally high unemployment/underemployment are the second and third highest national-level risks for 2017, increasing modestly from their respective positions as the fifth and sixth most prioritised risks the previous year, the report reveals.

Water-related concerns have rapidly shifted to the top of the agenda for most organisations operating in South Africa. The report explains: "As a greater number of people migrate into cities from rural villages, the pressure for each city to meet its water demands is ever increasing. Water infrastructure investments have lagged behind rates of increasing water demand, ranging from the stalled construction of dams to old pipes not being maintained.

"The water crises risk has been exacerbated by the harshest drought to have hit the country in decades. This is reflected by the droughts in Sub Saharan Africa risk being rated as the fourth highest South African risk for 2017, after entering the top 20 list of national risks for the first time."

The top three industry level risks for 2017 have risen to prominence dramatically in the past year, reveals Irmsa. Increasing strike action is the highest industry level risk, having climbed 17 places.

Exchange rate fluctuations, the second highest industry level risk for 2017, did not feature in last year's top 20 and lack of innovation has risen from 20th to third in one year.

CORRUPTION REPORT

South Africa has performed slightly better in the latest Transparency International Corruption Perceptions Index, which ranks countries/territories based on how corrupt a country's public sector is perceived to be. The country's ranking has moved positively from 67th to 61st out of 168 countries surveyed, with a score of 44 out of 100 in the index.

Irmsa concludes: "South Africa appears to be experiencing a positive trend by improving from 72nd to 61st in the past two years. The improvement should however be viewed with an understanding that there are countries close behind South Africa on the index where corruption is endemic and where little can be done to turn it around."

Not everything is improving however. Irmsa warns: "The unemploy-ment rate in South Africa is a ticking timebomb. The latest Statistics SA employment figures indicate that just over 27% of the population do not have jobs, the highest rate in 13 years. In addition, it is alarming that 47% of the South African population earns below the ZAR3,500 proposed minimum wage."

All of which adds up to an increasing need for good risk management, concludes Gillian le Cordeur, CEO of Irmsa.

In her introduction to the report, she notes: "During the year, we frequently spoke about how ERM, which is the well known acronym for 'enterprise risk management', should actually stand for 'everybody is a risk manager'. Although this is said tongue in cheek, it is the reality of how all organisations should be evolving. It is not enough to only have strong risk practitioners within an organisation.

"Each person in an organisation should be part of the full risk management process and really understand the interconnectedness of risks and how each individual plays a role."

Michael Ferendinos, chairperson of the Irmsa risk intelligence committee, echoes her words, stating: "Insight provided by strategy and scenario planning experts will become increasingly important to the risk fraternity going forward, as risk management professionals are required to incorporate opportunity management in their repertoire of skills."

Ms Le Cordeur adds: "The report clearly shows how risks cannot be viewed in isolation and therefore is indicative of how risk professionals should not work in silos but be allowed to influence and assist in all areas of the business.

"If risk management is properly embedded within an organisation and a strong risk management culture adopted, we will see more organisations being able to maintain stability during times of difficulty and take the 'opportunities' that come their way in order to prosper," she notes.

The interconnectedness of risk is highlighted when Irmsa compares its findings to those of the recently published World Economic Forum's (WEF) *Global Risk Report 2017 {More from that report on p14}*.

Irmsa finds the top ten risks comparison between South African and WEF respondents' views are similar in that the respective profiles are spread across all five risk categories but differ significantly in the actual risks identified.

South African respondents assessing national and industry level risks are predominantly concerned with economic, geopolitical and societal risks. The risk profile for WEF respondents is more evenly spread across the five risk categories. Fiscal crisis/ credit rating downgrades and profound political and social instability are the only risks that appear in the top ten lists of all three risk profiles.

In its report, the WEF asks private sector respondents to to identify their risks of highest concern for doing business in the next ten years. The responses, from 140 economies, reveal patterns of concern at country and regional levels that can usefully inform initiatives to engage the private sector in building resilience to global risks, believes the WEF.

It notes: "On a global scale, two economic risks – unemployment and underemployment, and energy price shocks – are mentioned as the top risks of highest concern for doing business in half of the 140 economies. These are followed by the failure of national governance, fiscal crises, asset bubbles and cyber attacks."

The report reveals that economic risks predominate in responses from Europe, including fiscal crises, unemployment, asset bubbles and energy prices – the latter also being the top concern in Canada – while executives in the US are most concerned about cyber-related risks and attacks.

Respondents from central Asia and Russia worry about fiscal crises and unemployment, along with the risks of unmanageable inflation and interstate conflict. Environmental risks worry business leaders in east Asia and the Pacific, alongside energy prices, asset bubbles, and cyber attacks.

In south Asia, concerns also include energy prices, together with fiscal crises, unemployment and failure of national governance – which is the top concern in Latin America and the Caribbean – followed by energy prices shock and unemployment.

Executives in the Middle East and North Africa likewise worry about energy prices, together with unemployment, terrorist attacks and interstate conflict.

NEW NORMAL

In Sub Saharan Africa, the business community's top concerns include unemployment, energy prices, the failure of national governance and the failure of critical infrastructure.

Overall, the WEF concludes: "There is remarkable stability in this year's global risks landscape: many risks that are assessed as above average in terms of likelihood and impact were similarly assessed last year.

"This suggests the emergence of a new status quo, with geopolitical risks – such as interstate conflict or terrorist attacks – being at the forefront. Other risks rated as highly impactful or likely, such as involuntary migration and social instability, are partly a result of spillover effects of insecurity and conflict."

It adds: "Some geopolitical risks – such as the failure of national governance, which is pervasive across Latin America and Sub Saharan Africa and considered to be among the top three most likely risks in the Middle

CONTINUED ON PAGE 13

Top 10 South African Country Level Risks

SOURCE: IRMSA Risk Report 2017

Top 10 South African Industry Level Risks

SOURCE: IRMSA Risk Report 2017

CONTINUED FROM PAGE 12

East and North Africa, east Asia and the Pacific, and central Asia – are considered to be important in some regions but not globally impactful."

Also prominent in the *Global Risks Landscape 2016* are environmental risks such as failure of climate change mitigation and adaptation, which is considered the most potentially impactful risk and the third most likely, with water crises, biodiversity loss and ecosystem collapse rising up the list of concerns – water risks are high on the Irmsa list this year too.

UNCONTROLLABLE RISKS

In the Irmsa report, Dr Dana Gampel, Owner, Atum Strategy Consulting, makes the point: "Interestingly, the risks that have become increasingly significant are all beyond the control of individual organisations. Furthermore, those that have been revised downwards – ie are deemed to be less of a significant risk – all impact operations significantly and can generally be managed and or directly addressed at a company level.

"What will be important to track, going forward, is the extent to which organisations will manage these risks effectively. They certainly call for creative measures and direct engagement between government, business, labour and civil society," she suggests.

Irmsa also takes a look ahead and asks respondents to consider which risks would become more of a concern in the next decade.

The results reveal that half of the top 20 risks are expected to become even more of a concern in the next ten years.

Four out of the top five South African risks in 2017 (increasing corruption; water crises; structurally high unemployment and underemployment; and lack of leadership) are expected to increase over time.

Severe income disparity is the risk that is projected to increase the most during the period, while it is anticipated that the other nine risks should only increase modestly, states Irmsa.

"Interestingly, two risks are expected to reduce significantly during the next ten years, namely economic slowdown or recession and exchange rate fluctuations. Fiscal crisis/credit rating downgrades are expected to reduce modestly and the remaining seven risks are projected to be equally important in ten years. That means that respondents and SMEs do not see any long-term improvement or worsening in droughts in Sub Saharan Africa, strike action, governance failure, skills shortage, organised crime and illicit trade, Brexit repercussion and regulatory/legislative changes, warns the South African association.

