MARSH JLT SPECIALTY

INSIGHTS | **FEBRUARY 2020**

Risk Outlook

Shifting government attitudes to foreign investment are a common theme across the countries covered in this month's *Risk Outlook.*

In Uzbekistan and Angola, efforts to improve the business environment and address economic weaknesses will continue in 2020, but businesses will continue to face a complex political risk landscape. In contrast, Mexico's changing energy policy looks set to reduce the role of the private sector.

Risk Outlook provides a detailed, forward-looking assessment of developments within the security, trading, and investment environments in Mexico, Kenya, Angola, Uzbekistan, and Togo.

We aim to provide clarity on dynamic political risk conditions, and how these are likely to impact companies in 2020.

We also provide a *Rating Roundup,* summarizing a selection of *World Risk Review* ratings changes in additional countries.

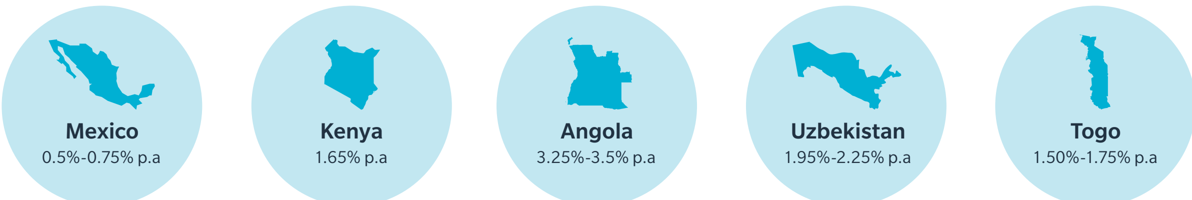
Contents

Note:

In addition to the sovereign credit risk pricing ranges shown below, this *Risk Outlook* contains pricing information on confiscation, expropriation, nationalization, and deprivation (CEND) insurance. The various costs for contractors, investors, and lenders are available for a three-to-five-year tenor, for the countries covered in this month's *Risk Outlook*.

FIGURE 1

Sovereign Credit Risk Pricing Range.



MARSH

Rating Roundup

THIS MONTH'S *WORLD RISK REVIEW* RATINGS CHANGES

PHILIPPINES

▲ **Contractual Agreement Repudiation (5.3)**

On December 5, 2019, President Rodrigo Duterte's chief legal counsel stated that the government would seek to revise contracts with two water companies. This followed previous statements by Duterte that the government would terminate their contracts.

The permanent court of arbitration recently ruled in favor of the two companies, after they alleged that the government had breached contractual terms by cutting water rates. The dispute came as Duterte held the companies responsible for 2019's water shortages in Manila.

0.1 = Low Risk 10 = High Risk

FIGURE 2

World Risk Review Ratings.

Mexico	●	Kenya	●	Angola	●
Uzbekistan	●	Togo	●	0.1 = Low Risk 10 = High Risk	

The monthly *Risk Outlook* is supported by our proprietary country risk rating tool, *World Risk Review* (WRR), which provides risk ratings across nine insurable perils for 197 countries. The country risk ratings are generated by a proprietary, algorithm-based modelling system incorporating over 200 international indices.

MEXICO

In December 2019, Mexico's state-owned power utility Comisión Federal de Electricidad (CFE) announced planned regulatory changes that are likely to limit private-sector participation in the energy market.

KENYA

President Uhuru Kenyatta reshuffled his cabinet on January 14, as part of efforts to weaken his rival, and deputy president, William Ruto.

ANGOLA

In 2020, President João Lourenço is expected to continue implementing a program of economic reforms, as part of the country's participation in a three-year International Monetary Fund (IMF) program.

UZBEKISTAN

Since acceding to the presidency in 2016, President Shavkat Mirziyoyev has implemented a program of economic liberalization, ending decades of isolationism.

TOGO

Togo will hold presidential elections on February 22, 2020, in which President Faure Gnassingbé is expected to secure a fourth term in office.

Extortion incidents increased by 37% year-over-year during January-May 2019, reaching 3,526 cases.

