

DIGGING BENEATH THE SURFACE:
POLITICAL, CORRUPTION, AND REPUTATIONAL
RISKS IN AFRICA

4 September 2012

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POLITICAL RISK AND CORRUPTION IN AFRICAN MINING OPERATIONS

- Reality is more nuanced than perceptions suggest
- Africa presents a particularly challenging operating environment
- Expropriation risk cannot be eliminated but it can be mitigated

WHAT ARE THE BIGGEST RISKS OF INVESTING IN AFRICA AT PRESENT?

- Partner risk / anti-corruption enforcement (US, UK, Australia)
- Lack of breadth in political relationships being exposed by political change
- Increasing media scrutiny of labor, social, and environment concerns
- Shaky legal foundations underpinning contracts and license provenance
- Changing tax codes
- Political instability (Arab spring, Mali, Somalia, etc.)
- Ability for national, regional, and local politics (clan-level dynamics) to come into play
- Reliance on reputation information rather than documentation in risk assessment requires nuanced analytical perspective from a political advisor...

POLITICAL RISK AT FOUR LEVELS

- National governments
 - Level of support for your project
 - Potential for government or policy changes
 - Level of corruption
 - Legal and regulatory environment
 - Dynamics between major social groups & political parties
- Local governments
 - Level of support for your project
 - Relationship with stakeholders in immediate project area
 - Distribution of local investments, jobs, etc; local vs. national political dynamics
- NGOs and community groups
 - Legitimacy of causes
 - Mobilization capacity
 - International support
 - Relations with competitors
- Neighboring governments
 - Sources of influence
 - Strategic & historical interest
 - Relations with national government

THREE COMMON PERCEPTIONS

- “Home” government backing and international donor involvement are most effective lines of defense
- The local government needs the foreign company/investor more than foreign company/investor needs the local government
- General political dynamics are the best predictor of expropriation risk

Does the accepted wisdom provide sufficient safeguards?

HOME GOVERNMENT AND INTERNATIONAL DONOR BACKING ARE NOT ENOUGH

- Broad Western support will likely be critical in any successful operation...but a reliance on these factors risks encouraging complacency
- Current and future “host” governments will exploit opportunities to backtrack
- Relations with the state mining company and its leadership are key
- CSR increasingly important as populations become better informed
- Partners offer financial support but can be a political liability
- Overall perception of company critical across the board

LOCAL GOVERNMENTS ARE NO LONGER BEHOLDEN TO FOREIGN INVESTORS

- Dynamic has changed
- Governments are looking for a larger slice of increased profits attributed to commodity price rises
- Supply-side challenges and search for top-line growth pushing companies/investors into riskier geographies
- Rise of China provides local governments with comprehensive ‘back-up plan’
- “Fixers” with the ear of senior local politicians can drive agenda
- Other international mining companies increasingly willing to take over “troubled” assets
- Governments exchange information about their negotiations with mining companies