The question of employment is also raised in the WEF report. It notes: "By 2035, Sub Saharan Africa is projected to have more young people reaching working age than the rest of the world put together.

"This demographic pressure helps to explain why unemployment and underemployment is the most concerning risk for executives in the region. Creating high productivity, non-agricultural jobs is among the region's biggest challenges, requiring businesses to adapt and diversify."

The WEF warns: "Failure to reform Sub Saharan Africa's labour market could fuel social instability, another widespread concern according to survey respondents."

FISCAL PRESSURES

Another major concern is that "with fiscal pressures increasing for oil and gas exporters, the risk of energy price shock is prominent in executives' thinking". It adds: "The aggregated benefits of lower prices for the region's oil importers are likely to be offset by falls in the prices of other commodities that they export."

The WEF continues: "The macroeconomic climate is a related concern, especially fiscal crises and inflationary pressures. Africa's urban population is expected to triple by 2025, as reflected in the prominence of the risk of failure of urban planning and pointing to the need for more investment in urban infrastructure.

"This helps to explain why failure of critical infrastructure is another high ranking risk; lack of infrastructure – both physical and virtual – is estimated to reduce company productivity up to 40%. The cost of filling the gap in Africa's infrastructure has been estimated at around $93bn a year."

Allianz findings


Delphine Maïdou

COMPANIES OPERATING IN AFRICA INCREASINGLY WORRY about the unpredictable business environment where markets are volatile and political perils, such as protectionism or terrorism, are on the rise, according to the 6th annual *Allianz Risk Barometer*. Other growing concerns are digital dilemmas arising from new technologies and cyber risks (#6), as well as natural catastrophes (#7).

"Most African countries such as South Africa and Nigeria face macroeconomic challenges including low commodity prices, the Chinese slowdown and the tightening of US monetary policy and also suffer their own internal pressures such as inflation, weak domestic demand and socio-political tensions," said Delphine Maïdou, outgoing CEO of AGCS Africa.

To mitigate volatility risks and anticipate any sudden changes of rules that could impact markets, companies around the world will need to invest more resources into better monitoring politics and policy-making around the world in 2017. According to trade credit insurer Euler Hermes, a subsidiary of Allianz SE, since 2014 there have been 600 to 700 new trade barriers introduced globally every year. While conventional terrorism is a real concern, there is a growing risk of politically violent events such as war, civil war, insurrection and other politically motivated incidents. Their focus on countries – particularly in the Middle East and Africa – rather than certain locations should not be underestimated, according to Christof Bentele, head of global crisis management, AGCS. "The impact for globally operating businesses and our customers can be much greater and longer-lasting," he said.

"Instability in African states such as Burundi, The Gambia, Democratic Republic of Congo, Libya, Somalia and South Sudan is a chief concern as well as the persistent Islamic terrorism of Boko Haram in some parts of Nigeria," added Mr Bentele.

Globally, companies ranked cyber threats a close #3, climbing to #2 across the Americas and Europe and the top risk in Germany, the Netherlands, South Africa and the UK. At the same time, it is the top concern globally for businesses in the information and telecommunications technology and the retail/wholesale sectors.

"Cyber incidents ranked #5 in Africa with the most common threats being from hackers, disgruntled employees, negligence and competitors," said Nobuhle Nkosi, head of financial lines, AGCS Africa.

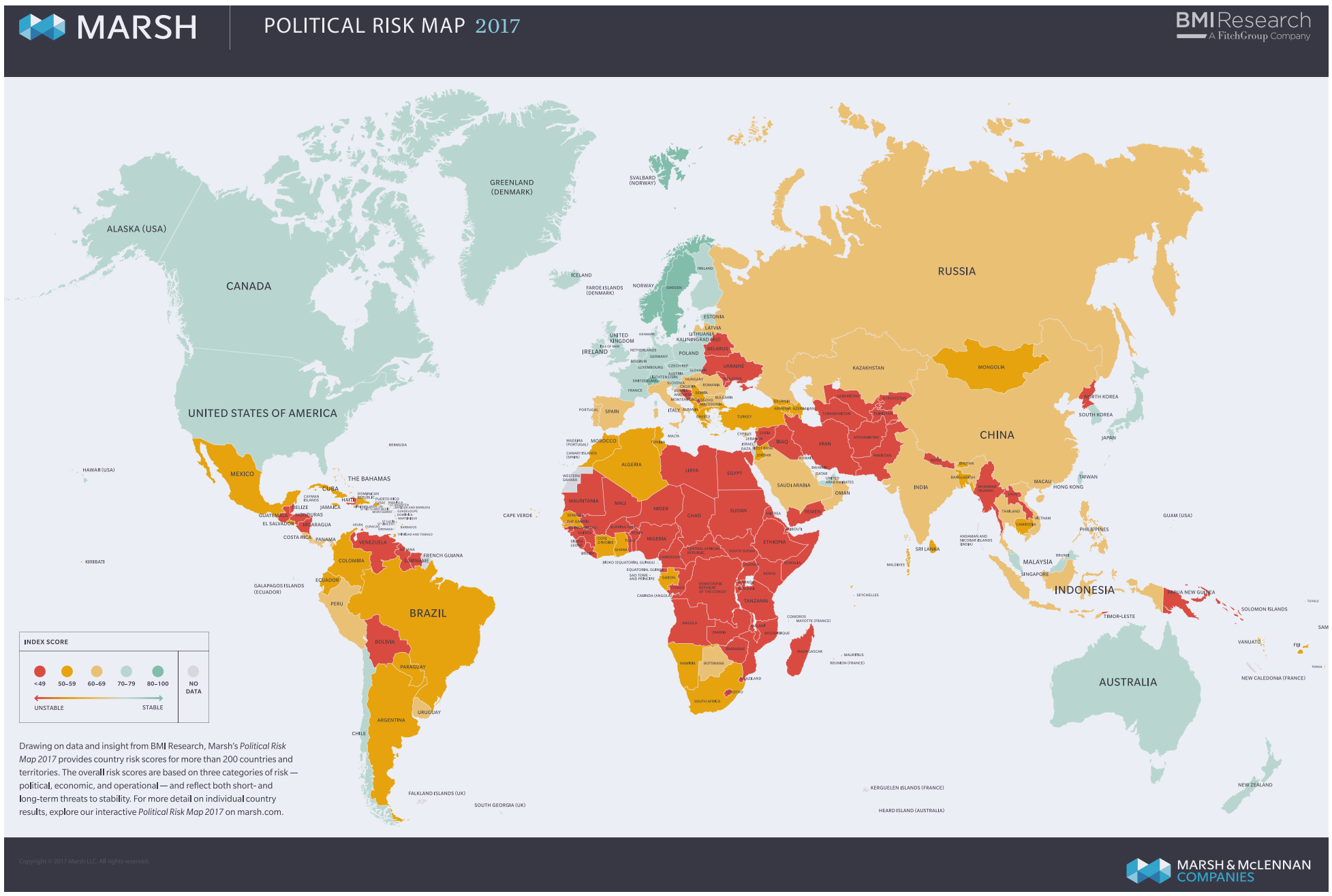
"This is a doubled-edged sword to the continent as Africa has a particular role in embracing and responding to new technologies compared to mature markets while speeding up cyber security and personal data protection legislations."

For South Africa in particular, it is not just about physical infrastructure. According to the sixth annual *Allianz Risk Barometer*, cyber risk concerns lead the risk agenda in South Africa. The report reveals that businesses increasingly fear the impact of non-physical damages, market uncertainties and political perils.

