



Navigating political risk in Africa to create value

In September 2019, ahead of Africa Down Under week in Australia, mining professionals, industry bodies and leading financiers joined Gallagher, AXA XL and Frontier Assessments for a temperature check on political risk and security in the African region. Here are some of the best practice insights that emerged.

“How do we turn risk into opportunity?” asks Dr Jason Thomas, Director of Frontier Assessments. “Dealing with political risks can be like learning to eat soup with a knife: messy and unpredictable.”

“Fixed, rigid processes won’t work; success is more likely to be achieved through a continual cycle of risk adaptation,” he advises.

“It’s as much about what you can’t see as what you can. Constantly ask yourself, what do you wish you knew?”

Dr Thomas’ suggestions for navigating volatile, uncertain, complex and ambiguous (VUCA) environments such as those presented by political risks in Africa involve understanding the influences at work and responding appropriately.

Volatility, uncertainty, complexity and ambiguity

The VUCA framework is a useful tool for considering investment in Africa – or any country. You can encounter political risks everywhere. The key components are

- **volatility** – rate of change
- **uncertainty** – inability to know everything about a situation and the difficulty of predicting the nature and effect of change
- **complexity** – a structure with multiple connections across a network where emergent behaviour can’t be determined exactly
- **ambiguity** – difficulty of interpreting meaning when the context is unclear.

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To effectively deal with these conditions, he says, the idea is to exploit VUCA to your advantage. It might just be surviving to come out the other side in one piece or thriving where others remain locked into conventional risk management frameworks. Instead of applying fixed solutions, become comfortable with solving challenges as the environment changes.

- To respond to volatility remain fluid, perhaps you can take advantage of the situation.
- To respond to uncertainty maintain an open system, one that can detect weak signals.
- To respond to complexity create a community web of protection across your network, understand the key nodes of influence across that web and learn how to make those relationships work for you. Don’t neglect relationships with weak ties.
- To respond to ambiguity requires continual engagement with all stakeholders, and those who influence the perception of your stakeholders. Don’t assume that because people turn up to your community meeting every week they appreciate what you are planning to do in their area. ▶

Gallagher ‘Future Matters’ is a new boardroom series engaging front line experts to share their stories and analysis of pertinent topics affecting companies operating in Africa today and beyond.



A word on big data

There is a perception that the more data that is available for analysis, the more you are likely to be able to predict or even control VUCA environments, Dr Thomas says.

Big data is useful when it can be turned into knowledge or – even better – innovation. It may allow you to see the problem from a fresh perspective because sometimes it reveals what is not immediately evident.

Adapt to survive

Like some biological organisms, companies thrive through adaptation in response to risk rather than by eliminating risks entirely.

An adaptable strategic approach seeks to exploit VUCA through:

- immersing yourself in the local, regional and country's environment will help you understand the context of the challenges.
- being willing to discard old ways and innovate - what worked in one location may not work in another.
- be prepared to modify your approach to achieve incremental changes through evolution, not revolution.
- building a network to act as an early warning system, enabling you to receive subtle signals across the company, project and country that you can act on to protect yourself and your enterprise.

The human factor

While resource projects are inherently technical, the underlying causes of political risk tend to flow from people. This can be at the project, business or country level.

Consider how to better make use of the people across your network. This requires constantly working by, with and through leadership at all levels to build reciprocal relationships. Networks outside your own system could be your best indicators of emerging risks ahead.

If there is one thing that is certain in most African markets, it is change and variation. It's the nature of VUCA environments, no matter where your investment is located. The most effective application of people and resources in a VUCA environment requires switching your political risk strategy from *designing the perfect solution to continually adapting solutions* as the environment changes.

"Political risk doesn't always have to be about what can go wrong, it can also be about opportunity," Dr Thomas stresses. Capitalising on that opportunity requires the right approach, backed up by offsetting your risk exposures – and that is where insurance has a key role to play.

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Protect yourself

"Political risk is one of the major headaches faced by multinational businesses involved in cross-border investments," says Gallagher National Head of Credit, Surety & Political Risks Racheal Tumelty, naming Africa, Latin America and some areas of the Middle East as regions prone to rapid fluctuation.

Foreign government intervention can affect investors' liquidity, assets, ability to source materials, secure and manage contracts with manufacturers and set terms of trade. Other risks include civil unrest or war, violence, forced abandonment and currency transfer blockage. Bear in mind that legal recourse or compensation may not be accessible, she warns.

Political risk insurance is designed to protect your offshore projects, investments or funds flow and the Gallagher political risks team is a leading specialist in country risk, well positioned to provide insurance solutions and advice to a broad range of organisations and industry sectors.

So before you venture into investing in offshore projects, in Africa or any other country, do your research, establish your relationship networks, put your risk management program in place and be prepared to seize and run with opportunities. ♦

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