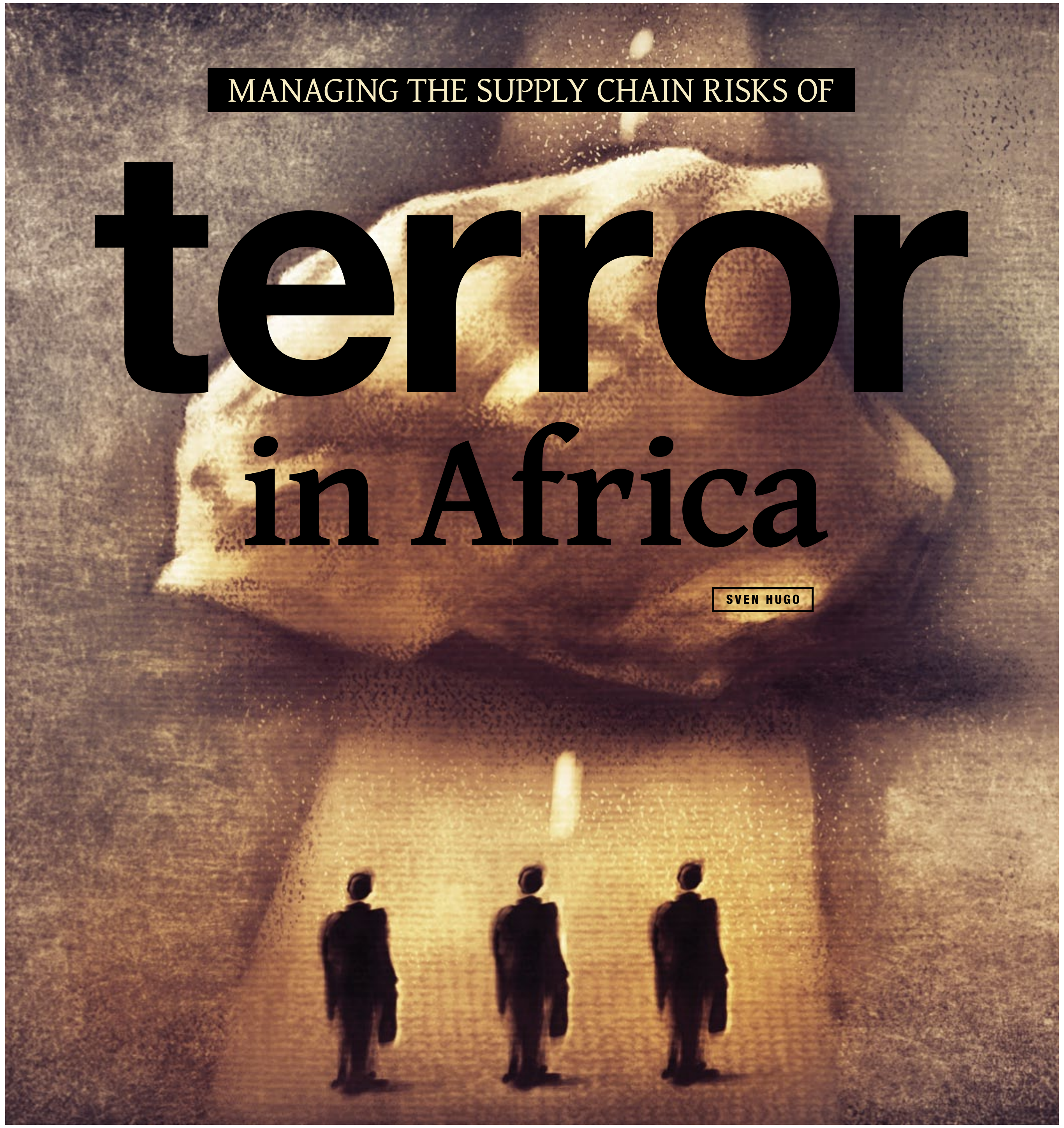

"War used to be a conflict between states, but not anymore. It is now a conflict between states and non-state actors," said Benedetta Berti, expert in political violence and non-state armed groups, in a recent TED talk. The collateral of this type of conflict is significant, with the loss of innocent civilian lives, and businesses often grinding to a halt – it is after all the exact intended purpose of terrorist activity. *RISKAFRICA* looks at the aftermath of terrorism and conflict in Africa, and how it can affect the supply chain.

