Global Business & Development Law Journal

Volume 18
Issue 1 *Symposium: Markets in Transition: Reconstruction and Development*

Article 10

1-1-2004

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Part Two—Building Up to a Drawdown: International Project Finance and Privatization—Expert Presentations on Lessons to be Learned

Managing Political Risks in Emerging Market Investment

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Emerging market investment is often seen, as the theme of this conference suggests, as a worthy subcategory of the broader field of international investment. Some of what investors perceive as special about investing in emerging markets, including impediments to such investments, is reasonably evident. High on the list of things that make emerging market investment special is political risk. If one is concerned about impediments to investment in places where investors perceive political risk as important, then ways of mitigating that risk, or at least passing it to someone else, become important parts of the process of considering whether to invest in a project. Developers are likely to focus on what they do best, whether that is building roads, producing power, providing telecommunications services, or purifying water, while protecting themselves from the local political environment. A primary mechanism for investors to handle political risk is to pass it on to political risk insurers.

While political instability has come to be associated with emerging markets—fairly or unfairly—commercial political risk insurers have received requests for issuing coverage against political risk in the United States, specifically California. In each case, insurers turned down that potential new business. In passing on the opportunity, they took a bureaucratic approach, noting that their respective business plans focused specifically on emerging markets (i.e., "this is not in our department") rather than an underwriting approach, which might have concluded that California politics simply pose uninsurable political risks. The anecdote suggests that new markets remain to be exploited, even at home, if the risks are eventually found to be manageable.

Political risk insurers come in two flavors—public and private. The public agencies themselves come in two flavors—bilateral and multilateral. That may suggest, however, that the public side of the market is broader than it actually is. The public side of the industry has been dominated by one bilateral agency, the U.S. Government's Overseas Private Investment Corporation ("OPIC"), and one multilateral, the Multilateral Investment Guarantee Agency ("MIGA") of the World Bank Group. These two agencies—OPIC for U.S. investors and MIGA as the primary agency option for everyone else (so long as their home and target countries are both members of MIGA)—until recently constituted the full set of public provider options for project developers seeking coverage for their equity investments. Debt investors (typically banks) had these public sector options plus potentially two more. First, they could appeal to the relevant export credit

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agencies ("ECA"), whose export promotion programs typically offered "political-only" guaranties of loans made by project lenders (if and to the extent that the loan proceeds were to be spent in the ECA's home country). Second, in a small but growing number of cases they might seek "partial risk guarantees" issued by the multilateral development banks.

A decade ago, the World Bank introduced a guaranty for the HUB River Project in Pakistan under which the project lenders were protected against losses as a consequence of the host government's failure to perform its undertakings related to the project. The Bank has offered such guarantees a half dozen times in the decade since. Several regional multilateral development banks ("MDBs") now offer partial risk guarantees to debt investors in projects. The Asian Development Bank ("ADB"), in particular, has developed a range of creative guaranty products. Almost all the MDBs, however, are getting into the action. Sharing the mandate of bringing investment capital to difficult neighborhoods, they each concluded that mitigating the political risks facing investors will promote investment.

Complementing the small community of public agency providers of political risk mitigation products is an even smaller group of commercial political risk insurers that offer political risk coverage to both equity and debt investors in emerging market projects. The commercial insurers have noted OPIC's profitable history and decided that this is an area in which they can offer a service profitably.

This market is interesting for a number of reasons. First, it comprises both public and private sector providers. There are often interesting discussions—academic, legislative, and practical—about which activities belong in the private sector and which belong in the public sector. What is somewhat unusual is a small market populated by both agencies and companies. The second interesting quality is how the demand side of the political risk insurance market interacts with the supply side. The users basically have two complaints: one, the products are too narrow, and, two, they are the wrong products. It would be one thing if they were the right products, but just too narrow, but to be both narrow and wrong is problematic. How could this happen?

Generally, we expect markets to be driven by the tastes and preferences of the demand side. If someone wants something that is technically feasible, and is willing to pay for it, someone will step up to supply that demand. Why should the political risk insurance industry not respond in the same way, giving project investors the coverage they want, for a price they are willing to pay? That is, why is supply not particularly responsive to demand?

I teach a course called "International Project Finance" in which we discuss political risk. I ask the students to list all the political risks they can identify. The first reactions usually consist of bad things done from time to time by governments—e.g., war, revolution, expropriation, contract repudiation, etc. But governments can also do perfectly appropriate things that nonetheless would devastate an investment, such as imposing new regulations. Imagine that you open a factory relying on the current environmental regulations, and then the World Bank convinces the authorities to increase the standards in a way that makes it technically impossible for your factory to function. This is clearly a political risk; a political decision devastated an investment. It may not be a bad thing—except for the investor and its customers.

