

MANAGING POLITICAL RISK

A guide for Canadian businesses that
invest in or export to emerging markets



This guide was created to give Canadian companies the information they need to start establishing a risk management program and policies to limit the potential negative effects of political risk.

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1.0 Understanding political risk

When a Canadian company enters a foreign market, its objectives are likely to include increasing sales and market share, reducing operating costs, improving competitiveness, accessing new resources, or improving service to its foreign customers. In many emerging markets, though, companies often run into political risks that can influence—sometimes dramatically—the success of their ventures.

AS CANADIAN FIRMS CONTINUE TO LOOK FOR NEW BUSINESS ABROAD, THE URGENCY OF MANAGING POLITICAL RISKS WILL STEADILY INCREASE.

What is political risk?

A political risk is the probability that government decisions, or actions aimed at a government, will affect the local business and/or investment climate in ways that may cause foreign companies to suffer financial losses.

These risks include:



Changes in laws and regulations



Breach of contract by a foreign government



Import/export restrictions



Expropriation









Foreign exchange restrictions
(transfer and conversion risk)



Political violence (war, civil war, revolution, terrorism, civil disturbance and similar upheavals)

Major political risks and their potential effects

TYPE OF RISK	SAMPLE EFFECTS ON INVESTORS	SAMPLE EFFECTS ON EXPORTERS
<p>Changes in laws and regulations</p> 	<ul style="list-style-type: none"> Increased expense of meeting local standards leads to lower profitability or non-viability of the foreign affiliate. 	<ul style="list-style-type: none"> Increased expense of meeting local standards leads to lower profitability for the exporter.
<p>Import/export restrictions</p> 	<ul style="list-style-type: none"> Foreign affiliate's operations are disrupted or paralyzed, with a possible total loss of the investment. 	<ul style="list-style-type: none"> Goods are produced by the Canadian exporter, but are never delivered and paid for.
<p>Foreign exchange restrictions (transfer and conversion risk)</p> 	<ul style="list-style-type: none"> Foreign affiliate is unable to make payments in hard currency to the parent company, or to suppliers and lenders. While restrictions are in place, the value of cash held in the foreign market (as local currency) quickly depreciates relative to the Canadian dollar. 	<ul style="list-style-type: none"> Foreign buyer is unable to pay the Canadian exporter. Exporter cannot repatriate funds to Canada if these funds are paid in the foreign market.
<p>Breach of contract by a government counterparty</p> 	<ul style="list-style-type: none"> Contract breaches (such as non-payment, unilateral price and/or quantity changes, or unwarranted contract termination) cause losses for a foreign affiliate. Severe losses can render the affiliate economically unviable, leading to the total loss of the investment. 	<ul style="list-style-type: none"> Losses result from contract breaches such as non-payment, unilateral price and/or quantity changes, or unlawful contract termination.
<p>Expropriation</p> 	<ul style="list-style-type: none"> Parent company loses equity investment and income stream from foreign affiliate. Ability of parent company to meet loan covenants and financial obligations is compromised. 	<ul style="list-style-type: none"> Inventory and physical assets, which the exporter is using to perform work directly in the foreign market, are permanently lost. Company is unable to use lost assets to perform scheduled contract work in other foreign markets.
<p>Political violence (war, civil war, revolution, terrorism, civil disturbance and similar upheavals)</p> 	<ul style="list-style-type: none"> Unsafe conditions lead to abandonment of investment. Physical assets, such as equipment or inventory, are damaged or destroyed. Interruption of business results in the foreign affiliate, or customers of the foreign affiliate, defaulting on payment or other contractual obligations. 	<ul style="list-style-type: none"> Foreign buyer is unable to take delivery of goods or is unable to pay. Violence forces exporter to breach contract terms, leading to contract termination by the buyer or to a call on a performance bond. Physical assets, which the exporter is using to perform work directly in the foreign market, are damaged or destroyed, thereby jeopardizing the exporter's performance.



 REAL-WORLD EXAMPLE
EXPROPRIATION

A subsidiary of Australia's Churchill Mining discovered substantial coal deposits in Indonesia. Subsequently, the Indonesian government took a series of actions that led to the expropriation of Churchill's rights over the country's East Kutai coal mine. This caused Churchill losses of over US\$1 billion.

Indonesian authorities claimed that Churchill didn't have the appropriate licences for exploration and extraction at the Kutai site, while the mining company claimed that the government arbitrarily altered the terms after the site was found to have vast coal reserves. In February 2014, the International Centre for the Settlement of Investment Disputes ruled in favour of Churchill.



 REAL-WORLD EXAMPLE
POLITICAL VIOLENCE

During 2014, guerrillas increased their attacks on Colombia's energy infrastructure as they tried to improve their position in peace talks with the state. The Colombian Petrol Association reported that as of July 2014, these attacks had cost the industry, which includes many foreign investors, US\$460 million.