Analysing risk

Tara O'Connor, executive director at Africa Risk Consulting (ARC), says they do analysis on all 54 African states, and the terrorism threat is a real consideration when analysing the state of some African countries. "We are constantly monitoring the changing Islamist threat in Northern Africa, which seems to have spread in an arc from Somalia in the east, across the Sahara down to Mali and then into Nigeria," she says.

Terrorists don't essentially target businesses and even less so the supply chain of business in a country, but rather plan attacks according to shock-value, and if it involves a business, like BT in Algeria, then so be it. "Terrorists are looking for maximum publicity and carnage," says O'Connor.

When it comes to supply chain risk, the real threat isn't terrorism, but usually appalling infrastructure, and bandit and other criminal activity in remote areas, according to O'Connor. "Villagers will often dig up a road and demand a formal toll fee," she says. "Concerning supply chain protection, a company would definitely need physical security in high-risk areas, for instance if you are supplying material to a mining site in Algeria." This 'journey management' is one of the practical methods companies can use to mitigate risk, often to such an extent that there's actually a very low chance of anything happening. "These proper security measures must be in place," says O'Connor.

Yet, terrorist activity is not the biggest worry for O'Connor. "Terrorism is definitely a threat, but the real risks are with infrastructure and road traffic accidents," she reiterates.

Red tape vs. business

In fact, one of the biggest obstacles to supply chain management in Africa is stringent anti-corruption regulation introduced by the UK and US, says O'Connor. "Paying any kind of facilitation fee is strictly against the law in accordance with the UK Bribery Act of 2011," she says. "It absolutely forbids any kind of payment to clear goods through customs and it leaves companies vulnerable."

Companies that want to operate in these areas, have to be assessed to establish where the risks lie. "Where are the high-risk ports, where and what anti-corruption programmes are in place?" asks O'Connor. "Nigeria, Kenya, Tanzania, Congo and the DRC are high-risk areas when it comes to moving goods and corrupt officials," she says. "The real risk is getting through border police and the informal roadblocks that the military and police officials set up all along the routes in these areas." But then paying bribes could land you in jail, according to UK legislation.

Companies like ARC assess these risks and ensure clients have the proper procedures and systems in place to meet requirements. "We constantly work with companies to identify the risks. We look at port management, stakeholders, rate the areas that pose risks, and then put policies in place to push back on corrupt demands," says O'Connor.

The rating system ARC uses is on a one-to-five sliding scale, with one being relatively safe and five being extremely high-risk. All factors are considered and each country is rated on a case-by-case basis, says O'Conner. "The DRC falls in the four to five category because of huge compliance issues, and massive risks in terms of anti-bribery legislation and security issues," she says. "Getting your goods around Kenya is probably a three from a pure logistics point of view and four at port level."

Insure against terror

Mandisi Nkuhlu, COO at Export Credit Insurance Corporation (ECIC), says terrorism cover is not part of the standard cover that ECIC offers, but civil disobedience and political violence are included in its war risk cover. "If operations of, for instance, an infrastructure or mining project are hindered and results in economic loss, cover is extended to lenders of this company," says Nkuhlu.

Nkuhlu says ECIC won't generally cover terrorism, except in special circumstances such as the cover it provided for a telecommunications company in Iran, where the infrastructure was less prone to attacks of that type because the network is spread across the country. "We won't cover terrorism unless it is a very compelling case, or otherwise it gets covered by our political violence cover," he says. ›

WE DO COUNTRY RISK ASSESSMENTS AND APPLY A RATING BASED ON OUR RESEARCH. IF WE ARE COMFORTABLE TO PROCEED WE WILL PROVIDE COVER.