Consider all the ways that governments have the power, and perhaps even the responsibility, to do that which could impair the success of an investment. It is a long and disconcerting list that could—and does—discourage investors. Thank heavens for political risk insurance. Unfortunately, while helpful, it may not fully solve the problem.

Consider the situation of the prospective lenders to an emerging market power project that some years ago were seeking OPIC political risk insurance coverage. The lenders projected a certain profit margin, a spread between their cost of funds and the interest rate they planned to charge for the loan. The lenders planned to pay for the OPIC insurance out of this spread. The proposed pricing of the OPIC insurance would take a pretty hefty bite out of that margin. The bankers objected to OPIC's pricing. OPIC responded that the project technology was well known, the fuel supply was secure, and a solid power purchase agreement with a reliable off-taker assured adequate demand and revenues. Since the economics and physics of this project were well established, the only material risks were political. If the project were to fail, it would be because of a political risk. As the political risk insurer, OPIC should receive most of the risk premium being charged by the project lenders. The lenders responded that OPIC was correct in its analysis of the project risks. If OPIC were taking all of the political risks, then its pricing would have been appropriate. OPIC proposed, however, to accept a basket of only three specific risks—currency inconvertibility, expropriation of the project, and damage from political violence. Those were important risks, but those other political risks identified by my students were all omitted from the coverage. Thus, the project lender took (i.e., self-insured) all those other political risks. The lender would earn the portion of the premium attributable to those uncovered risks. OPIC should receive a much smaller piece of this risk premium, properly reflecting the narrowness of the risks it was covering. The parties successfully negotiated pricing terms, but the point was clearly made. The political risk industry offers insurance as to certain particular political risks, but it does not cover a significant portion of the potential political risks. Why not?

Perhaps certain risks are insurable and others are not. I have, however, never seen an analysis that manages to explain which risks are, in principle, insurable and which ones are not. I believe that the explanation is historical rather than analytical.

The political risk industry originated with the Marshall Plan. That plan involved, among other things, a great deal of U.S. government money allocated to the reconstruction of post-war Europe. It would have been helpful to bring private funds to bear as well as public money, which was in short supply relative to the magnitude of the needs. The idea of incorporating private investment into the Marshall Plan originated, I understand, with Robert Bowie, a member of the Marshall Plan staff, who later became a Harvard professor.

The thought was that, if U.S. businesses would buy a bombed-out factory or other business disrupted by the war and provide some of the capital for repairs and the restart of operations, people could return to work. People working would restart the generation of income, tax payments, exports, and foreign exchange earnings. People would be able to afford food again, relieving the pressure on publicly-supported food programs. Their kids could return to school. Basically, business investment could jump-start a return to normal commercial life in war-torn Europe. The participation of private businesses would take some pressure off of the limited public budget. It would also provide a more sustainable basis for economic recovery. The ongoing operations of profitable businesses drive the economy. A public expenditure may, or may not, have an enduring impact in triggering economic activity. A profitable business operation may, however, operate indefinitely, paying wages and taxes and contributing to both recovery and the ongoing growth of economic activity. So, Bowie's team decided to try to bring private U.S. businesses into the Marshall Plan.

In 1949 and 1950 a series of meetings were held at the old Executive Office Building. CEOs of major corporations were courted to join the Marshall Plan. Unfortunately, these business leaders wanted no part of it. As private citizens they might be proud of what the government was doing, but as CEOs they were responsible to their shareholders. To them, investment in Europe did not make business sense. Remember, these conversations took place a half-century ago, just after World War II.

The business leaders anticipated a number of concerns. First, the plan required long-term investment. Projects needed to be up and operating for a number of years before businesses would see an adequate return on their investment. One could not depend on a long-term return on investment in Europe because of the likelihood of another war. After all, the region had a chronic tendency to collapse into civil war. Europe had just emerged from World War II, which was preceded by World War I and, before that, the Spanish Civil War. Before that, the region had seen one conflict after another. It was simply not the kind of place where companies would want to put shareholders' money at risk on a long-term basis. Again, as taxpayers they might have supported this, but as business people they would not participate.