 REAL-WORLD EXAMPLE
TRANSFER AND CONVERSION

In December 2013, the Ukraine Central Bank tightened controls on the capital account as the economic crisis in the country became worse. The government forced all companies, including foreign-owned firms, to convert 50 per cent of their foreign exchange earnings into local currency and imposed a moratorium on the pre-payment of commercial debt.

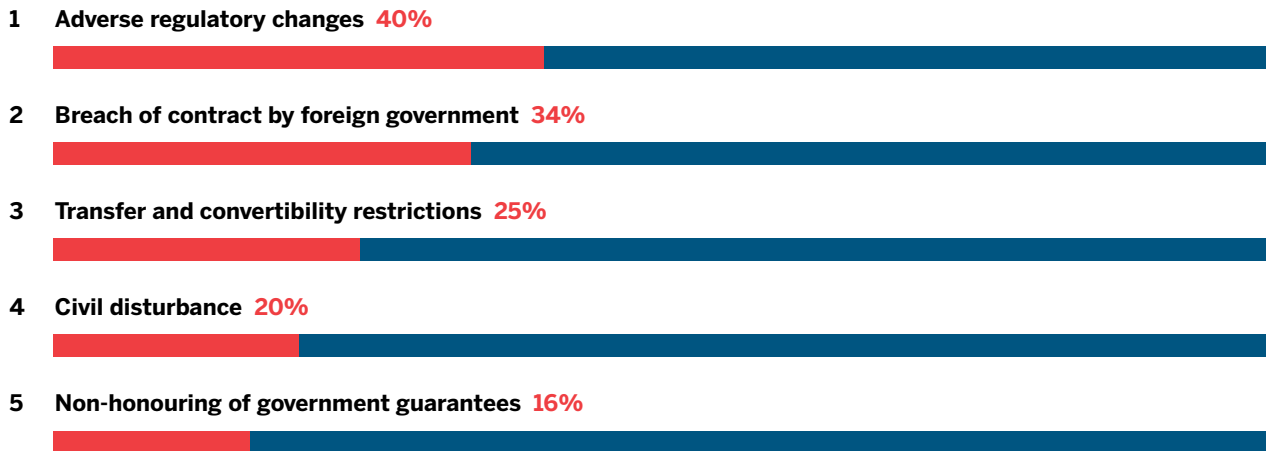
Risk and emerging markets

Political risk is unavoidable in the global marketplace. Even in developed countries, it may appear as tightened regulations, taxation changes and protectionism. But in many emerging markets, the levels of political risk can be much higher than in mature economies. As Canadian companies increase their investments and exports into these markets, their exposure to political risks will increase as well.

Unbeknownst to many businesses venturing into emerging markets, losses from political risks occur regularly in these countries.

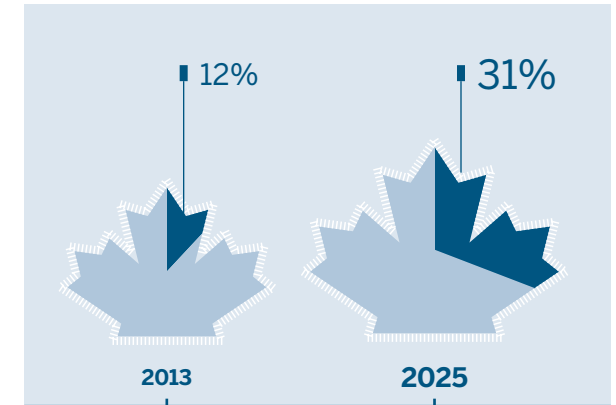
THE TOP FIVE POLITICAL RISKS

A significant number of multinationals have reported losses as a result of these risks in the last three years:



SOURCE: World Investment and Political Risk, 2013, Washington, DC: MIGA, World Bank Group