Companies also increasingly worry about the unpredictable business environment where markets are volatile (ranked second) and political perils, such as protectionism or terrorism, are on the rise. Other growing concerns are digital dilemmas arising from new technologies and cyber risks (third), as well as natural catastrophes (fourth).

"Cyber incidents (30%) cost the South African economy around ZAR35bn annually, with the most common threats being from hackers, disgruntled employees, negligence and competitors – so it doesn't surprise us to see this risk ranked first in the country for the second year in a row," notes Nobuhle Nkosi, head of financial lines, AGCS Africa.

"South Africa continues to face macroeconomic challenges (ranked third) – including low commodity prices, the Chinese slowdown and the tightening of US monetary policy – and also suffers from its own internal pressures such as inflation, weak domestic demand and sociopolitical tensions."



Global view

A COCKTAIL OF OVERLAPPING environmental, societal and technology risks are set to fundamentally reshape the risk landscape in coming years, according to the World Economic Forum's (WEF) Global Risk Report 2017.

Extreme weather and climate change risks dominated this year's WEF risk ranking, with all five environmental risks monitored by the organisation featuring in the top ten for the first time.

Extreme weather was considered the biggest risk by likelihood and second in terms of impact. Natural catastrophes, a failure to adapt to climate change and a potential water crisis also feature in the top five by impact and top ten by likelihood.

Environmental and climate risks are, however, just part of the bigger picture in which several interconnected trends are now emerging as key drivers of risk, according to a panel of experts at the report's launch in London.

Chief among these are growing inequality and the polarisation of society. These two problems will require new approaches to stimulate economic growth, deepen reform and increase efforts to improve social cohesion, the WEF said.

Rising income/wealth and increasing polarisation were ranked first and third among the underlying trends shaping the risk landscape over the next ten years. Climate change was second while cyber was fourth, followed by the aging population in fifth.

According to the WEF, risks identified in its Global Risk Report in the past ten years – such as income disparity, the impact of technology and climate change – are now beginning to "crystallise" and "spill over" into mainstream politics.

For example, growing income inequality and societal polarisation may have triggered political change in 2016, most notably with the UK's decision to leave the EU and the election of President Donald Trump in the US.

Technology featured to a lesser extent in the WEF survey's top ten risk rankings, although it is becoming an increasingly important driver of risk.

For example, technology-related changes, such as the impact of automation on jobs and inequality, were said to be a factor behind the Brexit result and the election of Mr Trump.

The WEF also highlighted a big challenge facing society to manage potential risks associated with the so-called fourth industrial revolution.

"Driven by the convergence between digital, biological and physical technologies, the fourth industrial revolution is creating new global risks and exacerbating existing risks," the WEF said.

The WEF report found that artificial intelligence, biotechnology and robotics promise the greatest potential benefits, but also have the greatest potential negative effects and the biggest need for better governance.

To date, society has not kept pace with technological change and in such areas legal and regulatory challenges await, said the report.

Many of the longer-term complex risks identified by the WEF report – such as adapting to climate change and the transition to new technologies – require greater international cooperation.

However, the WEF highlighted a risk of weakening global cooperation. A key challenge will be to protect and strengthen systems of international cooperation, it believes.

—Sarah Jolly

Political risk view

THE GROWING POLITICAL PROTECTIONIST TREND THAT BEGAN in 2016 with the UK's decision to leave the EU and US election of Donald Trump, ends "peak globalisation" and could stifle economic trade for multinational businesses this year and beyond, said Marsh on publishing its *Political Risk Map 2017 [map above]*.

The issues driving such political changes – including immigration, terrorism threats and the knock-on effect of the global financial crises – will "amplify political risks in 2017", Marsh said.

Countries are expected to become more inward-looking and protectionist, which will in turn increase economic risk for multinational businesses, Marsh added.

In the US, foreign policy is a "key concern", said Marsh. Political and economic risks hinge on whether the Trump administration adopts more pragmatic policies or "aggressively shakes up the international system". The latter approach will increase friction between existing US trading partners and with its geopolitical rivals, said Marsh.

Marsh's *Political Risk Map 2017* finds that countries with the highest political risks are grouped within regions. Emerging markets in north Africa and the Middle East carry the highest levels of political risk. These areas are destabilised by conflicts, civil war and economic instability that particularly impact the stability of Syria, Sudan, The Central African Republic and Yemen, noted the broker.

> **"In the US, foreign policy is** a key concern... Political and economic risks hinge on whether the Trump administration adopts more pragmatic policies or "aggressively shakes up the international system...

COUNTRY REPORT KENYA

Uncertainty ahead in 2017

There is mounting unease around Kenya's national elections in August

◇ COUNTRY REPORT: **KENYA**

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NATIONAL ELECTIONS PROVIDE A PERIOD OF excitement, especially in growing democracies, but in Kenya it is time for hopelessness. The cycle of election violence that has existed for more than 20 years is hovering again as the country prepares to go to the polls on 8 August.

The fear, uncertainty and desperation are evident across the nation. In 2008, a disputed poll almost led to civil war. The country's economy slumped from a consistent 7% growth to 1.7%, while 1,300 people died and 600,000 were displaced. Since then, the need for political risk insurance has become a priority.

Business leaders say the August election poses the biggest risk for the country, as the high number of unemployed youth may be used to spread violence.

"With 2017 being an election year, the last thing we want is a large pool of disgruntled and jobless youths who can easily be manipulated into backing nefarious political agendas," says Kiprono Kittony, chairman of the Kenya National Chamber of Commerce and Industry.

The World Bank says Kenya has an unemployment rate of 40%. During the post-election violence of 2008, the majority of those who participated in the violence and lost their lives were the young.

That violence dented the global reputation of Kenya and lowered the country's diplomatic influence in Africa, which it has been rebuilding in the last four years.

"Our foreign relations could improve or deteriorate this year, depending on how peaceful the elections are,"

> **"With 2017 being an election** year, the last thing we want is a large pool of disgruntled and jobless youths who can easily be manipulated into backing nefarious political agendas..."
>
> **KIPRONO KITTONY, CHAIRMAN KENYA NATIONAL CHAMBER OF COMMERCE & INDUSTRY**

says Mr Kittony.

President Uhuru Kenyatta, 55, will go up against former Prime Minister Raila Odinga, 72, in the elections. Mr Kenyatta will be pushing his achievements in the construction of mega projects like the 500km standard gauge railway, tarmacking of roads in rural areas and provision of specialist hospital equipment in all 47 counties. Mr Odinga, meanwhile, will cite the wave of corruption allegations that have dented the reputation of Mr Kenyatta's first term in office.

The electoral body, a major source of conflict in Kenya's elections, has been disbanded and new members recruited. However, the opposition has been on a relentless campaign over allegations that the commission is being used by Mr Kenyatta to rig the August elections through fraudulent voter registration.

The opposition has taken an ethnic wedge strategy of portraying the ethnic communities of the president and his deputy Willian Ruto – the Kikuyus and the Kalenjins, respectively – as the only beneficiaries of the national resources during the Kenyatta first term.

Mr Odinga is also seeking what is seen as his last presidential contest, his fourth, which he believes he must win to fulfil the wishes of this political family (his father having been the first vice-president of Kenya in the 1960s) and also to crown his political career, which has seen him detained for several years for political activism and plan an abortive coup in 1982. "This election will make or break me," says Mr Odinga.

TAKING INSURANCE TO THE RURAL COMMUNITIES

The Insurance Regulatory Authority (IRA) has announced a renewed partnership with the College of Insurance to train, examine and issue certificates in the Executive Certificate of Proficiency in Insurance.

The idea is to create an adequate pool of qualified insurance professionals in the rural areas, which will be tasked with public education and the sale of insurance to surpass the current penetration level of 2.93%.