POLITICAL RISK ASSESSMENT: THE IMPORTANCE OF CONTEXT

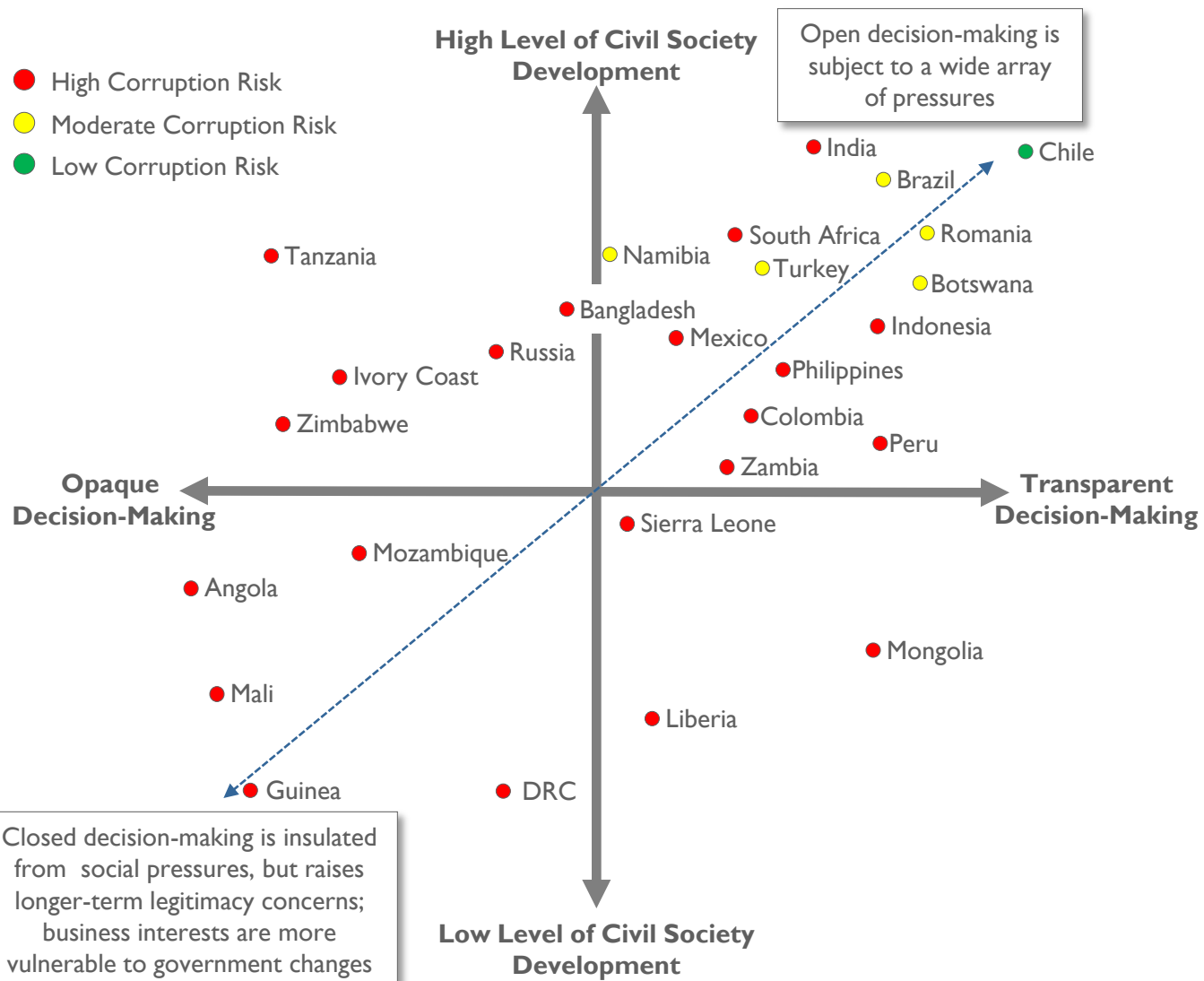
Four sources of political risk

- National governments
- Local governments
- NGOs and community groups
- Neighboring governments