CANADA'S TOTAL MERCHANDISE EXPORTS TO EMERGING MARKETS COULD NEARLY TRIPLE BY 2025

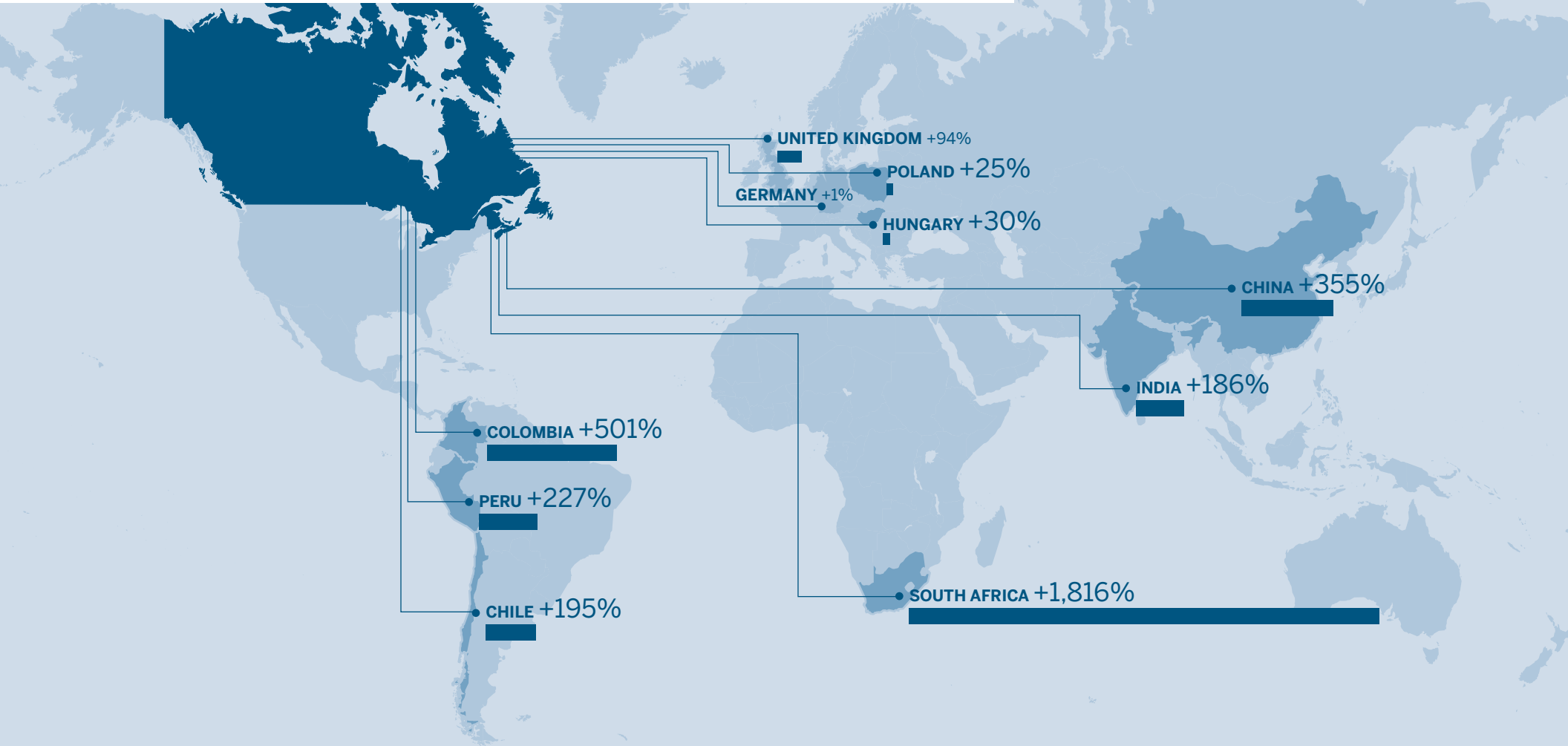


EXPORTS TO COUNTRIES SUCH AS INDONESIA, TURKEY, CHILE AND VENEZUELA ARE ON THE RISE.

Source: Export Development Canada (EDC)

CANADIAN COMPANIES ARE INCREASINGLY PUTTING THEIR MONEY INTO DEVELOPING ECONOMIES

From 2004 to 2013, direct investments from Canada to emerging markets increased dramatically compared to those in more established markets such as Germany and the United Kingdom.



SOURCE: Statistics Canada; stock of Canadian Direct Investment Abroad.

The potential for widespread effects on business

Political risk events rarely have isolated effects—they may ripple across an entire company, aggravating other types of risk all the way back to Canada. For a simplified example, consider the fictional DCE Energy Corporation, which operates a very profitable manufacturing affiliate in an Asian country. Abruptly, however:

A new government in the Asian country brings in new currency transfer and conversion rules, so DCE can no longer repatriate its affiliate's profits.

DCE's cash flow falls sharply as a result and its balance sheet suffers.

The company's lender sees the balance sheet and responds by cutting DCE's Canadian operating line. The resulting lack of working capital causes trouble with the company's production operations in Canada.

Because of the production problems, DCE is late in delivering a large shipment. The customer won't pay until it arrives, which further undermines DCE's cash flow.

The shrinking cash flow causes DCE to pay a major supplier late. This hurts the company's reputation with the supplier, who starts demanding cash up front for its materials.

This diminishes DCE's cash flow and working capital even further. The downward spiral continues, and the company eventually loses its investment in its Asian affiliate and finds itself severely weakened at home.

Do companies manage risk well?