This is one of the initiatives that will drive the growth of insurance in 2017 and beyond. Under the partnership, the two organisations co-opt the county governments to train a certain number of insurance agents in each county and certify them.

The training is also tied to a public education campaign by the IRA, conducted through roadshows and media to soften the ground for the new entrants.

Having qualified agents at the county level is expected to increase uptake of insurance in the rural areas, ending the reign when insurance was seen as a service for elites only. This will be complemented by the growing number of microinsurance products, the pricing of which is competitive enough for the rural consumers.

Growth in 2017 will also be aided by the domestication

CONTINUED ON PAGE 18

UPCOMING EVENTS 2017

RISK FRONTIERS LONDON AFRICA

The Brexit and Trump effect – a golden opportunity for Sub Saharan Africa?
3 May 2017, Grange City Hotel, London, UK

This second annual London event will provide insight and knowledge sharing on the rapidly expanding opportunities in Africa through a mix of presentations and panel discussions with leading risk, insurance, government and regulatory executives from Europe and Africa.

TOPICS TO INCLUDE:

- Macro economic outlook
- Insurance protection gap
- Political risk
- Supply chain risk
- Cyber risk
- Currency risk
- Insurance regulation
- Parametric insurance
- Infrastructure risk
- Renewable energy risk

RISK FRONTIERS AFRICA

Understanding the new normal

This year's series of African events will focus on the recent major shifts in the global political landscape, and its impact on Africa, as well as the continuing threats to African businesses. As always, these dynamic events will include workshops hosted by industry experts.

TOPICS TO INCLUDE:

- Political risk
- Elections and political violence
- Reputation
- Regulation
- Currency risk
- Supply chain risk
- Renewable energy
- Parametric insurance
- Resilience

Supply Chain Risk Innovation 2017

7-8 June 2017
Johannesburg, South Africa

A two-day summit organised by Commercial Risk Africa and Global Transport and Asset Intelligence Bureau (GTAIB) focusing on best practice and innovation in the end-to-end control and mitigation of supply chain risks.

RISK FRONTIERS SOUTHERN AFRICA

6 July 2017
Gaborone, Botswana

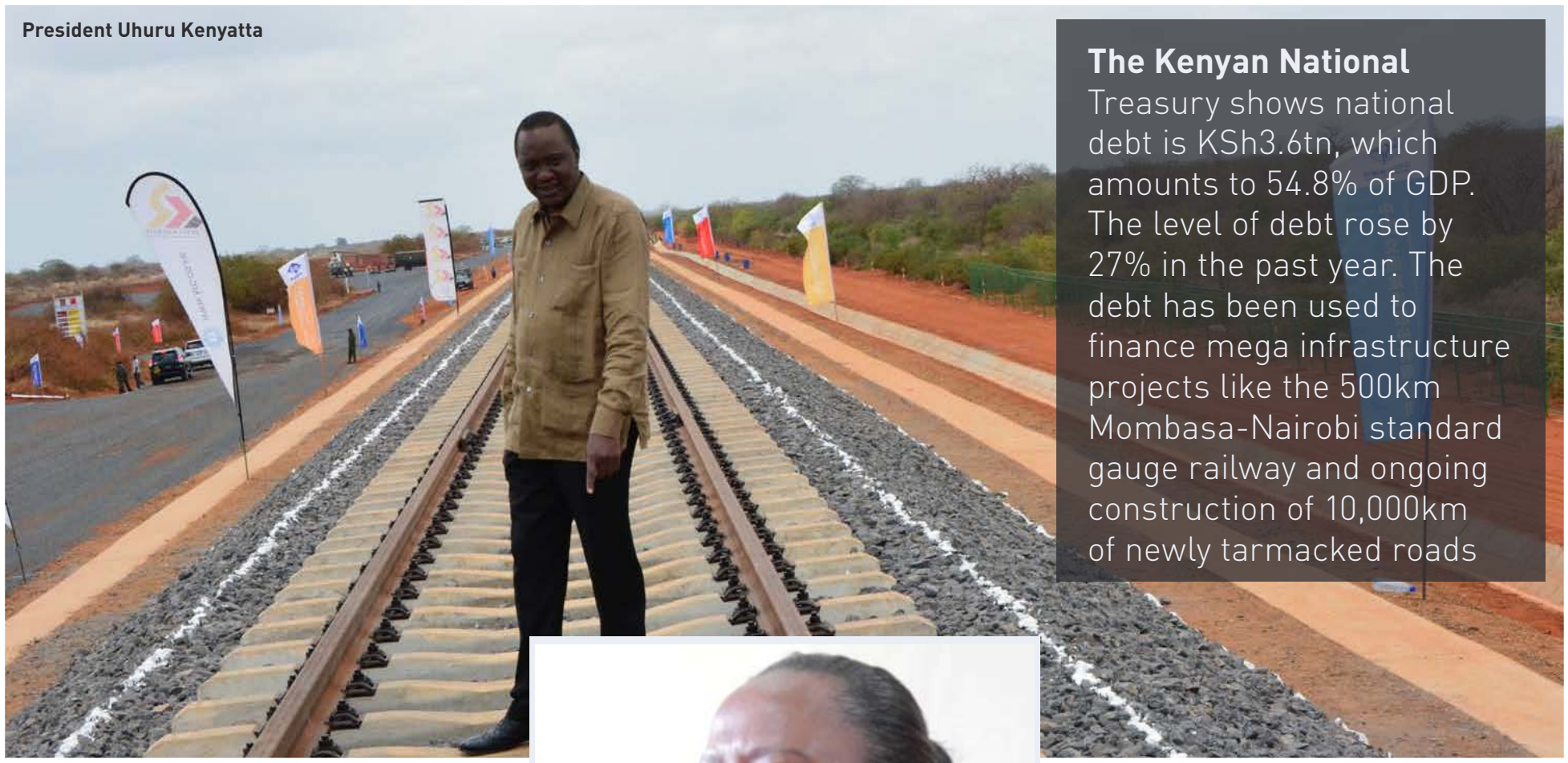
RISK FRONTIERS WEST AFRICA

18 October 2017
Lagos, Nigeria

RISK FRONTIERS EAST AFRICA

3 November 2017
Nairobi, Kenya

www.commercialriskonline.com/events/list/



President Uhuru Kenyatta

The Kenyan National Treasury shows national debt is KSh3.6tn, which amounts to 54.8% of GDP. The level of debt rose by 27% in the past year. The debt has been used to finance mega infrastructure projects like the 500km Mombasa-Nairobi standard gauge railway and ongoing construction of 10,000km of newly tarmacked roads

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of marine insurance. The industry is expected to generate additional revenue of KSh17bn ($170m) in gross premium from the business in 2017, growing to $300m in the next three years. Currently, marine insurance generates annual gross premiums of $25m.

The windfall has come as a result of a change in the law that requires all importers and exporters to buy marine insurance locally. Up to December 2016, 90% of marine insurance covers for goods coming into Kenya were bought in foreign countries.

"We expect to see significant growth in this line of business," says AAR managing director Caroline Munene.

Insurers see more revenue going forward, as the value of Kenya's imports is expected to rise by 28% in the next three years.

"The projected surge in import volumes in coming years underscores opportunity in marine insurance for local underwriters," says NIC Bank executive director Alan Dodd.

GROWING DEBT & DROUGHT WEIGH ON ECONOMY

Kenya's debt appetite has been at an all-time high and the administration of President Kenyatta seeks to complete most of its election promises on the back of the national revenue, most of which ends up financing recurrent expenditure and debt servicing.

Most recent data from the National Treasury shows the national debt is KSh3.6tn, which amounts to 54.8% of GDP. The level of debt rose by 27% in the past year and officials say it will increase further by the end of this financial year.