All environments are unique and none is free of risk

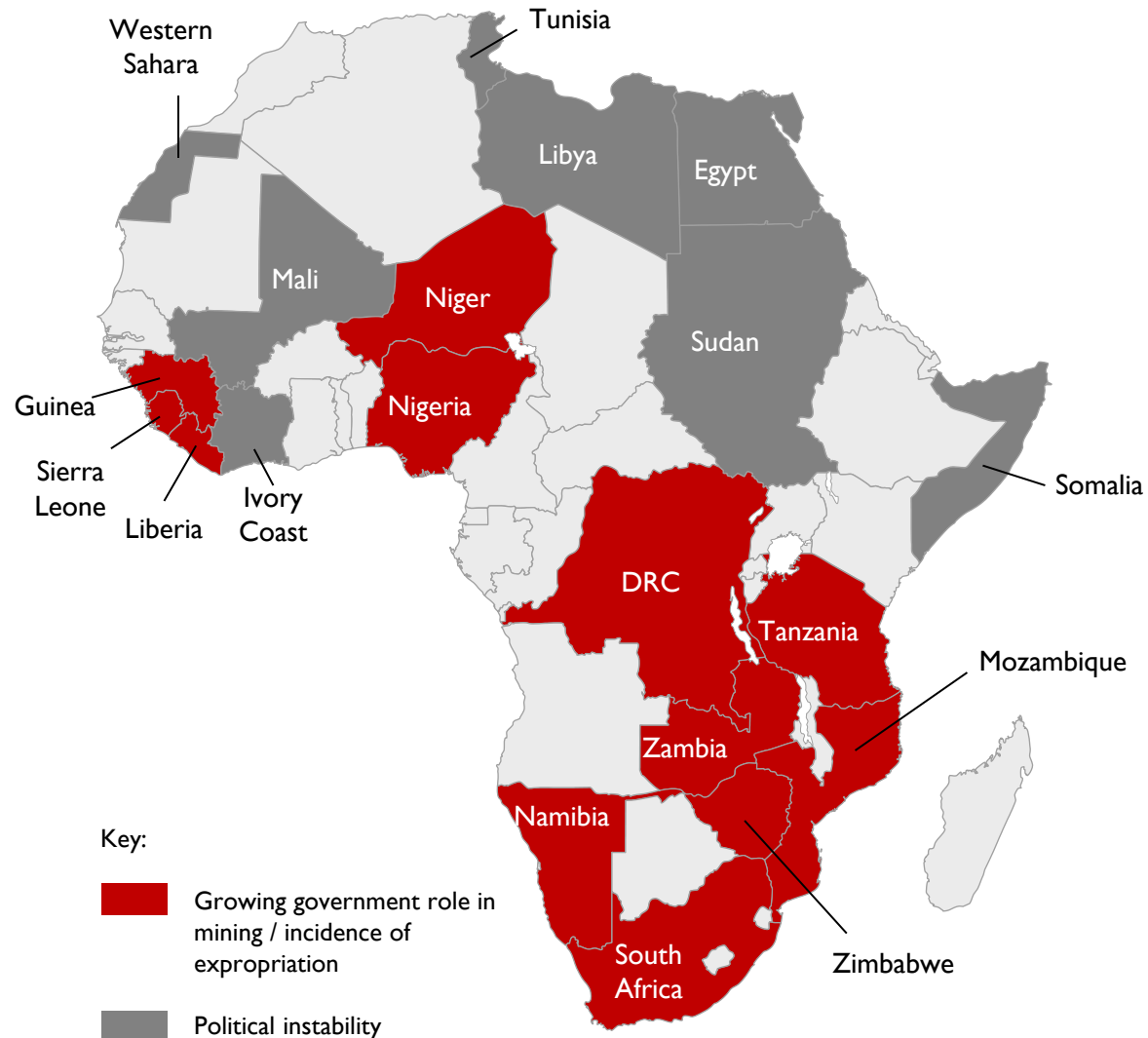
- Risk evaluation is less a question of strict comparison than of contextual understanding
- Different configurations and combinations of local factors produce different political challenges

Risk profiles are dynamic and can shift with little warning



POLITICAL DYNAMICS ARE THE BEST PREDICTOR OF EXPROPRIATION RISK

- Expropriation takes multiple forms
 - Ideological to opportunistic
 - Full nationalization to a renegotiation of contract terms
- Resource nationalism and political instability are not synonymous
- Risk varies on a case-by-case basis, even within a country
- Domino effect



AVOID COMPLACENCY: POTENTIAL WARNING SIGNS

- Political change
 - Relationships shuffled at national, local, and aide / adviser level
 - Murmurings in National Assembly
 - “Independent” commission reviews
- NGO scrutiny of company or asset
 - Tax a current hot topic
 - Local interest groups will be alerted and media attention follow
- Chinese interest that could encourage a harder line
 - Chinese involvement in the country will create new options and challenges for host governments
- Contractual terms
 - One sided – for example, small state mining company stake
 - Up for renewal – long duration since last negotiation / renewal
- Neighbouring country issues
 - Could affect decision-making in host country

POLITICAL RISK MITIGATION IN PRACTICE

Targeted information gathering and an understanding of political context are vital elements of any political risk mitigation strategy for investors in Africa.

- **New projects**
 - Securing permits or concessions in ways that discourage legal challenges or corruption allegations
 - Establishing relationships with key stakeholders across the political spectrum and at the regional, national, and local levels
 - Avoiding and defusing opposition from activist NGOs and other groups
- **Existing projects**
 - Establishing the provenance of license or concession rights
 - Understanding the political activities of previous project partners and other foreign investors in the sector
- **Local partners**
 - Identifying political affiliations and relationships with governing authorities

POLITICAL RISK MITIGATION IN PRACTICE

- Develop a high level of contextual awareness in order to understand complex politics
- Design and implement a strong CSR program
- Cultivate local media, NGOs, and political actors
- Identify a credible local partner to help manage challenges

CASE STUDY: STRATEGIC ADVISORY – MARKET / PROJECT ENTRY

Client Position:

A leading mining company seeking to develop a major greenfield project in Africa required an extensive and complex array of information on the project's Chinese concession holder, political factors in China directly impacting the project, and key decision-making structures locally and in China.