Another concern expressed by these prospective investors was that, even if World War III was avoided, the Russian Communists had already marched half way across Western Europe. They might stop there, or they might not. Regardless of how far the Russian Communists went, powerful indigenous socialist movements had been established in the legislatures of most of Western Europe—including, for instance, Italy, France, even England—and were becoming stronger. Once the socialists were in control of a country where American businesses had invested, profits from those investments would be unlikely. Paraphrasing the CEOs, "As much as we would like to see the people of Europe get back to work, our boards of directors and our shareholders are not interested in donating our factories as the people's property."

Alternatively, the CEOs might have assumed that the next war would be eluded, that the communists would not take over Western Europe, and that they would actually have had the opportunity to run their businesses. Under this scenario, one possibility is that the businesses would have failed. That risk was acceptable. The CEOs were used to figuring out costs, revenues and market factors—all risks that were managed in the normal course of their respective businesses. On the other hand, the new businesses might have succeeded. That success would have been earned, however, in local currencies—French and Belgian Francs, Italian Lira, and German Deutschmarks. What use would the investing companies have had for such currencies? Just a few years before, Deutschmarks had been an international joke as a consequence of hyper-inflation. Each one of those countries had borrowed heavily to finance the war; their currencies were over-valued and were subject to severe foreign exchange regulations. The likelihood was that, if an investment proved profitable, getting that money converted to dollars and transferred home could have been a struggle. The company might be required to reinvest some proportion of earnings, perhaps 100%, or might have prohibited from repatriating the original investment.

The potential investors raised all these concerns in those meetings with the Marshall Planners. Intriguingly, the dominant concern was really the third—currency controls. The Marshall Plan team responded that, if that risk were standing in the way of participating, then the U.S. government would take that risk. The Marshall Plan legislation included an investment insurance program in which the U.S. government agreed that, if a participating U.S. business were to earn foreign exchange but could not convert it and get it transferred home, the U.S. government would give the investor dollars in New York. The investor would turn over its foreign currency to the local U.S. embassy, which would use it to fund its operations. A couple of years later, in two separate enactments, Congress added investment insurance against losses resulting from political violence, responding to the concern about the next war, and expropriation, responding to concerns about the communists. These three distinct legislative enactments provided three distinct political risk coverages in response to the three specific concerns that were raised by prospective Marshall Plan business recruits.

A number of post-war reconstruction programs survived the reconstruction period and morphed into general development programs. For some, that was the idea from the beginning. For instance, the World Bank, whose official name is the International Bank for Reconstruction and Development, was formed to support both development and post-war reconstruction. With regard to the new program of investment insurance against political risks, the thought within the U.S. government was that, if it made good sense for U.S. businesses to be involved with job creation in war-torn Europe, it also made sense that U.S. companies should create jobs by establishing businesses in Africa, Latin America, Asia and anywhere in the developing world. Like many programs that figure out a new reason to live when the old one expires, the investment insurance program came through the 1950s to focus on projects in developing countries.

Soon after John Kennedy was inaugurated as president, Congress passed the Foreign Assistance Act of 1961, creating the Agency for International Development ("AID") as an umbrella under which the government's various development-related programs were to be brought. Thus, the investment insurance program came to be operated by AID.

In 1969, Congress adopted new legislation, introduced by Senator Jacob Javits of New York, that set up a new, independent agency to administer the investment insurance program. This agency was to be called the "Overseas Private Investment Corporation." It would be neither private nor a corporation, but the point of the name was to suggest a more business-like operating style than that of its more bureaucratic predecessor.

Intriguingly, Senator Javits' brother Benjamin Javits had written a book in 1950 entitled *Peace by Investment*, in which he argued that development supports peace, that business supports development, and that governments should support development by promoting private business investment rather than public expenditure programs. His model was similar to the ideas of the Marshall Planners in establishing the investment insurance program. I have no idea whether they conversed with Benjamin Javits or whether he discussed these thoughts with his brother the Senator, but it is tempting to think that there might have been some connection that gave rise to Senator Javits' inspiration that this investment insurance program could be more effective if offered by a new agency. In any event, Congress established OPIC and gave it a basket of insurance contracts that had been issued by AID. Congress also provided OPIC $50 million in initial capital, plus access to $38 million in reserves, and a $100 million credit line at the U.S. Treasury, all available to cover claims that might arise under the existing portfolio of contracts.