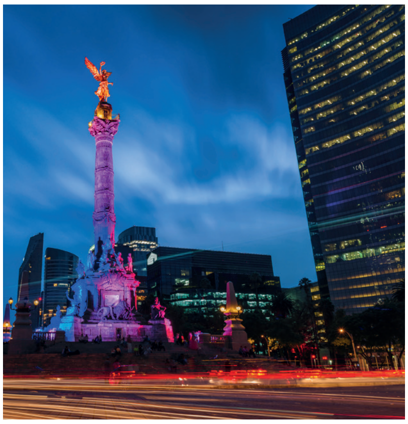
Mexico

President Andrés Manuel López Obrador (AMLO) is shifting Mexico's energy policy and pursuing state-centric policies. In 2020, new regulations will reportedly increase transmission costs for renewable energy firms, creating a more challenging operating environment for the energy industry.

Security Environment

Energy firms face a serious risk of attacks on infrastructure, and fuel theft is common. However, in the last 12 months the government has initiated a fuel-theft crackdown, fixing 13,600 illegal taps on pipelines and moving more oil by armored vehicles. This has reduced the amount of stolen gasoline, diesel, and liquefied petroleum gas (LPG) to 1.8 million barrels in 2019, down from over 20.4 million barrels in 2018.

Drug cartels pose a risk of property damage, particularly in Estado de Mexico, Guerrero, Michoacán, and Tamaulipas states. Cartels are increasingly looking to diversify revenues away from drug trafficking, leading to more extortion cases. Extortion incidents increased by 37% year-over-year during January-May 2019, reaching 3,526 cases.



The US accounts for approximately 75% of all Mexican exports, but US growth is forecast to slow to 2% in 2020, down from 2.8% in 2019.

Trading Environment

Real GDP contracted by 0.1% year-over-year in the first nine months of 2019, as the Mexican economy experienced a technical recession. Uncertainty over policy direction continues to hamper Mexico's attractiveness as an investment destination, and will contribute to weak economic growth of 0.6% year-over-year in 2020.

Mexico will also be negatively impacted by slower growth in the US. The US accounts for approximately 75% of all Mexican exports, but US growth is forecast to slow to 2% in 2020, down from 2.8% in 2019 and 2.9% in 2018.

The government outlined only minor spending increases in the 2020 budget, highlighting the limited fiscal space available to the administration. However, over the long term, Mexico's fiscal deficit will likely widen if weak growth persists and AMLO is pressured into enacting a nationalist agenda that prioritizes government spending to stimulate economic activity.

The fiscal deficit is forecast to increase to 2.5% of GDP in 2020, up from 2.3% in 2019. AMLO must balance fiscal prudence with budgetary support for Mexico's state-owned enterprises.

This has transferred some credit risk to the government. Mexico's total government debt-to-GDP ratio will increase over the course of AMLO's presidential term from 47.4% in 2019, to 52.6% in 2021.

However, adequate foreign reserves mean the economy is relatively buffered against external shocks. Foreign reserves are forecast at US$182.7 billion in 2020, providing for 4.4 months of import cover.

Investment Environment

AMLO wants to strengthen state entities' market role, following a period of energy market liberalization under his predecessor.

In December 2019, Mexico's state-owned power utility, Comisión Federal de Electricidad (CFE), announced planned regulatory changes that are likely to limit private-sector participation in the energy market.

The plans are set to increase transmission costs for private-sector generators, particularly in the renewables sector, and give priority to CFE when electricity is dispatched into the national grid. Independent generators that supply electricity to private clients under contracts agreed before Mexico's liberalization of the energy market in 2013, will have to pay CFE a transmission fee to use its network.

The regulatory changes will impact companies that generate approximately 12% of the country's energy supply. They are also likely to increase the risk of contract termination between generators and private-power clients.

Given the current government's policy shift toward energy nationalism, the operating environment for private renewable companies is likely to become more challenging in the next year.

Rating Outlook: Country Economic Risk; Contractual Agreement Repudiation; Legal and Regulatory Risk.

On January 8, al-Shabab militants attacked an airfield in Lamu county used by Kenyan and US militaries.

Kenya

The ruling Jubilee Party is likely to split ahead of the 2022 presidential election, as outgoing President Uhuru Kenyatta works to marginalize rival William Ruto. A fractious political environment may hamper policymaking, while difficulties in boosting revenue generation will ensure persistent budget deficits.

Security Environment

On January 8, 2020, al-Shabaab militants attacked an airfield in Lamu County used by Kenyan and US militaries. Militants used rocket-propelled grenades and small arms, leading to the death of a US soldier. US Africa Command stated that six civilian aircraft operated by military contractors were damaged during the attack.