The debt has been used to finance mega infrastructure projects like the 500km Mombasa-Nairobi standard gauge railway, ongoing construction of 10,000km of newly tarmacked roads, and procurement of specialist hospital equipment, among other initiatives.

But political critics and lending institutions like the World Bank and the International Monetary Fund have raised concerns over the mounting debt, although officials in Kenya say there is still more room to borrow.

Economist David Ndii says Kenya risks defaulting on its debt and that will have a serious consequence on its sovereign rating. "If the debt to GDP ratio gets to 57%, which it will, and the budget deficit does not come down, Kenya will be downgraded to junk status," he says.

Last month, global rating agency Fitch gave Kenya B+ with a negative outlook on its long-term foreign and local currency issuer default rating.

"Kenya's ratings are supported by its strong growth potential and resilience to shocks, favourable business climate and only moderate exposure to commodity prices. However, its ratings are constrained by its low GDP per capita, sizeable twin budget and current account deficits and rising public and external debt ratios, as well as by political risks. Kenya is starting to make headway in reducing its budget deficit, but it remains substantial and the consolidation path is subject to downside risks," Fitch notes in a statement.

But the National Treasury says the debt is manageable.

Caroline Munene

Alan Dodd

Kenneth Kaniu

"There is headroom to accumulate more without compromising economic growth," says economic secretary Geoffrey Mwau. "The borrowing was an indication of the country's good image, with access to sovereign bond showing that Kenya had matured economically," he adds.

The government is expected to borrow to plug the KSh691.5bn deficit in this year's KSh2.2tn budget.

So far, China is Kenya's largest creditor, accounting for 57% of the country's total external debt of $4.51bn, data from the government shows, with Chinese loans growing at an annual rate of 54% between 2010 and 2014.

Other critics point to the inflated cost of projects, especially those being undertaken by the Chinese, to take care of the kickbacks as well as misuse of borrowed money through corruption.

As debt weighs on the economy, so does the widespread drought in the country following the failure of short rains. Most of Kenya's subsistence farmers depend on rain-fed agriculture to grow food. Pastoralists also depend on rainfall to grow silage.

Food harvests expected in late December and January will not be realised, in a move expected to increase food inflation and divert some of the development funds to meeting the drought emergencies.

Inflation reached 6.99% in January 2017 – a rise from 6.35% in December 2016. Food and non-alcoholic drinks went up by 1.66%, attributed to drought, says Kenya National Bureau of Statistics director general Zachary Mwangi.

Analysts expect a moderate drop in the performance of the economy in 2017 as a result of the drought. "On average, we observe 0.6% decline in economic growth in years of poor rains," says Kenneth Kaniu, CEO, Britam Asset Managers. Agriculture is the mainstay of Kenya's economy and the highest employer.

A Reuters survey report released on 23 January, based on responses from 15 analysts, notes that Kenya's economy will grow 5.9% in 2017 and 6.1% in 2018.

"Obviously, I join everyone in hoping that there is a peaceful and orderly [election] result. The vote in 2013 certainly shows that such a thing is possible," notes Capital Economics Africa analyst John Ashbourne in that report.

The Central Bank of Kenya projects the economy will grow 5.7% in 2017, slowing down from last year's 5.9% due to the adverse effects of the prevailing drought.

WHAT WILL AL-SHABAAB DO NEXT?

Kenya is currently smarting from the first major attack in 2017 by the Kenyan troops stationed in Somalia. Mid-January, Al-Shabaab attacked a Kenyan camp near the shared border. Officials say Kenya lost six troops. This comes a year after another attack, the most devastating in the history of Kenya Defence Force, when the terrorist group attacked the army's camp inside Somalia and killed more than 150 troops.

Al-Shabaab has now concentrated its attacks near the shared border with Somalia, indicating the success of Kenya's anti-terrorism operations to keep terrorists out of the main cities.

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Under the partnership, the two organisations co-opt the county governments to train a certain number of insurance agents in each county and certify them

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But according to Control Risks, avoidance of attacks in main cities is a strategy rather than a sign of defeat. "This is reflective of the group's changing strategy, which puts significantly more emphasis on gaining permanent influence and support in Muslim-populated areas of Kenya, itself a response to the growing military pressures Al-Shabaab faces around its traditional strongholds in Somalia," notes the global risk and strategic consulting firm in a recent update.

Reduced attacks, especially in the capital Nairobi and coastal city of Mombasa, helped Kenya win selection as host to a high number of global conferences in the two cities last year, which helped to increase tourism numbers and revenue.

Data from the Kenya Tourism Federation shows that the country received 800,000 tourists last year, compared to 691,000 tourists in 2015.

Last year's performance is still lower than the 1.6 million tourists who last visited Kenya before the wave of Al-Shabaab attacks started, however.

The coastal city of Mombasa – the beach tourism capital of Kenya, which is predominantly Muslim populated – was the hardest hit by attacks targeting tourism sites.

But in January, the French Embassy in Kenya issued a note urging its citizens to visit Mombasa as the security situation had improved.

"Security in Mombasa is fairly good but can be improved further," says the French ambassador to Kenya, Antoine Sivan.

Also in January, the British High Commission opened a new visa application centre in Mombasa, to offer services to customers in the coastal region.

WHAT WILL TRUMP DO?

The big question in Africa is what newly elected US president Donald Trump will do to the policies that have guided US-Africa relations. Kenya is a beneficiary of some of those policies, key among them being a preferential trade agreement, the African Growth Opportunities Act (AGOA). Kenya also received substantial assistance from the US for its war against Al-Shabaab and in the support of nutritional needs of people living with HIV/AIDS.

Kenya's central bank governor Patrick Njoroge says President Trump's protectionist economic policies pose the biggest risk to Kenya's economy in the coming year.

"The economy is facing [more] serious threats externally than locally. We would struggle to cover the export hole should the Trump administration roll back AGOA. This is a risk we cannot insure," he says.

Dr Maina Wachira

The other risk is reduced remittances, as President Trump has threatened to tighten immigration rules. Kenya received $1.7bn in remittances last year, most of them being from the US.

Most recent data shows that in 2015, Kenya exported goods worth $434m to the US, of which $326m was under AGOA, according to the US Department of Commerce. In addition, AGOA is one of the major creators of job opportunities in special economic zones, art crafts, and the farming of macadamia and coffee for export to the US.

> **"AGOA is not a simple trade** preference programme. To participate in AGOA, African countries are required to promote a market-based economy that protects private property rights; minimises government interference in the economy..."
>
> **DR MAINA WACHIRA**
> **FORMER WORLD BANK ECONOMIST**

In June 2015, AGOA was extended to 2025, after sustained lobbying by Africa. It covers more that 6,000 products than can be exported to the US on preferential trade terms.

Dr Maina Wachira, a retired World Bank economist, also voices uncertainty over Mr Trump's stance on Africa.

"Will he abolish AGOA? The odds are that AGOA will not be changed for very pragmatic reasons," he says.

"AGOA is not a simple trade preference programme. To participate in AGOA, African countries are required to promote a market-based economy that protects private property rights; minimises government interference in the economy through such measures as price controls, subsidies and government ownership of economic assets; and makes progress toward the elimination of barriers to US trade and investment."

He says these trade and development criteria for eligibility effectively require a country to emulate key aspects of the US economy, politics and society.

"It is not a forgone conclusion that the new administration in Washington will discard this multipurpose tool for interacting with Africa. Prudence suggests that AGOA countries should consult and develop a common position in the event of a move to repeal or renegotiate the programme. [But] there is reason to believe that the worst that could happen will be a renegotiation, not a repeal of AGOA," he says.