Given the fact that political risk often causes losses for companies operating in emerging markets, it's surprising that so few businesses try to diminish the probability of these risks or reduce its potential effects. Several studies have confirmed this inertia, with companies offering one or more of the following reasons for it:

Managing political risk is too demanding in terms of time, money and other resources.	It is too complex.
It is not feasible because the necessary information is lacking.	The nature of the business makes it unnecessary.

While other types of risk—such as economic slowdowns and increased competition—attract close management attention, political risk is clearly something of an orphan. As a result, much of what passes for political risk management is disorganized and superficial.

ARE POLITICAL RISKS ON MORE COMPANIES' RADAR?

The Aon Global Risk Management Survey 2013 showed that political risk is:



> among the top 10 hazards (out of 49) of doing business globally.



> the top hazard for which companies felt the least prepared.



> expected to rise to number six within three years.

Only 39 percent of the respondents said they had a comprehensive plan to manage political risks, or that they had recently undertaken a formal review of these risks.

> EXPERT VIEW THE AVERSION TO RECOGNIZING RISK

Most firms “don’t want to devote monetary resources to political risk, or they think they are immune to it, or they haven’t had a problem and they think they never will. But it only takes one bad experience to make an organization start to believe in managing political risk.”

Daniel Wagner
CEO of Country Risk Solutions

Daniel Wagner is CEO of U.S.-based Country Risk Solutions and author of the book *Managing Country Risk*. He has had more than 25 years of experience with cross-border risk management and knows first-hand how companies can turn a blind eye to political threats.

The benefits of managing political risk

It's unfortunate that most companies don't manage their risk well, since there can be major benefits for those that do.



Companies can **better predict the effects of political events** on their investments or exports. If a country seems too hazardous, they can leave before they're seriously affected. If they remain, they can find ways to reduce the potential damage from political events.



Some political events can have positive results—a business boom, for example. Companies that are good at monitoring political risk may see these changes coming before their competitors do. This can give them a **competitive edge**.



Good political risk management can allow companies to enter new markets that could be highly profitable but may come with bigger risks. This can **open up new opportunities**.



Companies that understand their political risks can **make better decisions** about how to reduce them.

> EXPERT VIEW THE VALUE OF POLITICAL RISK MANAGEMENT

"A minor event can cause great havoc if you don't have a way to deal with it. Similarly, a major event can have minor impacts if you have the right safeguards in place. Oil and gas companies, for instance, have country risk management teams and devote substantial resources to the problem, so they know how to deal with risk events that could sink other companies."

Daniel Wagner
CEO of Country Risk Solutions

2.0 Managing political risk

All companies operating internationally need effective ways to identify, measure and deal with political risk. They also need to **integrate political risk management into their normal business processes**, and not sideline it whenever this suits their short-term goals. Senior management should also strongly support the company's risk management program and should give it enough resources to do its job.

There is no one-size-fits-all solution to political risk management—how a company makes it work will depend on factors such as its size, industry, foreign markets and financial strength.

THE POLITICAL RISK MANAGEMENT PROCESS

- 1 IDENTIFY political risk exposure
- 2 MEASURE risk exposure and its potential impacts
- 3 MITIGATE its effects
- 4 MONITOR it over time



ROLE OF THE RISK MANAGER

Companies that are good at dealing with political risk normally have an individual who is responsible for managing it. In large firms, this may be a chief risk officer with a dedicated supporting team. Smaller companies usually assign the responsibility to a CEO or CFO, who may be backed up by other company personnel depending on the workload. But in all successful risk management frameworks, someone is designated as a risk manager who will watch for hazards and find ways to deal with them.

1 Identifying political risk exposure

To identify political risk exposure, a company must first collect all the relevant information, then assess and rank potential risks. Risk affects different companies in different ways so a business must evaluate the information in context.

i. COLLECTING INFORMATION

The risk manager gathers pertinent information about each type of political risk the company faces, or is likely to face, in the target country. The objective here is to find out how political conditions or factors may affect the company's goals in the market.

In some countries, for example, monitoring the behaviour of political parties and politicians can reveal likely risks. In others, watching how factions compete within the government is a better way of determining where the hazards lie. Trying to do this kind of thing, however, may overwhelm the resources of many small and mid-sized businesses (and even some large ones). If this happens, using outside experts can be a reasonable alternative to doing everything in house.

ii. IDENTIFYING SPECIFIC RISKS

Once all the information is collected, the risk manager then identifies the political risks that most threaten the company's goals in the country. Seizure of assets might be a low-ranked hazard for an exporter, but a serious one if a company is considering a major investment or bringing valuable equipment into an emerging market to perform contract work.