This followed an earlier attack on January 7 in Garissa County, in which 12 al-Shabaab militants used improvised explosive devices in an attempt to destroy telecommunications masts belonging to South African telecom company, Safaricom.

The attack was unsuccessful but four civilians were killed. Since 2017, five telecom masts belonging to Safaricom have been destroyed in similar insurgency-style attacks.

On January 8, Al-Shabaab also released a statement issuing a threat to attack tourists in Kenya. In coming months there will be increased risk of attack on tourist hotspots in Kenya's coastal northeastern region, including hotel and beach resorts on Lamu Island, and resorts in Mombasa, Malindi, and Diani Beach.

In October 2019, Kenya's anti-terror police unit reported that al-Shabaab militants had entered the country and plan to attack cargo terminals in Mombasa port, the Moi International Airport, and the Mombasa-Nairobi Standard Gauge Railway terminus in Miritini.

Economic performance will be supported by elevated public investment in infrastructure projects, with real growth in the construction industry expected to average 6.2% in 2020-21.

Trading Environment

In 2020, Kenya's economy is likely to outperform in the region, with real GDP growth forecast at 5.7%. Economic performance will be supported by elevated public investment in infrastructure projects, with real growth in the construction industry expected to average 6.2% in 2020-21.

In November 2019, the government also removed a cap on commercial bank lending rates, which had been in place since 2016. The cap weighed on the country's credit growth, and its removal should boost loan issuance, supporting increased investment and private consumption over the coming quarters.

The government may fail to meet its own fiscal targets in 2020, as it struggles to boost revenue generation. For example, in the first three months of the 2019-20 fiscal year, government revenue was KES424 billion, below the target of KES495 billion. This was partly a result of sluggish performance in the agricultural sector amid poor weather conditions.

The government is likely to remain committed to public spending on infrastructure projects under its "Big Four" agenda, ensuring the fiscal deficit remains elevated at 6.9% of GDP in the 2020-21 fiscal year. For example, in December 2019 President Uhuru Kenyatta approved an additional KES73.4 billion in funding to plug shortfalls.

Investment Environment

Kenyatta reshuffled his cabinet on January 14, as part of efforts to weaken rival, and deputy president, William Ruto. Kenyatta dismissed Agriculture Cabinet Secretary Festus Kiunjuri, a key ally of Ruto, and replaced him with Industry, Trade and Cooperatives Cabinet Secretary Peter Munya.

Ruto's eroded support in government increases the likelihood that he will leave the ruling Jubilee Party. A new party led by Ruto would seek to oppose Kenyatta's key policy aims of increasing tax revenue and rationalizing the budget.

Kiunjuri is likely to be the subject of several corruption investigations in 2020, increasing the risk of contract review for businesses connected to Kiunjuri and his associates.

On January 14, 2020, Kenyatta announced an investigation into the governance of the Kenya Tea Development Agency. Kiunjuri is facing corruption allegations after it emerged that a payment of US$17.8 million was withdrawn from the accounts of the strategic food reserve trust fund in 2019.

Rating Outlook: Terrorism; Sovereign Credit Risk; Legal and Regulatory Risk.

Protests are unlikely to target foreign firms directly, but roadblocks may disrupt business.

Angola

President João Lourenço will continue a reform drive in 2020, pursuing fiscal consolidation and privatization of key state-owned firms. Despite this, the economy will contract further as public frustration with declining living standards spurs protests.

Security Environment

Economically motivated protests are likely in 2020, amid deepening public discontent with elevated inflation, unemployment, and corruption.

Upon his inauguration in 2017, President João Lourenço promised to oversee an economic boom and create 500,000 jobs, which have failed to materialize. After a long period of painful economic reforms, goodwill toward the government is thinning. Youth-led protests began in August 2019, reflecting growing dissatisfaction.

In September 2019, thousands of student protesters threw projectiles at a jobs fair in Luanda, while shouting anti-government slogans. Further incidents are likely in 2020 — amendments to tax and subsidies will be likely flashpoints — and will be concentrated in Luanda.

Protests are unlikely to target foreign firms directly, but roadblocks may disrupt business. Police can disperse protests within hours, reducing the likelihood of extensive property damage.