WILL STANDARD GAUGE RAILWAY LOWER COST OF BUSINESS?

The standard gauge railway is Kenya's single most expensive and expansive project since independence in 1963. The railway runs 500km from the Port of Mombasa to Nairobi in its first phase.

The second and third phases will see the railway extend to Kampala, the capital of Uganda. The railway is expected to be an economic disruptor when it is launched in June this year.

About 38,000 Kenyans are employed to work on the railway, and 30% of the materials for its construction have been sourced locally, the biggest winners being cement and steel manufacturers.

The railway is expected to reduce the cost of transporting one tonne of goods per kilometre from $0.20 to $0.08. It is expected to carry 4,000 tonnes per trip once complete. The project is expected to increase Kenya's total production capacity by at least 1.5%. Cargo uptake by rail from the Port of Mombasa is expected to increase from the current 3% to 35%. The railway will also increase cargo train speeds to 80kph and passenger trains to 120kph.

Africa has sometimes been described as the world's bread basket, but much of the continent is still plagued with difficulties including adverse climates and political risks, which hamper the region's ability to produce food on a global scale

Food, glorious food

◇ INDUSTRY REPORT: **AGRICULTURE**

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AGRICULTURE AND FOOD MARKETS ARE plagued with inefficiencies that have dramatic consequences for the welfare of the world's most vulnerable populations, according to the International Monetary Fund (IMF).

Rabah Arezki, chief of the commodities unit in the IMF's research department globally, reports that farm subsidies amount to more than $560bn a year – equivalent to nearly four times the aid given to developing countries by richer ones. Major emerging market nations have increased subsidies rapidly, even as rich nations cut theirs drastically. Meanwhile, tariffs on farm products remain a major point of contention in global trade talks.

One third of global food production goes to waste, while food insecurity is still rampant in developing countries. Food calorie production, he warns, will have to expand 70% by 2050 to keep up with a global population that is forecast to grow to 9.7 billion from last year's 7.3 billion.

The concern is that food insecurity can lead to violence and conflicts that can spill over well beyond borders.

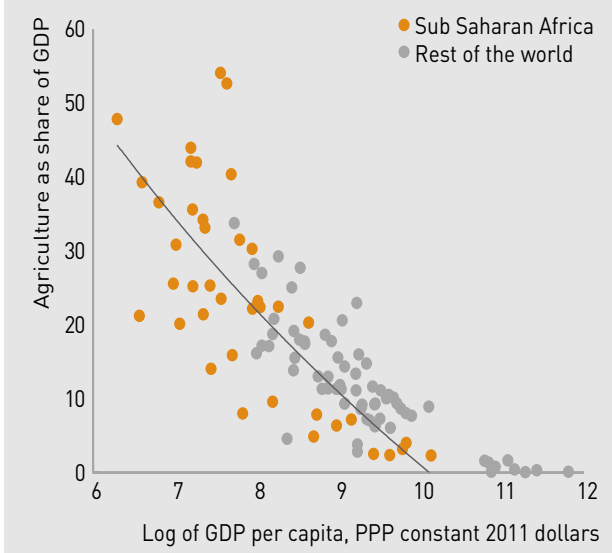
Mr Arezki suggests: "There's plenty of scope to increase output on existing agricultural land: in Sub Saharan Africa, for example, yields are currently 50% below potential. Yet barriers to cross-border investment make it harder to finance the adoption of new technologies that could boost yields. These barriers include inadequate infrastructure, risks of expropriation and questions of land tenure or, more generally, opaque property rights."

Rapid urbanisation and galloping population growth, especially in Asia and Sub Saharan Africa, have not been matched by increases in domestic food supplies, leading to a growing dependence on imports. Since 1990, 27 nations have switched from being net exporters of food to being net importers, including Zimbabwe, he says.

"Climate change poses yet another challenge to food security," says Mr Arezki. "In some regions, changes in average temperatures and patterns of precipitation, along with extreme weather events such as heatwaves, reduce crop yields and livestock productivity. In other regions, moderate average temperature increases could instead raise yields. Less developed countries closer to the equator are the most vulnerable."

He cites Ethiopia, where the two main rainy seasons supply more than 80% of its agricultural yields, and recently experienced some of the worst droughts in decades. He also warns such extreme weather events are expected to worsen and increase in frequency.

SSA: Share of Agriculture & GDP per capita, 2014



SOURCES: World Bank, World Development Indicators and IMF staff calculations

Agriculture insurance finds more backers in east Africa

Steve Mbogo reports from east Africa on the various initiatives to boost agriculture

USE OF AGRICULTURE INSURANCE in Africa is expected to peak in the medium term, as governments and development partners come up with new initiatives aimed at enabling small-scale farmers to access not only insurance but farming loans.

The governments of Kenya and Ethiopia have already rolled out agriculture insurance schemes, as they seek to improve the food situation in their countries while providing a financial cushion to farmers.

The latest initiative is a $63bn EU and World Bank-backed insurance project designed to free up loans to the small farmers that form the backbone of the continent's economies.

RISK TRANSFER

The insurance policies will initially be written by Jubilee, a Kenya-based insurer, but it will pass the risk onto international insurance markets via Willis Towers Watson, the insurance broker.

The new scheme, called Winners, aims to solve the problem by selling insurance alongside a loan, where the insurance pays out automatically if weather events such as a drought mean the farmers are unlikely to produce the expected crops. The arrangement gives lenders confidence that they will be repaid regardless of the weather and borrowers confidence that they will not lose their cash collateral.

Access to credit is a major challenge to the small-scale farmers as lack of it means they cannot afford inputs like fertilisers and farm chemicals, which help improve productivity.

The EU and the World Bank say that

loans to small-scale farmers, which they are currently unable to access, will enable them to grow better quality maize, improving productivity by four to five times.

"In Sub Saharan Africa, less than 5% of farmers have access to fertilisers and seeds that would allow them to produce more than subsistence levels," says Erik Chavez, of Imperial College London, one of the institutions that have been working on the product.

Trials for the new scheme are being undertaken in Tanzania, targeting 250,000 farmers for the next two to three years. Local banks NMB, CRDB and Akiba are involved in the rollout. There are plans to extend it to the rest of Sub Saharan Africa by 2020. The funders hope that eventually it will give 1.5 million farmers across the continent access to about $350m of loans.

Governments in Africa have also been finding their own ways of providing low cost insurance to farmers. In April 2016, Kenya entered into the first public-private partnership in insurance, known as the Kenya National Agricultural Insurance Program – designed to address the challenges that farmers, especially small-scale ones, face when there are large production shocks, such as droughts and floods.

Under the crop segment of the cover known as Under the Area Yield Index Insurance, the government of Kenya is offering a 50% subsidy on insurance premium for up to five acres per farmer. The subsidy becomes effective upon farmers' payment of their share of the premium. The product covers farmers against any yield below 80%.

LIVELIHOODS

"The new product will contribute towards safeguarding farmers' livelihoods, which are often threatened by adverse climatic conditions," says APA Group CEO, Ashok Shah.

The Ethiopian government also launched a similar scheme last year, targeting more than 200,000 farmers. The Normalised Difference Vegetation Index (NDVI) uses the same index as that used by national and international agencies to monitor the occurrence of drought.

"The new insurance uses technology platforms and works with cooperatives and microfinance institutions near the farmers and serves as agents for the insurance corporation. The product is designed with due consideration of the literacy level of the farmers and made ready to be distributed in the most accessible manner," says Yewondwossen Eteffa, CEO of Ethiopia Insurance Corporation (EIC).

NDVI's crop insurance is based on the inputs the smallholder farmers spent to produce their crops. The farmers are expected to pay a premium of around 10% of the total cost of the inputs such as fertiliser, basic seeds, herbicides and pesticides they use to produce crops. And if that crop fails due to weather, the farmer will get new inputs from the EIC.