One common way to identify risk is to develop scenarios that examine how specific political events could affect the company. This can help the risk manager assess the probability of each risk and its potential for causing damage. Examples of such political events might include:

The government's leadership is about to change or, in multi-party systems, the governing party is about to lose an election to an opponent.	The local socio-economic environment is rapidly becoming worse.
The national government and/or regional governments are considering regulatory changes, such as the rules for foreign investors.	Popular unrest is increasing or is threatening to do so.
The national economy is hit hard by a recession, which leads to worsening budget deficits for the government.	Tensions between the country and its neighbour states are rising rapidly.

**> EXPERT VIEW
THE ROLE OF THIRD PARTIES**


A company developing a political risk management system can benefit from outside help. "Involving a third-party expert means not having to depend solely on people within your organization. This helps keep the process objective by preventing entrenched interests from having too much say in what should be done. Smaller companies, moreover, may not have the internal resources to create the risk management systems they need, so if a company really wants to get it right, they should definitely consider using outside help."

Daniel Wagner
CEO of Country Risk Solutions


2 Measuring risk exposure and its potential impacts

The risk manager uses the scenario results he or she develops to rank the risks and measure the company’s exposure to each one. This involves attaching numbers to each risk wherever possible, thus reflecting the potential impacts of the firm’s exposure. These might be expected financial losses, maximum probable losses, market share changes or loss of customers. The measurements will help determine whether the risk level of a market is above or below the company’s tolerance, so that senior management can decide the conditions under which it should enter the market.


Some common measurement tools include:

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DISCOUNTED CASH FLOW ANALYSIS
Used to estimate the attractiveness of an investment. It discounts future cash flow projections to arrive at a present value, which is used to evaluate the investment’s potential. The risk manager could, for example, consider how a change in tax rates would affect the future cash flow of a foreign affiliate.

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ORGANIZATIONAL NETWORK ANALYSIS
Estimates the operational effects of a risk event across a company. This could be used to forecast how damage to an affiliate in one country would affect the firm’s affiliates in other markets, or the parent company in Canada.

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DIAGNOSTIC TOOLS
Used in enterprise risk management (ERM) to identify, assess and measure threats that may affect the company. Most of these tools are provided by third-party ERM specialists.

! COMPANIES WITH HIGHER EXPOSURE

All Canadian companies that sell or invest abroad, regardless of their size, are faced with political risk. Not all firms, however, are equally exposed. Factors that may increase a company’s vulnerability include:

- > It has little experience with international business, or has international experience but is entering an unfamiliar market.
- > It has committed a large amount of its capital and assets to non-Canadian markets.
- > It limits its international operations to a single market.
- > It receives much more income from its foreign markets than from Canada.
- > Its success depends more on its international growth than on its domestic growth.
- > It depends largely on non-Canadian supply chains.




A company with any of these traits should pay very close attention to the political environments of its markets and how they might affect its future wellbeing.

3 Mitigating political risk exposure




There are two parts to risk mitigation: first, **reducing the probability** of a risk event and, second, **reducing its effects** if it becomes a reality.

i. REDUCING THE PROBABILITY OF POLITICAL RISK

The ideal way to deal with a serious political risk is to neutralize it entirely, but this is rarely possible. A second option, avoiding the risk, means leaving the market or never going there in the first place. For businesses that want to enter a market or remain in it, consequently, the only realistic option is to reduce the probability of political risks.





TYPE OF RISK	EXAMPLES OF WHAT INVESTORS CAN DO	EXAMPLES OF WHAT EXPORTERS CAN DO
<p>Changes in laws and regulations</p> 	<ul style="list-style-type: none"> • Select local partners who are in good standing with the current government, but not too closely associated with it either, in case of a change in government. • Develop a social licence to operate by maximizing host country benefits and using top-quality CSR practices. • Engage with governments at all levels. • Abide by all local laws and regulations. • Ensure that affiliates' relations with local governments are open and transparent (for example, when negotiating concessions or licences). • Ensure that benefits accrued through concessions or licences are not disproportionately favourable to the foreign affiliate compared with the host government. • Invest in countries with which Canada has good relations or has signed a bilateral investment agreement. 	<ul style="list-style-type: none"> • Select buyers who are in good standing with the current government, but not too closely associated with it either, in case of a change in government.
<p>Import/export restrictions</p> 	<ul style="list-style-type: none"> • Same as for Changes in laws and regulations. 	<ul style="list-style-type: none"> • Same as for Changes in laws and regulations.
<p>Foreign exchange restrictions (transfer and conversion risk)</p> 	<ul style="list-style-type: none"> • It is difficult to reduce the probability of this risk since it is usually driven by economic and political currents beyond a company's control. 	<ul style="list-style-type: none"> • It is difficult to reduce the probability of this risk since it is usually driven by economic and political currents beyond a company's control.