The amount is important. The legislation establishing OPIC was adopted in 1969. OPIC opened its doors in 1971. Something important happened in between. Salvador Allende was elected president of Chile with, among other things, a program for permitting workers to vote to nationalize the foreign businesses that employed them. The workers of a number of Chilean subsidiaries of U.S. businesses chose to throw out the foreign owners. Several of those foreign investments were insured by OPIC and in short order presented OPIC with roughly one-half billion dollars in claims—overwhelming the mere $125 million in reserves that OPIC had been provided for paying claims.

Consequently, this new agency was potentially insolvent soon after it opened its doors. This history shows that political risk insurance does not guarantee a profit. It can be a perilous business for a number of reasons. How OPIC sorted out the Chilean claims is yet another interesting story, although I will not go into it here. Suffice it to say, the situation was sorted out successfully among investors, OPIC, and the government of Chile.

In sharp contrast to the financial crisis into which OPIC was born, OPIC has operated profitably every year since it was established. As far as I have been able to determine, no commercial insurer, in the U.S. or anywhere else, offered similar insurance during the years prior to OPIC's establishment. In the early 1970s, a few commercial institutions joined the party—Lloyd's of London started offering an OPIC-like product as did AIG, a U.S. insurance company. The commercial programs typically would offer insurance for only three years for less risky countries like Portugal, in contrast to OPIC's twenty-years coverage available for Mauritania. Since its coverage was available for much longer terms, OPIC continued to have a substantial monopoly, at least in the riskier arenas, until 1988 when the Multilateral Investment Guarantee Agency ("MIGA") was established. MIGA, a political risk insurer within the World Bank Group, was substantially modeled after OPIC but was meant to offer investors from all member countries the sort of investment-promotion insurance that OPIC provided U.S. investors.

This was the state of the political risk insurance market until the early 1990s, when a dramatic change occurred in the development business—the privatization of the development of public infrastructure. Country after country offered to turn over to the private sector responsibility for building new power projects, telecommunication systems, toll roads, water projects, etc. This opened up tremendous investment opportunities for private businesses. Many of those opportunities were in emerging markets, which gave rise to a jump in demand for political risk insurance.

Observers in the market, including some OPIC alumni, decided this presented an interesting business opportunity, with two consequences. First, some new commercial political risk insurers were established, and second, the existing commercial political risk insurance providers substantially expanded their staff, their capacity, and their commitment to this business. And that led to lobbying on Capitol Hill. Some commercial insurers argued that OPIC posed unfair competition and should get out of this business now that the private sector had come into being. The agencies were no longer needed or welcome.

The demand side of the market welcomed the arrival of the commercial insurers. The public sector programs had pesky inflexibilities. OPIC had its statute; MIGA had its charter. The demand side of the market expected more flexibility from the commercial insurers in providing novel political risk coverages. The commercial insurers were not, however, as responsive as the project investors had hoped. Why not?

Consider why these companies came into this business in the first place. They did so because OPIC had been operating profitably for more than a quarter century. The new insurers presumed that, if they were to offer the same coverage on the same terms as OPIC, they would enjoy a similar profit. To the extent they could offer a bit more flexibility, they might be able to attract more customers and operate even more profitably.

However, when asked to accept a novel risk—i.e., one never tried out at OPIC—they resisted. Although insurance companies analyze and price risks all the time, analyzing political risks is far from a science. In fact, it may not be possible to quantify the risks these insurers are being asked to take, at least not in any statistically meaningful way.

Or perhaps I am being too pessimistic. Let us attempt an empirical analysis of expropriation risk in South America. What country in South America has the greatest risk of expropriating projects over the last fifty years? Because of the widespread expropriation of foreign businesses during the Allende years, Chile is the easy winner.

Looking at South America today, what country is least likely to expropriate a foreign business? It must again be Chile. So, if one is to analyze political risks over a twenty-year term, which is still the standard for OPIC contracts, then how can that be done in a way that will persuade a board of directors that it makes sense? This challenge arises with respect to a coverage that is already readily available. What if the issue were analyzing the risk of new prohibitive environmental regulations over the next decade or the risk that that, someday, a newly-elected regime might cancel undertakings made by its predecessors?

Decisions of the commercial insurers to enter the political risk business have been based on OPIC's and MIGA's profitable, established track records, not theoretical or empirical analysis of new risks. Consequently, the commercial insurers, notwithstanding their legal flexibility, have tended to adopt the same coverages that were first put in the market by the Marshall Plan a half century ago. The inventors and subsequent managers of the U.S. government's investment insurance program were fortunate that fairly arbitrary pricing according to what the market would bear turned out to work as a business matter. It has worked brilliantly for OPIC and MIGA. For the commercial entrants, so far, so good.