Drought-wracked southern Africa has seen its agricultural sector hit hard

Weather and water-related risks dominate SSA agriculture sector

◇ INDUSTRY REPORT: **AGRICULTURE**

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PRIMARY AGRICULTURE MAKES UP AROUND 3% of South Africa's GDP, with the extended value chain contributing as much as 27% to the country's economy. Although the contribution by agriculture to total GDP varies significantly from one Sub Saharan African (SSA) economy to the next, South Africa boasts by far the greatest agriculture production in the region.

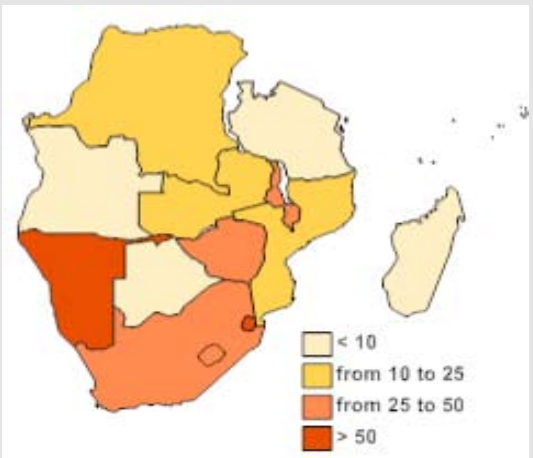
The usually positive outlook for crop and livestock production from SSA has been tempered following severe drought that has blighted large parts of the region for the past three years. While much has been written about global warming-linked weather phenomena such as La Niña and El Niño, many analysts take a more pragmatic view. "We have had drought before, it comes and goes – so it is hard to tell if the latest dry spell was caused by the normal cycle in the weather or indeed, something else," says Philip Du Preez, head of agriculture at short-term insurer Mutual & Federal.

Drought has had a severe impact on stakeholders across the agriculture sector including farmers, food producers and insurers – while consumers face consistently rising food prices. "Nearly all sectors of dry land and livestock production suffered from the drought of the past three to four seasons," says Gerhard Diedericks, head, Santam Agriculture. South Africa's maize crop declined by around 37% in the 2015/2016 season, compared to the previous year, while livestock farmers face higher than usual mortality rates coupled with sharp increases in their feed bills.

South Africans breathed a sigh of relief in recent months following heavy rains in many parts of the country; but the drought and its negative effects will be felt for some time to come. "Recent rains were very positive for summer crops and the timing of the rainfall will stimulate growth and production," says Mr Diedericks.

"If a further 50mm-100mm of rain is received in the first part of February, the current conditions can result in record yields." Unfortunately, the impact of a few seasons of poor yields will negatively impact on farmers' financials. He expects that a recovery in the livestock industry will take a few years, as will the recovery in natural veld conditions.

Rural population affected by drought *[2016, % RURAL POPULATION]*



Source: Southern African Development Community Regional Humanitarian Appeal, June 2016

FUTURE RISKS

What risks do stakeholders in the agriculture economy face for the next one to three years? Msizi Gumede, chief risk officer at Illovo Sugar, singles out traditional weather and water-related risks, in particular the impact of climate change, as the overarching sector risk. He mentions bulk water supply as the top infrastructure risk in the markets it conducts business in. Food producers also struggle with the quality of commodities, as well as market and price volatility.

Mr Du Preez agrees, adding fire (there has been a major spike in fire events in South Africa's Western Cape Province recently), political uncertainty and crime to the list. "From a climate point of view, drought and flooding are a constant threat; while the risk of hail is always present due to the country's topography and type of rainfall, mostly as thunderstorm activity," says Mr Diedericks. Water scarcity is also top of mind and the availability and quality of irrigation water is constantly under the spotlight.

> **"It remains a challenge to** ensure legal requirements with regards to the allocation of water resources... [and] implementation of sound farming practices..."
>
> **MSIZI GUMEDE, CHIEF RISK OFFICER, ILLOVO SUGAR**

Land use, whether commercially or politically motivated, also poses risks to commercial farming operations. Theo Potgieter, UNIGRO insurance director, cites the conversion of arable farm land into mining operations and more aggressive land reform legislation as two concerns in South Africa. The risks posed by labour and stemming from the introduction of minimum wages and increasing labour unrest must also be factored in. Another major bugbear raised by commercial farmers in the SSA region is the apparent lack of government support for local producers, with imports from international markets (often subsidised) threatening the sustainability of entire product lines. The ongoing dispute over poultry imports and tariffs in South Africa is a case in point.

What about risks to commercial farming in the rest of SSA? According to Mr Gumede, the management of resources remains a challenge, specifically in relation to bulk water supply. "It remains a challenge to ensure legal requirements with regards to the allocation of water resources, maintenance of infrastructure and implementation of sound farming practices are adhered to, as this will ensure efficient use of water resources," he says. Non-insurance mitigation includes drainage systems, dredging and widening of canals to protect growing crops, early warning systems and weather forecasting to name a few.


Gerhard Diedericks

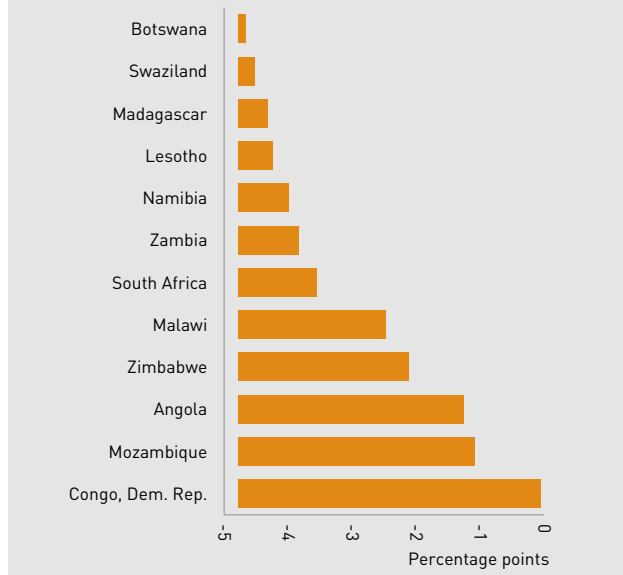
Some countries are luckier than others in this regard. "Neighbouring countries like Mozambique and Zambia have huge resources of fresh water. In contrast, South Africa, Namibia and Botswana face problems with scarce water resources over much of their respective areas," says Mr Diedericks.

INSURANCE OPTIONS

There is a trend among large food producers to self-insure. Illovo, for example, considers various options with regards to insurance cover for crops on a biannual basis; but it finds that the perils covered by conventional insurers are charged at too high a premium relative to the cover limits imposed. "We do not insure our own growing crops and rely instead on self-insurance in a tailored cell-captive structure," says Mr Gumede. "The group's agriculture infrastructure is insured under its main assets policy."

Small-scale farmers face a number of unique risk management challenges. Top among these is the rising cost and availability of multi-peril agri-insurance. The inevitable consequence of high insurance premiums is that many opt to self-insure, or farm on own risk. Mr Potgieter observes that farmers often play the role of both risk adviser and risk manager when placing insurance. This practice can result in underinsurance, leaving farmers exposed and subject to average.

Real GDP growth, 2016 *[OCT. 2016 VS OCT. 2015 PROJECTION]*



Source: IMF, World Economic Outlook database.

Farmers would be better served by consulting agri-insurance brokers, who are an integral part of insurance distribution. "Farmers must insist on proper advice from their brokers and – based on this advice and their respective risk profiles – must choose an appropriate insurance solution," says Mr Du Preez.