Separatist activity by the Frente para a Libertação do Enclave de Cabinda (FLEC) group continues to elevate security risks in the Cabinda enclave. Armed militants typically target military assets, although oil company convoys have also been targeted. Vehicles on the N3 route will be particularly exposed to attacks.

In February 2019, FLEC killed three soldiers and a police officer. However, the group lacks the capabilities to carry out attacks in the rest of Angola, with incidents concentrated in north eastern Cabinda.

Under Lourenço, the government has worked to increase the private sector's role in the economy.

Trading Environment

In 2020, Lourenço is expected to continue implementing a program of economic reforms, as part of the country's participation in a three-year IMF program. Since acceding to the presidency, Lourenço has worked to reduce the country's reliance on oil revenues, encourage foreign investment, and address structural economic weaknesses. For example, in October 2019, Angola introduced a 14% value-added tax and brought the kwanza exchange rate toward a market-determined rate.

Despite a commitment to reforms, Angola's economic performance is likely to be weak in 2020. Its maturing oil sector is experiencing declining production, falling from 1.81 million barrels per day (bpd) to 1.51 million bpd in 2018.

The oil sector still accounts for approximately 90% of Angolan exports and, amid structurally lower global oil prices, this will generate notable economic headwinds. As a result, the economy is forecast to contract for the fifth consecutive year in 2020, with real GDP declining by 0.2%.

While Lourenço is likely to maintain a conservative fiscal stance, the oil sector's declining fortunes are likely to ensure that Angola continues to post widening fiscal deficits in the coming years.

The 2020 deficit is forecast at 2% of GDP, rising to 3.1% in 2021. Given a lack of fiscal space, public investment is likely to be limited in 2020. Sovereign credit risks will remain elevated in 2020, given continued exposure to external shocks.

Over the next decade, external debt will average approximately 52% of GDP. A collapse in global oil prices or the value of the kwanza would place significant pressure on the government's ability to meet debt obligations.

Investment Environment

Under Lourenço, the government has worked to increase the private sector's role in the economy. It plans to privatize 195 state-owned enterprises (SOEs) between 2019 and 2022. It is expected that 175 of these will be sold through public tender, 11 through public auction, and nine through initial public offerings.

Following the official publication of Angola's privatization program on August 5, 2019, companies expected to be privatized in the coming years include Caiza Angola, Banco Angolano de Investimientos, Mota Engil, and Unitel. Meanwhile, the process to list 30% of oil company Sonangol is expected to begin in 2022.

The government has further sought to boost the business environment, by removing rules that required foreign entities to partner with a local firm.

However, corruption is likely to remain a concern for investors in the near term. Lourenço has implemented an anti-corruption drive, particularly targeting relatives of former President José Eduardo dos Santos — for example, freezing the assets of daughter Isabel dos Santos.

Despite this, corruption will continue to generate reputational risks for firms operating in Angola, as politically connected individuals maintain extensive economic interests. Recent revelations regarding alleged fraudulent activity of Isabel dos Santos are likely to further damage Angola's reputation.

Rating Outlook: Strikes, Riots, and Civil Commotion; Terrorism; Sovereign Credit Risk; Legal and Regulatory Risk.

Relations with Central Asian neighbors are likely to continue improving in 2020.

Uzbekistan

Since 2016, President Shavkat Mirziyoyev has liberalized the Uzbek economy, reforming the currency regime and courting foreign investment. But the political environment remains challenging and expropriation risks are elevated.

Under Mirziyoyev, relations with neighboring Kyrgyzstan and Tajikistan have improved. Mirziyoyev has prioritized the diplomatic resolution of border disputes with both countries: 300km of the Kyrgyz-Uzbek border is disputed, while there are four Uzbek enclaves within Kyrgyzstan.

Improved bilateral relations should reduce the risk of border skirmishes in the medium term, while also resulting in fewer border closures.

Broader relations with Central Asian neighbors are also likely to continue improving in 2020. In October 2019, Uzbekistan was accepted as a member of the Turkish Council, joining Azerbaijan, Kazakhstan, Kyrgyzstan, and Turkey. Membership could support increased cooperation on foreign policy and trade.

Both the Islamic Movement of Uzbekistan (IMU) and Islamic Jihad Union pose a terrorism risk in Uzbekistan. Both groups' capabilities are concentrated in Ferghana Valley, Bukhara, and Tashkent, and can launch improvised explosive device attacks on government assets and security services.