To be sure, the precedent of following OPIC's lead had already been set by MIGA several years earlier. MIGA was established with quite a different charter than that of OPIC. MIGA could have done things quite differently, but it brought in as the senior underwriter a senior OPIC insurance officer. MIGA also recruited OPIC's senior political risk insurance lawyer as its senior career lawyer. Not surprisingly, the MIGA contract and program emerged looking a lot like OPIC—not because the MIGA staff lacked creativity, but rather because their mandate was to establish their operations in a way that made financial sense. How could they be sure to do that? By doing what OPIC and its predecessor agencies had done for the preceding forty-odd years.

One leading tension between supply and demand in the political risk market place has been with respect to host government breaches of contract. As co-ventures with the host government, private investors in public-private partnerships have a different kind of relationship with the host government than was the case with investments in the traditional private sector. Back in 1950 certainly, and for most of the last fifty years, the risk most investors faced was that the government might intervene in and expropriate a project. In contemporary infrastructure projects, the government tends to be an intimate partner—whether as issuer of the concession, offtaker or guarantor of certain critical undertakings made to the project. The contemporary concern is less that the government will throw the foreign investor out as a partner than that the government will prove to be an unreliable partner and break the promises it made and on which the foreign investor relied.

Conventional political risk insurance contracts are not particularly helpful with respect to that concern. The OPIC contract, which is like the MIGA contract on this point, says that the government's failure to perform its undertakings as a supplier to the project, as a guarantor of an obligation to the project, as an off-taker of the project, or as a contractor with the project will not, in any of those circumstances, constitute expropriation for purposes of the insurance coverage. Thus, traditional expropriation coverage is not responsive to a key contemporary risk—government partnership risk. If the point of the investment insurance programs of the agencies is to encourage emerging market investment in today's world in which so much activity is happening through public-private partnerships, then the programs may need to change if they are to be effective.

Notwithstanding the market's bias against innovation, the past few years have brought some real progress toward adapting supply to the demands of the market for breach of contract coverage. None of the insurers, public or private, are willing to insure against breach of contract per se. But they will insure one particular provision of the contract—the dispute resolution clause—at least if it provides for arbitration, preferably offshore arbitration. If a breach of contract gives rise to a dispute, the parties can refer that dispute to arbitration. Then, with this "disputes coverage," the investor can rely on its political risk insurer to stand behind an award that comes out of the arbitration process.

This is not a particularly dramatic development since it has been available in some form from OPIC for more than a decade. It is evolving, however. For instance, a current question is, what happens if the insured cannot achieve an arbitral award because the host government frustrates the process, such as by issuing injunctions against compliance with the arbitral provision? This question is at the cutting edge of a number of insurer's programs. OPIC typically will cover frustration of the arbitration process while MIGA has resisted doing so.

On the other hand, even if any insurer does not intend to cover frustration of the process, it may be difficult to avoid paying a claim if the government with which a dispute has arisen blocks or "expropriates" one's ability to satisfy the terms of one's insurance contract—i.e., completion of the arbitral process. The insurer would appear to enjoy a windfall from the government's engaging in acts even worse than those (non-payment of an arbitral award) that would have sufficed for a claim. OPIC recently was required by an arbitral panel to pay claims filed by GE and Bechtel in connection with their investment in the Dabhol Power project in India. The panel concluded, in effect, that, when the host government had blocked the insured's ability to satisfy the requirements of the OPIC contract (including, among other things, successfully obtaining an arbitral award), these requirements should not be enforced against the insured.

Given the recent track record of some governments (e.g., India and Indonesia) trying to block arbitrations, developers would be wise to insist on frustration coverage from their insurers. Today they are likely to be able to find it, though it may require searching, negotiation, and additional cost.

There has also been pressure to find a more aggressive option for insuring losses from government breaches than only insuring arbitral awards. Why should an investor have to arbitrate obvious facts in order to be paid? For one category of contracts—government payment guarantees—and one category of breaches—non-payment—the market agrees. The commercial insurers have been a few steps ahead of the agencies in this area, although the agencies may be catching up. The commercial insurers have been willing to offer so-called non-honoring (of guaranty) coverage under a theory that it will be obvious whether a guaranty was performed or breached.

This is one step beyond where the agencies have been. They have generally continued to insist that the breach be proved in arbitration, but further steps have recently been taken by OPIC in its "non-honoring" (of sovereign guaranty) product.