"Many farmers do not take out crop insurance with the result that they are without cover should an incident arise in the early stages of growth," says Mr Potgieter – a trend confirmed by Mr Diedericks, who noted that only 50% to 60% of farmers in South Africa use crop insurance as a risk-mitigating tool. For those that do insure their crops, the preference is for hail cover followed by multi-peril crop insurance that includes cover for drought and fire risks. Demand for farm assets insurance remains fairly strong.

LOCAL MARKET

Despite the trend towards self-insurance, South Africa boasts a significant agri-insurance market with total gross written premium (GWP) estimated at between ZAR2.5bn and ZAR3bn annually. Estimates for the combined crop and multi-peril markets are for GWP of between ZAR1.2bn and ZAR1.8bn shared among three major players – Santam, Agri-Seker and Mutual & Federal.

The rest of the SSA region has slightly different needs, with a major differentiator being the size of commercial farms and the prevalence of subsistence farming. "We have identified a need for crop insurance in Africa but, due to the demographics of farmers in the rest of Africa, most crop insurance currently is index-based; without premium subsidies from government, affordability of insurance by small-scale farmers remains a major barrier to the take-up of crop insurance in SSA," concludes Mr Diedericks.

Mr Gumede notes that agriculture and food producers throughout SSA face many uncontrollable but correlated risks. "Risk can often not be transferred or treated due to the interdependency on, for example, weather; but weather risk can only be transferred to the extent that the insurers are prepared to cover certain perils – the residual risk gap remains high and results in exposure to the business," he concludes.

Growing African population set to deliver challenges to agriculture sector

The need for food across Africa is set to increase rapidly as the population expands. As PRINCE COOKEY *reports from west Africa, governments and industry are working to solve the problem*

According to the African Development Bank (AfDB), Africa imports one third of global rice production every year, with west Africa alone importing nearly 20% (5.2 million tonnes).

By 2020, if domestic production continues to be outstripped by growing demand, Africa will need an extra 17 million tonnes of husked rice, costing several billions in already rare foreign exchange.

The AfDB has also approved more than $644m in funding for agricultural and food security projects across the continent.

In Africa, agriculture accounts for more than 65% of employment and 35% of gross domestic product (GDP).

However, poverty remains high in rural areas, which account for most of agricultural produce. This development signifies that investment in agriculture will create jobs, reduce the price of food and assist in poverty reduction.

As Africa's population grows from 1.1 billion to an estimated two billion by 2050, Cargill identifies five critical factors facing the continent's agricultural sector:

- Critical inputs
- Access to funding
- Property rights
- Infrastructure for market access
- Off-farm income.

Agriculture is the largest economic activity and employer of labour in west Africa. It also contributes a significant part of wealth creation in rural areas.

THE WAAPP MODEL

The West Africa Agricultural Productivity Program (WAAPP) was created by the Economic Community of West African States (ECOWAS), to achieve food security in the region and lift agriculture as a major means of economic activity that could create jobs and contribute to poverty reduction in rural areas in 13 countries of ECOWAS.

The 13 countries of WAAPP are: Benin, Burkina Faso, Ivory Coast, The Gambia, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

Funded partly by the World Bank, WAAPP seeks to achieve 6% agricultural growth and increased food production and availability in west Africa.

To achieve this goal, WAAPP works with scientists, researchers, extension workers and farmers to:

- Innovate, generate, disseminate and adopt improved technologies
- Create enabling conditions for regional cooperation
- Build human and institutional capacity across the sub-region
- Create youth employment, engage women and adapt to climate change.

So far, the WAAPP initiative has directly supported 6.1 million farmers, processers and small businesses (45% of whom are women), increased food production in west Africa by more than 3 million tons, and raised beneficiary incomes by an average of 34%.

A report by the World Bank on WAAPP states: "Across west Africa, WAAPP has delivered around 160 climate-smart crop varieties, technologies and techniques to approximately 5.7 million farmers covering 3.6 million hectares. These technologies have boosted productivity by up to 150%.

"In Ghana, WAAPP provided eggs, incubators, feed and vaccines to 80 guinea fowl farmers to grow their operations. The programme allows beneficiary farmers to support others in their community so up to 50,000 people have benefited.

"In 2015, WAAPP delivered 10,500 tons of seeds to up to 200,000 farmers in Guinea, Liberia and Sierra Leone to boost post-Ebola recovery.

"In Senegal, 14 high yielding, early maturing and drought resistant dry cereal varieties have been developed and are boosting productivity by at least 30%. More than 423,000 Senegalese farmers have benefited from the new varieties and become more resilient to climate shocks.

"In Guinea, Sierra Leone, Liberia and Ivory Coast, new saline-tolerant rice varieties, climate-smart irrigation techniques and better soil fertility management helped more than 100,000 farmers increase rice production.

"WAAPP's e-Agriculture programme provides real-time advice to farmers in Ghana via phone or online. To date, the programme has 120,000 subscribers and has logged 1.76 million calls on a variety of issues, from land preparation to pest management."

INSURANCE PERSPECTIVE

According to a report by Food Early Solutions for Africa (FESA), the main challenges that crop insurance faces in Africa are related to scale and costs.

Therefore, FESA microinsurance represents a major breakthrough towards affordable crop insurance.

NIGERIA

In Nigeria, agricultural insurance is undertaken mostly by the Nigerian Agricultural Insurance Corporation (NAIC), which was established to supervise the Nigerian Agricultural Scheme founded on 15 November 1987.

NAIC provides insurance cover to farmers against the vagaries of the weather and financial losses, especially the reluctance of conventional insurers to provide cover for them.

Implementation of the scheme was initially vested in the Nigerian Agricultural Insurance Company, which was incorporated in June 1988 but later turned into a corporation in 1993 by the enabling Act 37 of 1993.

GHANA

The Ministry of Food & Agriculture in Ghana has a mission to promote sustainable agriculture and thriving agribusiness through research and technology development, effective extension and other support services to farmers, processors and traders for improved livelihood.

One of its projects is the Ghana Commercial Agriculture Project (GCAP).

It was established in 2012 with total investment support of $145m. Of this amount, $100m is a credit from the World Bank's International Development Association, with the remaining $45m being a USAID grant.

The GCAP aims to move farming from the present subsistence level to a commercial level that ensures wealth creation and food security in the country.

The objective of GCAP is increased access to reliable water, land, finance, agricultural inputs and output markets by smallholder and nucleus farmers in selected project intervention areas.

Since inception, GCAP has made six key achievements:

- Laying legal foundation for irrigation in Ghana
- Facilitating large-scale land transactions
- Creating an enabling environment for smallholder farmers
- The emerging rice growth pole
- Enhancing post-harvest management infrastructure stock
- Managing investors in agriculture.

RISK MANAGEMENT FRAMEWORK

The FESA report also states that effective agricultural risk management strategies play a vital role in fostering productive and sustainable investment across the food and agricultural value chain, to ensure food and nutrition security, eliminate hunger and reduce poverty, as well as achieve the annual target of 6% agricultural GDP growth.

Dealing with production, market and other shocks would require various types of risk management techniques, ranging from those managed through market mechanisms to catastrophic risks with high rates of frequency that require government intervention.

In general, these strategies can be classified into four categories:

- Risk mitigation and reduction
- Risk transfer
- Risk coping mechanisms
- Failure range.

An effective risk management strategy allows producers to:

- Invest in higher payoff activities, instead of low risk and low return outcomes
- Invest in more resilient and dynamic farming systems, instead of depleting their assets and falling into a poverty trap
- Undertake longer-term investment, rather than being risk averse with limited investment in land improvement or infrastructure
- Access agriculture and food insecurity risk management in Africa loans to finance procurement of inputs and investment.