However, the IMU's capabilities have been reduced by counter-terrorism operations in recent years. In July 2015, the group's field commander, Qoori Hikmatullah, was killed by the Afghan national army.

Moreover, the group announced its integration into Islamic State in 2015, shifting its strategic interests towards competing with the Taliban in Afghanistan. This is likely to reduce IMU's operational capabilities in Uzbekistan.

Reforms have yielded benefits, with the country forecast to experience real GDP growth of 5.4% in 2020.

Trading Environment

Since acceding to the presidency in 2016, Mirziyoyev has implemented a program of economic liberalization, ending decades of isolationism. The country's development strategy for 2017-21 outlines plans to increase the private sector's role and reduce state interventionism.

In 2019, the government outlined privatization plans for a number of sectors, with initial public offerings suggested for the state mining companies, Almalyk Mining-Metallurgical Complex and Navoi Mining-Metallurgical Combinat. Reforms have yielded benefits, with the country forecast to experience real GDP growth of 5.4% in 2020.

As part of its reform drive, the government devalued the currency by 50% in 2017, below the black-market rate, and eased currency restrictions. In August 2019, the Central Bank announced that the soum would move to a free-floating currency regime, and remaining currency restrictions would be removed — allowing individuals to purchase foreign currency for the first time. Inflationary pressures pose a downside risk to Uzbekistan's economic outlook.

The soum lost 12.3% of its value against the dollar between January and October 2019, generating inflationary pressures linked to imported goods. The inflation rate reached 20.5% at the start of 2018, before moderating to a forecasted rate of 12% in 2020.

The government is expected to pursue an expansionary fiscal policy, as it works to boost domestic demand through public investment. Projects in the power and transport sectors are particularly likely to benefit. Major projects include the US$1.9 billion Pap-Angren Railway and a 100MW solar PV project in Navoi region.

Uzbekistan will also be reliant on financing from regional development banks and governments, given its limited access to international capital markets. The Asian Development Bank, China Development Bank, and European Bank for Reconstruction and Development are particularly prominent financers of Uzbek projects.

In January 2019, Mirziyoyev signed an agreement with Indian Prime Minister Narendra Modi to export uranium to India in exchange for a US$200 million credit line.

Investment Environment

Mirziyoyev's reform agenda outlines plans to overhaul the judicial system, which currently lacks independence. Courts are likely to rule in favor of the government and state-owned enterprises in commercial disputes, and may not honor international arbitration awards.

The government is keen to court foreign investment and, in the coming quarters, will work to avoid action that damages investor confidence. This should mitigate the risk of state contracts being cancelled or unilaterally revised.

However, expropriation risks remain elevated in Uzbekistan, and the government is unlikely to offer adequate compensation. Reports suggest that, despite the reform agenda, Mirziyoyev may increase his family's presence in key economic sectors, and could pressure firms that refuse to cooperate.

Reports suggested that in January 2017 government regulators placed pressure on the administration of Abu-Saxiy market in Tashkent, with the aim of forcing the owner, the son-in-law of former President Islam Karimov, to cede control to Mirziyoyev's son-in-law.

Rating Outlook: War and Civil War; Country Economic Risk; Expropriation.

Investors in Togo's renewable power sector may be exposed to elevated political risks in 2020.

Togo

President Faure Gnassingbé is likely to secure a fourth term in office in February's election, ensuring his continued political dominance. Under the 2018-2022 national development plan, the government is keen to attract private financing into the renewable power sector, moderating contractual risks.

Security Environment

Investors in Togo's renewable power sector may be exposed to elevated political risks in 2020. In 2017-18, Togo experienced political instability when disputes emerged between the government and opposition over President Faure Gnassingbé's term length.

Talks between the two sides failed to produce an agreement in 2018, and the C14 opposition bloc boycotted general elections in December 2018.

Relations between the government and opposition remained poor in 2019, and the ruling Union pour la République party secured a landslide victory in June 2019's municipal elections.

Togo will hold presidential elections on February 22, 2020, with Gnassingbé expected to secure a fourth term in office.

This will consolidate his hold on power, following his party's strong showing in June 2019's municipal elections. Protest activity is likely to increase in anticipation of the election, but is unlikely to reach levels of violence seen in 2017-18.