The second principal area of tension in the market is with respect to currency risks. Ironically, a year after OPIC opened its doors, the world went off a fixed exchange rate system. Without discussing the economics of this in detail, a government that is running budget deficits in a fixed exchange rate world will eventually deplete its foreign exchange reserves and will have difficulty maintaining its (fixed) exchange rate. In fact, the government may have to close down the foreign exchange operations at the central bank, whereupon the currency becomes inconvertible. In a flexible exchange rate system, a shortage of foreign exchange would simply cause foreign currencies to become more valuable relative to local currency (i.e., the exchange rate would adjust). There would be no pressure on the central bank to supply foreign currency at a fixed rate.

Nonetheless, OPIC, MIGA, and all the commercial insurers have sold a lot of currency inconvertibility coverage over the years. Part of the demand for inconvertibility coverage probably reflects the absence of any alternatives more responsive to today's priority currency risk—devaluation.

The Asian economic crisis made it clear to project lenders that the primary currency risk is not currency inconvertibility but rather instability in currency values (e.g., the risk of massive devaluations). How do project investors deal with that risk? That remains an open, state of the art, question. OPIC provided one glimmer of a possible solution in 2001, when it offered for the first time a form of devaluation guaranty. It was issued to support a $300 million bond offering for the AES Tiet hydropower projects in Brazil. The OPIC product enabled the bonds to achieve an investment grade rating higher than that of Brazilian government bonds. The terms of that guaranty have been somewhat widely discussed—and debated. The financial feasibility of the guaranty requires the guarantor to have confidence in the reliability of the international economics principle of "purchasing power parity." While that principle is well-established, this form of guaranty is not. To date it has been employed only once—in the AES Tietê financing.

Shortly after OPIC closed that transaction, one of the commercial political risk insurers announced that it would do the same thing, but this insurer has yet to issue its first comparable guaranty. OPIC has yet to do its second deal. The question remains open as to whether this product will establish itself in the marketplace as a useful mitigant to devaluation risk.

Project developers and lenders continue to be concerned that they may not be able to rely on the political risk insurance market to provide political risk coverage that addresses their principal concerns. While there has been some evolution on the supply side of the market, and substantial deal-by-deal negotiating occurs, a significant mismatch prevails in the market between wants, on one hand, and what is available on the other.

I would like to conclude with a note on the role of the public agencies in this market. Intriguingly, a few years ago, when Congress last reviewed OPIC and U.S. Ex-Im Bank, there was a concern that the commercial entrants to the market had supplanted the agencies, which had come to constitute superfluous and unfair competition. More recently, it has become clear that the agencies continue to fill an important role—a role that the commercial insurers themselves appreciate as they have participated in various joint ventures with the agencies. ADB has closed some co-insurance arrangements with commercial insurers, as have OPIC and MIGA. Without the public agency role in these investment transactions, projects might not have happened. The commercial insurers have come to value the agencies as partners.

Agencies also play a second important role, which is to explore new political risk coverages. As discussed, political risks are not particularly susceptible to definitive predictive analysis. So, how is an investor ever to coax a political risk insurer to try something new? Here the agencies may offer a way forward. As a matter of policy, the agency may decide that it makes sense to gamble on the policy effectiveness, and business feasibility, of taking on a new category of political risk—such as devaluation, breach of contract, or regulation risk. The agency may take that risk for political and policy reasons, as the Marshall Planners did fifty years ago. Those kinds of decisions constitute the agencies betting on good behavior by host countries and gambling that the bet will pay off well enough to maintain the solvency of their investment insurance programs. The agencies are not without risk aversity, but they were established, and remain willing, to take risks deemed unacceptable by the private market. In a number of cases they have shown themselves willing to "give it a try" and see whether new forms of political risk mitigants might turn out to work, not only to mitigate the targeted risk but also to do so at a price that adequately compensates the agency for the risk taken. For instance, OPIC has entered new areas that are beyond the comfort zone of the commercial insurers. This market has become a public-private partnership in which the agencies are likely to take the lead venturing into new products and regions, joined by joint-venturing commercial insurance providers once the ice has been sufficiently broken by the agency insurers and once the risks appear sufficiently manageable. While this model is not working as well as some of the project developers and lenders would like, because it has not yet yielded all of coverages that they would prefer, it does seem that it has presented a reasonably decent prospect for the industry evolving beyond where it was in 1950, and until fairly recently that evolution had not happened.