THE IMPACT OF THESE TYPE OF RISKS ON THE SUPPLY CHAIN CAN BE VERY NEGATIVE, BECAUSE IT INCREASES THE RISK OF DOING BUSINESS ON THE CONTINENT.

"We offer piracy risk coverage to some projects in the Niger Delta," he says. "But again, we decide to cover these projects on a case-by-case nature.

"In some cases we avoid risk cover completely, other times we have kept our exposure within our country limits," says Nkuhlu.

He says ECIC does a thorough analysis of each project and country before they provide cover. "We subscribe to various research publications and have an internal research team," he says. "We do country risk assessments and apply a rating based on our research. If we are comfortable to proceed we will provide cover."

Nkuhlu says reinsurance is limited in these areas because the sector is known as non-marketable risks. There is availability but it is very limited, he says. "We take these risks on our balance sheets," he says.

As a state-owned company, ECIC supports the South African export industry, says Nkuhlu. "The impact of these type of risks on the supply chain can be very negative, because it increases the cost of doing business on the continent. Our role is to encourage South African exporters and help them gain access to markets in Nigeria, where Boko Haram operates, and East Africa where Al Shabaab is a threat, among others," says Nkuhlu. "For the benefit of South African players, ECIC may cover these types of risks."

Darlington Munhuwani, regional controller at Aon sub-Saharan Africa, says the risks facing multinational companies in these areas are various and not all are insurable. "One needs to weigh the options between self-insurance, no insurance and paying a premium to give some peace of mind to all stakeholders," he says. "The pervasive nature of terrorism and political risks demands that companies take time researching the risk profile of each country before making a decision to commit capital and human resources to the chosen destination."

Munhuwani says political risk insurance can protect companies against the full spectrum of political perils such as strikes, riots, civil commotion through terrorism, and insurrection to war and civil war. "These insurance products are designed to protect companies operating internationally against the negative effects of arbitrary government action as well as the financial effects of terrorism-linked activities on business," he says.

Aon makes use of a map to provide insights to clients of changes in monitored countries, and highlights each country's risk and the various elements that drive these risks. The map measures political risk in 163 emerging-market countries and territories, and each is rated according to a colour starting at low, medium-low, medium and so on up until very high. A country's risk is determined by six core risk factors: exchange transfer, legal and regulatory risk, political interference, political violence, sovereign non-payment and supply chain disruption. Other additional risk factors include banking sector vulnerability, risks to business continuity and risks to fiscal stimulus. This map is also freely available as an app, says Munhuwani, and is used to assist in the ongoing assessment of political risks for various countries.

Companies can be affected by political unrest and terrorism even without physically being present in the country, says Munhuwani. "An exporter or importer, companies doing business with clients and governments globally, encounter a myriad potential risks including an inability to convert and transfer currency during trading; disruptions at ports and terminals can also have a direct financial impact," he says.

In mitigating these risks, Munhuwani says good local relations with government is crucial. "The security of investments lies with the communities, therefore, companies must invest time and money in cultivating good relations with the communities they operate in," he says. "Companies in agriculture and mining are vulnerable to changes in government policies, especially in cases where it's perceived they are not giving back to the community."

It is important for companies to carry out feasibility studies and assess the terrorism risk before investing, says Munhuwani. "The use of terrorism monitoring tools after investment is also highly recommended," he says.

"Many parts of the world are affected by ongoing conflict or unrest, and for companies operating in afflicted countries such as Nigeria, Kenya and Somalia, political violence cover is an obvious choice," says Munhuwani. He warns against the illusion of stability, saying that it is easy to overlook hidden but latent tensions that can rapidly evolve into a security risk.

Munhuwani mentions the Westgate shopping mall attack in explaining that terrorism not only leads to a disruption in business but also to the loss of innocent lives. "Therefore, the consideration to buy insurance must extend to include people and not solely focused on providing cover to physical assets."