The government will disperse protests quickly using tear gas and rubber bullets. Incidents are unlikely to target hydropower projects and will be concentrated in urban areas.

The PND aims to generate an additional 500,000 jobs by 2022, achieving a GDP growth rate of 7.6%.

Trading Environment

Togo's economy is expected to grow by 4.5% in 2020, driven by strong performances in the cotton and mining sectors. In the cotton sector, Togo achieved a 17% year-over-year increase in production in 2019, as the government financed input materials for farmers. Production output is expected to increase by 30% in 2020, reaching 152,000 tons.

The government's national development plan (PND), announced in March 2019, should also support the economic outlook until 2022. The PND aims to generate an additional 500,000 jobs by 2022, achieving a GDP growth rate of 7.6%.

The plan targets three main areas: developing Togo as a logistics hub; developing agricultural processing, manufacturing, and extractives industries; and promoting social development. However, the 65%-privately financed PND is yet to secure funding for some projects, which may moderate its impact on near-term economic performance.

In December 2019, the eight member states of the Union Economique et Monétaire Ouest Africaine (UEMOA) and France agreed to reform the CFA franc, which will be renamed the "eco." Reforms will see the French finance ministry return foreign reserves to UEMOA, while France will also withdraw from the UEMOA central bank.

However, reforms are unlikely to significantly alter the currency regime, of which Togo is a member. France will continue to guarantee the convertibility of the eco and the currency will remain pegged to the euro. Foreign exchange reserves in September 2019 were equivalent to 4.8 months of import cover, reducing the likelihood of currency devaluation in 2020. UEMOA states are also not expected to abandon the peg in 2020, given that a free-floating currency would almost certainly depreciate in value.

Historically, the protection afforded by the CFA franc has allowed many UEMOA states to build sizeable foreign currency debt, so de-pegging could significantly increase debt servicing costs.

Investment Environment

Investment in renewable power generation in Togo has so far focused on rural electrification and off-grid systems. Since March 2019, the government has provided subsidies to households for the cost of off-grid solar power systems. However, in July 2019 the Togolese government announced plans to develop the country's first utility-scale solar projects, with a combined capacity of 60-80MW.

The plants are to be located in Kpalassi and Salimdè. In January 2020, the Togolese agency for rural electrification and renewable energy issued a request for pre-qualification to potential bidders.

Togo has historically relied on imports from Nigeria and Ghana for approximately 90% of its energy, meaning it has limited experience of independent power producers. However, the government has taken steps to attract private investment into the power sector.

Specialized commercial courts have reduced the average time required to resolve contract disputes to below the Sub-Saharan African average. Moreover, the country's 2012 investment code protects against expropriation without compensation.

In a sign of investor confidence in Togo's power sector, the country opened a 100MW thermal power plant in 2010. Its success should reassure investors in the renewable sector of the government's commitment to private investment.

Rating Outlook: Strikes, Riots, and Civil Commotion; Currency Inconvertibility and Transfer Risk; Legal and Regulatory Risk.

Pricing Outlook

FIGURE
3
Pricing Outlook.

Country	CEND Risk Pricing Range	Sovereign Credit Risk Pricing Range
Mexico	0.5%-0.75% p.a	0.5%-0.75% p.a
Kenya	1% p.a	1.65% p.a
Angola	1.25%-1.5% p.a	3.25%-3.5% p.a
Uzbekistan	1%-1.25% p.a	1.95%-2.25% p.a
Togo	2.50%-3% p.a	1.50%-1.75% p.a

The information contained in the *Pricing Outlook* is based on Marsh JLT Specialty's knowledge and understanding of the market. Where an underwriter has commented on the risk profile of a certain market, this will be drawn to your attention.

FIGURE
4
Claims Data.

Claims management is central to the value we seek to add, and foremost in our minds when we work for any client. Claims are central to our placement strategy and drive our placing process.

Please see below for historic claims data for the countries covered by this report:

Country	Industry	Year	Summary of Circumstances
Mexico	Oil and gas	2014	Contract frustration — non-payment
Mexico	Trading	2014	Credit risk — non-payment
Mexico	Oil and gas	2014	Forced abandonment — drilling site access blocked
Mexico	Shipping	2019	Non-payment
Mexico	Shipping	2019	Non-payment
Mexico	Defense	2019	Non-payment

For further information, please contact your local Marsh office or visit our website at jlt.com.

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