REDUCING THE PROBABILITY (CONT'D)

<p>Breach of contract by a government counterparty</p> 	<ul style="list-style-type: none"> • Make sure the contract was awarded to the affiliate in a transparent manner. • Make sure the contract does not disproportionately favour the affiliate. • Make sure the affiliate diligently observes all contractual obligations. 	<ul style="list-style-type: none"> • Make sure the contract was awarded in a transparent manner. • Make sure the contract does not disproportionately favour the exporter. • Diligently observe all contractual obligations.
<p>Expropriation</p> 	<ul style="list-style-type: none"> • Same as for Changes in laws and regulations. 	<ul style="list-style-type: none"> • Abide by all local laws and regulations. • Select buyers who are in good standing with the current government, but not too closely associated with it (in case of a change in government). • Have contingency plans to move physical assets outside the country or to make them difficult or impossible to use if expropriated.
<p>Political violence</p> 	<ul style="list-style-type: none"> • Select reputable local partners whose familiarity with their business and political environments can help the Canadian company avoid trouble. • Develop a social licence to operate by building good relations with, and bringing value to, local communities and local governments. 	<ul style="list-style-type: none"> • Select buyers that are financially and operationally capable of withstanding shocks from political violence. • Ensure that sales contract terms reflect the risk of political violence.

ii. REDUCING THE IMPACT OF RISK EVENTS

If a potential risk becomes a real-world event, the company’s risk management program must include ways to reduce its effects. The techniques used by exporters and investors can overlap.

TYPE OF RISK	EXAMPLES OF WHAT INVESTORS CAN DO	EXAMPLES OF WHAT EXPORTERS CAN DO
<p>Changes in laws and regulations</p> 	<ul style="list-style-type: none"> • Purchase insurance. • Diversify investments within and among different countries. • Build local presence gradually. • Use joint ventures with reputable local partners instead of setting up wholly owned affiliates. • Factor expropriation risk into the company’s required return on investment. • Invest in countries with which Canada has signed a bilateral investment treaty. • Include a robust and clear dispute resolution clause in any concession or licensing agreement signed with the local government, and specify international arbitration as a dispute resolution mechanism. • Build or become part of a coalition that includes other foreign investors, local industry allies, suppliers, trade unions, local and foreign media, rating agencies, embassies and multilateral agencies. 	<ul style="list-style-type: none"> • Build or become part of a coalition that includes other foreign investors, local industry allies, suppliers, trade unions, local and foreign media, rating agencies, embassies and multilateral agencies.
<p>Import/export restrictions</p> 	<ul style="list-style-type: none"> • Same as for Changes in laws and regulations. 	<ul style="list-style-type: none"> • Purchase insurance. • Same as for Changes in laws and regulations.
<p>Foreign exchange restrictions (transfer and conversion risk)</p> 	<ul style="list-style-type: none"> • Purchase insurance. • Regularly convert and transfer funds outside the country. • Set up an offshore account to receive payments from, and make payments to, companies outside the host country. 	<ul style="list-style-type: none"> • Purchase insurance. • Regularly convert and transfer funds outside the country.
<p>Breach of contract by a government counterparty</p> 	<ul style="list-style-type: none"> • Purchase insurance. • Make sure the contract constitutes a legal, valid, binding and enforceable obligation of the government counterparty. • Include a robust and clear dispute resolution clause in any concession or licensing agreement signed with the local government, and specify international arbitration as the dispute resolution mechanism. 	<ul style="list-style-type: none"> • Same as for investors.

REDUCING THE IMPACT (CONT'D)

Expropriation



- Same as for Changes in laws and regulations.
- Purchase insurance.
- Disperse physical assets among different countries.
- Build local presence gradually.
- Factor expropriation risk into the company's required profit margin.

Political violence



- Purchase insurance.
- Diversify investments within and among different countries.
- Use appropriate security planning and systems.
- Diversify buyers, suppliers and logistics routes.
- Use joint ventures with reputable local partners instead of setting up wholly owned affiliates.
- Factor political violence risk into the company's required return on investment.
- Purchase insurance.
- Diversify export markets among different countries.
- Require conservative payment terms such as confirmed letters of credit.
- Factor political violence risk into the company's required profit margin.
- Have contingency plans to move physical assets, such as local inventory, out of harm's way.

4

Monitoring political risk exposure

Once the risk manager has established how the risk management process will work in practice, he or she can assign responsibilities and set up routines for reporting, evaluation and review. There should be formal channels for regularly reporting political risk issues, both upward to senior management and downward to the personnel who manage the company's export or affiliate operations. These routines and channels should become part of normal business operations, and the manager must make sure that they don't fall into disuse as time passes.



AN EMERGING RISK

SOCIAL LICENCE TO OPERATE

This risk has recently emerged in relation to corporate social responsibility. "Social licence to operate" refers to a local community's willingness to support a business operation that a company is undertaking within it. If the company, the community and local governments can work together so that the project goes ahead without serious delays or conflicts, then the company has a social licence to operate.