Veracity Approach:

- Background and on-the-ground research provided the Client with a base of knowledge that dramatically enhanced their understanding of key issues and obstacles
- Tailored reports providing specific insight and guidance to address Client challenges as they arose
- Tracking of key political and economic developments through knowledgeable sources locally and in China provided the Client team with timely updates and analysis far beyond media reports and their own networks

Result:

Following a year of delicate negotiations and numerous blockages with the local government and Chinese incumbent, the Client was well positioned to enter the project

CASE STUDY: STRATEGIC ADVISORY – RISK ASSESSMENT

Client Position:

Senior executives at a leading energy firm required information to help anticipate local political and regulatory shifts that could impact their substantial position in an African country. The Client maintained a substantial in-country risk-management team but needed an independent perspective to cross reference and expand upon the insight provided by their team.

Veracity Approach:

- Comprehensive reporting derived from on-the-ground research and insight from over 25 sources, many of whom were unlikely to speak candidly to the Client's team
- Areas of focus included the upcoming election, the president's inner circle, sources of uncertainty in 2012 and beyond, and the influence and organization of key institutions
- Ongoing monitoring of key political developments and potential risks reported in both scheduled and event-driven updates

Result:

The Client significantly benefits from a unique perspective on evolving risks impacting one of its largest investments from a dedicated team of on-call analysts.

CASE STUDY: MINING CONCESSION DUE DILIGENCE

Client Position:

A commodities-focused private equity fund engaged Veracity to assess specific factors that might derail a mining project in Southeast Asia, including community and NGO opposition, environmental concerns, threats posed by militants, and local and national political risk.

Veracity Approach:

- Comprehensive reporting derived from extensive open source, on-the-ground research, and insight from over 15 sources
- Ultimately the company seeking to develop the mining project faced little expropriation risk and was well-positioned to mitigate immediate challenges but fundamental obstacles suggested a far more delayed development schedule than that reported by the company

Result:

The investment fund was able to reduce its exposure to the mining company, which ultimately advanced the project but only after a two year development delay and major cost overruns

CHECKLIST FOR MINING COMPANIES

- ✓ Develop a full appreciation of the history of concession and identify potential issues
- ✓ Identify and engage with relevant national and local politicians of all levels
- ✓ Ensure fairness in contractual negotiations
- ✓ Commit to paying an appropriate level of tax that stands the test of time
- ✓ Educate local stakeholders about process and timeline
- ✓ Be prepared to work with the state mining company and engage and train local staff
- ✓ Comply with the EITI Principles and Criteria
- ✓ Include NGOs at an early stage
- ✓ Understand how your business is perceived
- ✓ Establish real-time intelligence collection and assessment systems to monitor potential problems

APPENDIX AND CONTACT INFORMATION

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VERACITY: KEY HIGHLIGHTS

- Established in 2007 to provide risk assessment and advisory services focusing on emerging markets
- Offices in New York, London, New Delhi and Singapore
- World-class team drawn from intelligence, diplomacy, business, finance, and journalism, with several decades of combined, direct experience in emerging markets and specific sectors, including energy, mining, forestry, agriculture, finance, real estate, and telecommunications
- Over 700 projects completed in more than 90 countries
- Work directly on-the-ground as needed
 - Algeria, Brazil, China, DRC, Gabon, Guinea, Indonesia, Kazakhstan, Kenya, Kurdistan, Liberia, Mexico, Mongolia, Nigeria, Poland, Romania, Russia, Sierra Leone, Turkey, and Vietnam
 - Local language fluency: Arabic, Chinese, French, German, Hindi, Italian, Portuguese, Russian, Spanish, and Turkish
- Combine intelligence gathering with rigorous experience-based analysis
 - We don't dump data, we provide nuance and context

EXPERTISE ACROSS THE AFRICAN CONTINENT



- More than 150 complex due diligence, political risk, and strategic advisory projects
- Resident Senior Advisors in Abuja and Nairobi
- Extensive work in natural resources and infrastructure sectors
- In-house French, Portuguese, and Spanish language capabilities
- Regular political monitoring of select countries including Angola, Gabon, Kenya, Liberia, Mozambique, Nigeria
- Unparalleled understanding of Chinese interests in Africa

COMPREHENSIVE OFFERING

Experience

- 700+ project in 90+ countries
- Decades of collective experience
- Language fluency
- Work in the most difficult and complex environments

Guidance and Advice

- Advance your business, not just the assignment
- Context and nuance, not just raw data
- Connections and access
- Alternatives and options

Quality

- Partner-level attention to every assignment
- All key work handled in-house
- Multi-disciplinary teams assure a comprehensive view

Integrity and Discretion

- Highest ethical standards
- Respect for clients, the countries where we work and the law
- Only work with clients who expect the same

Satisfied Clients

- References available upon request