

Mitigating Political Risks in Latin America

Table of Contents

- Current Construction & Infrastructure Activity1
- Political and Economic Landscape in Latin America2
- Increasing Geopolitical Risks in Latin America3

Current Construction & Infrastructure Activity

Despite some recent market volatility in Latin America, the region saw relatively robust infrastructure activity in 2017, with deal volume and capital invested matching 2016 project activity at about USD 50 billion for both greenfield and brownfield projects. The Latin American construction and infrastructure market is continuously evolving. On the one hand, some local contractors have had to gradually retract from the market amid financing and liquidity concerns driven by large scale corruption scandals in the region. Contractors affected by these scandals have been forced to sell their stakes in assets to free capital and increase liquidity. The implications of these events have been profound and may ease foreign contractors' entry into a market once highly dominated by local contractors. Additionally,

nascent markets in the region are expected to work to implement regulatory frameworks and protocols around public private partnerships (PPPs) to increase investment in construction and infrastructure. Cash-strapped Puerto Rico has set a strong PPP project pipeline as the island continues its recovery and resilience efforts from the aftermath of hurricanes Maria and Irma. Furthermore, Central American countries have also made advances in their PPP frameworks, spurring project activity. However, no construction and infrastructure market is static in Latin America. Some parts of the region foresee higher growth in their project pipelines, while the potential for growth in other parts of Latin America may be overshadowed by political and economic uncertainty in the near future.

Increasing Geopolitical Risks in Latin America

As Argentina attempts to ameliorate its growing economic volatility, uncertainty in the market will remain. The government's steps to stabilize the currency and implement its reform agenda will likely face opposition and increase social discontent, which raises the real prospect of the election of an anti-market president in 2019. Due to Argentina's dependence on external financing, this would lead to a more serious crisis, potentially resulting in currency controls restricting companies' ability to make loan or dividend payments in dollars or euros. As in previous crises, companies may also face price controls or adverse material changes to concession terms that undermine the commercial viability of their projects. Political risk insurance, which offers project investors and lenders protection against certain risks, will be a critical consideration for project stakeholders.

In Nicaragua, a recent surge of violence has dimmed economic activity and increased uncertainty amid an internal political crisis that began with civilian protests against tax increases and have now resulted in violent confrontations with police and what human-rights groups say are paramilitary gangs aligned with President Ortega's government. The current crisis in Nicaragua has given rise to a sharp increase in demand for political risk insurance, as companies seek protection against the potential of violence impacting their projects or contracts directly, resulting in physical damage to project assets and business interruption losses as well as damage to key infrastructure. The government's willingness or ability to honor its financial commitments under existing contracts or concessions is another key area of concern for companies with projects in Nicaragua.

Political Risk Insurance

As the appetite of foreign and local contractors grows in Latin America, these contractors will be drawn to opportunities outside of their home countries as emerging markets seek to expand their infrastructure development and mature markets seek to replace and refurbish stressed, aging assets. In addition to the inherent risks involved in expansive international operations, each global market poses a unique risk profile. Contractors will continue to encounter increased geopolitical uncertainties and concerns that impact the construction market.

Political, economic, financial and social instability can result in significant financial losses for contractors and projects. Aon's political risk specialists work with many of the world's leading construction and engineering companies, as well as their lenders, to help protect contracts, operations and assets in the world's most unpredictable and unstable environments. Key political risks facing contractors & engineers include:

Key political risks facing contractors & engineers

- Failure of the host government to pay contractually due amounts, due to either inability or unwillingness to meet obligations
- Non-payment by commercial buyers
- Refusal of a government entity in the host country to pay arbitration awards in favor of the contractor or the engineering firm
- Inability to perform a contract or project due to political interference, violence, or social unrest
- Damage to plant and equipment caused by terrorism, civil unrest, violent protests, war and similar acts of violence
- Loss of equipment due to government seizure or other action that prevents re-export of equipment
- Inability to convert local currency earnings or contract payments into hard currency
- Wrongful call of on-demand bonds or guarantees posted as bid, performance, or advance payment bonds, or a fair call precipitated by a political event
- Expropriation, forced re-negotiation or revocation of concessions, licenses, permits, etc.
- Delays arising from government action or inaction, or protestor action

Political risk insurance, tailored to meet the specific needs and concerns of contractors, is available to provide reliable protection against the above risks.

¹ *Inframation Transactions*

² *"News Analysis: Fiscal Deficits Likely to Tie Left's Hands in Latin America". Inframation News*

³ *"Latin America Base and Worst Case" IHS.*

⁴ *Colombia faces challenge to avoid debt downgrade, whoever wins the vote*

⁵ *"Latin America Base and Worst Case" IHS.*

⁶ *"Latin America Base and Worst Case" IHS.*

⁷ *IHS Global Insights.*

⁸ *IHS Global Insights.*

⁹ *"Argentina's Economic Woes". The Economist.*

¹⁰ *"Nicaragua's Political Crisis Descends Into Dark Days". The Wall Street Journal.*

Contact

Mariano Viale

Managing Director
Aon Construction and Infrastructure
Solutions Latin America
mariano.viale@aon.com
+1.305.961.5921

John Minor

Director
Crisis Management and Political Risk
john.minor@aon.com
+1.312.381.9654

Aritza Perez

Analyst
Aon Infrastructure Solutions
aritz.perez@aon.com
+1.312.381.9658

If you have any questions about your specific coverage or are interested in obtaining coverage, please contact your Aon Broker.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

© Aon plc 2018. All rights reserved.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

www.aon.com

GDM06822