Failing to secure this licence can ignite opposition by various groups and attract the attention of local, regional or central governments. One of these governments might then intervene to resolve the actual or perceived issues with the project. This could lead to increased financial costs or even the total loss of the investment.



CASE STUDY POLARIS SEISMIC INTERNATIONAL

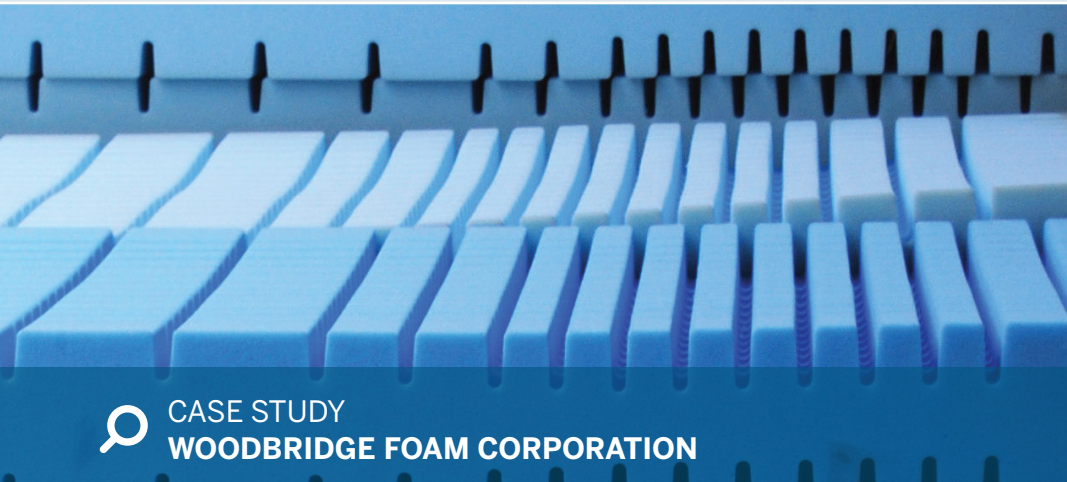
How Polaris identifies its political risk

Calgary-based Polaris provides seismic data-gathering services in locations around the world, primarily for oil and gas exploration companies. “We assess our exposure by using our past experience in similar markets,” says company CFO Chris Moulson, “and by using a political risk monitoring package when we’re bidding on a project. We also draw on a variety of information sources on the ground—International SOS, for example, is our medical services provider and issues regular bulletins about any trouble that might be looming where we operate. In addition, we rely heavily on our broker and logistics partners within the market to keep us informed if conditions change. EDC has also been very helpful in helping us assess our political risks. We use EDC to provide our political risk insurance, so whenever we go into a new market, the EDC team looks at it for us. That inevitably flags some potential hazards.”

How Polaris reduces its probability of risk

“We’re a small company,” says Mr. Moulson, “and our projects tend to be in remote areas where the risk of local disturbances can be high. We reduce our exposure by working closely with our local broker and logistics partners, and by spending time with people at all levels of authority, from the central government to tribal elders and farmers. We take pains to explain to the local community who we are, what we are doing and what the economic benefits will be. Those benefits lie largely in providing as much work for the local communities as we can—renting trucks and machinery, buying food, hiring security guards and so on, so that 85 per cent of what we spend on a project is spent locally.”

Regulatory changes are a second risk. “A key essential of Polaris’s operations is getting its equipment quickly into a country and getting it out just as fast, so it can go on to the next job. If regulations change, our equipment can be stranded in the country until the matter is resolved. If this goes on for long, it will cost us a lot of money. So wherever we go, we depend very much on our local partners—they know how things get done, and how to avoid the pitfalls.”



 CASE STUDY
WOODBIDGE FOAM CORPORATION



How Woodbridge reduces risk exposure

Mississauga-based Woodbridge is a major supplier and manufacturer of automotive, commercial and recreational vehicle components. Company Treasurer Joe Estriga considers transfer and conversion risk to be the firm's most likely political hazard. "Essentially," he says, "our focus is on protecting ourselves against the inability to repatriate cash to Canada. We take all the steps we can to mitigate our transfer and conversion risk, but there will always be some exposure, and that's where our EDC political risk insurance comes in. We've been purchasing political risk insurance for about 15 years, under a basket approach that covers all the countries where we do business, with insurance sub-limits for each country. It covers the part of the risk that we can't control by other means."

How Woodbridge monitors its risk exposure

Woodbridge watches its political risk exposure closely. "We use the amount of dollars invested in a country as an index of our risk exposure there," says Mr. Estriga. "We review our EDC political risk insurance annually, look at our capital investments in each market and adjust the insurance sub-limits to cover our investment if necessary. Our risk management team, in tandem with Helena Chu, our Director of Taxation, is always aware of any investments that are being planned and is always involved in them. We also have very experienced regional managers who are in tune with the political and economic situations in their countries, and will let us know about any issues there. In addition, our financial partners keep us abreast of developments in the markets where we operate."

3.0 Insurance

A well-developed political risk management program can provide effective protection for a company. Many businesses, however, find that no matter how careful they are, they're still more exposed than they can comfortably accept. There are various forms of insurance that can help fill this gap.









While a number of private insurers provide insurance that can be applied to political risk, Canadian exporters and investors also have the option of working with EDC to protect their international business. EDC has a **full suite** of insurance solutions that Canadian companies can use to protect their foreign business activities from specific types of political risks.

WHAT IS EXPORT DEVELOPMENT CANADA?

Export Development Canada (**EDC**) is Canada's export credit agency. It provides financing and insurance both locally and around the world to help Canadian companies—of any size—respond to international business opportunities. It is a self-financing, Crown corporation that operates at arm's length from the federal government.



Political risk insurance solutions from EDC

SOLUTION	WHAT IT INSURES	TYPES OF POLITICAL RISK COVERED
Political Risk Insurance of Investments 	Equity investments made in foreign countries	Expropriation, forced abandonment due to political violence, currency transfer and conversion, arbitral award default by a sovereign counterparty
Political Risk Insurance of Assets 	Physical assets as well as funds located in foreign countries	Expropriation, forced abandonment due to political violence, damage to assets due to political violence, currency transfer and conversion
Non-honouring of a Sovereign Obligation Insurance 	Loans made by banks to foreign governments or to eligible government-related entities in support of Canadian exports or foreign investments	Non-payment of the bank loan by the borrower
Contract Frustration Insurance (private sector buyers) 	Contracts signed with private sector companies in foreign countries	Political violence, moratorium on debt, import and export restrictions, currency transfer and conversion, cancellation or non-renewal of licences or authorizations
Contract Frustration Insurance (public sector buyers) 	Contracts signed with foreign governments or eligible government-related entities	Same as for Contract Frustration Insurance (private sector buyers), plus buyer insolvency, buyer default or contract termination by the buyer
Performance Security Insurance 	The calling of eligible bonds (such as bid or performance bonds) by a foreign buyer, if the call is triggered by a covered political risk	Political violence, changes in laws, cancellation or non-renewal of licenses or authorizations
Accounts Receivable Insurance (private sector buyers) 	Export sales to, and export contracts signed with, foreign private sector buyers	Political violence, import and export restrictions, currency transfer and conversion
Accounts Receivable Insurance (public sector buyers) 	Export sales to, and export contracts signed with, foreign governments or eligible foreign government-related entities	Same as for Accounts Receivable Insurance (private sector buyers), plus buyer insolvency or default, buyer repudiation of goods or refusal to accept them, contract termination by the buyer

4.0 Resources

Companies who currently operate in, or are considering operating in, emerging markets can find support and information for political risk management programs from these reliable sources.

- › EDC offers **extensive information** about the markets of most of the **world's countries**. EDC also has a network of on-the-ground representatives who can connect Canadian companies to the local business culture and to local sources of assistance.
- › The Canadian **Trade Commissioner Service** has trade teams in Canadian embassies and consulates around the world. These teams know a great deal about local political and business conditions.
- › The **Canadian Commercial Corporation** is a crown agency that helps Canadian companies do business with foreign governments and can provide assistance with contract negotiations in emerging markets.
- › The U.S. Department of Commerce publishes **Country Commercial Guides** for most of the world's markets and updates them regularly.
- › Non-government, publicly available sources include industry associations; **chambers of commerce**; insurance brokers; **The Economist** magazine; the **UCDP Conflict Encyclopedia**; the **Armed Conflict Database**; and various targeted news publications. There are also organizations such as the **International Crisis Group**, **Global Risks Insight** and the **Council on Foreign Relations**.
- › Private sector consulting and business intelligence agencies can provide enormously detailed information, as well as external help with setting up a company's political risk management system. Some of the largest and most reputable are the **Eurasia Group**, **Oxford Analytica**, **Economics and Country Risk** (formerly IHS Global Insight), **Control Risks**, **Business Monitor International**, **Maplecroft** and the **Economist Intelligence Unit**.

FURTHER INFORMATION ABOUT EDC'S RISK SOLUTIONS IS AVAILABLE IN THE FOLLOWING EDC PUBLICATIONS:

- › **Protect Your International Sales**
- › **Political Risk Insurance for Companies with Overseas Assets**
- › **Contract Frustration Insurance**
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