

Political Risk Insurance

Full Description

Political risk insurance (PRI) can help mobilize ERC financing through broadly insuring against general political risks that deter international financiers from investing in EMDEs or mitigating ERC-specific political risks, such as around Article 6 authorization. PRI is offered by private insurance providers and public entities, such as DFIs, and can cover the full range of general political risks such as civil conflict, expropriation, and change of government policy. Addressing general risks is helpful for stimulating many types of investment in EMDEs, including across EAP where across most countries' political risk ranges from medium to high.¹ Mitigating general political risks in EMDEs may be particularly useful for mobilizing finance for certain types of ERC activities, such as nature-based ERCs of which most of the global potential exists in EMDEs, and for international ERC trade such as governed by Article 6 that can help enhance mitigation beyond NDCs while channelling financing to EMDEs. The most salient ERC-specific risk for financiers is around Article 6 authorization, that (a) authorization is obtained from a host government but is later revoked or rescinded; (b) authorization is obtained from a host government, but a subsequent corresponding adjustment is not made by the host government; or (c) authorization is obtained from a host government, but the government subsequently changes laws and policies for all projects which results in an outcome that prohibits transfer of ERCs from the host country. Such risk could be covered by breach of contract coverage, but only if such a letter meets the requirements to be considered a contractual relationship.²

Footnote 1: Aon, [Aon Political Risk Map – Q1 2023](#), 2023.

Footnote 2: World Bank, [State and Trends of Carbon Pricing 2023](#), 2023.

Additional Resources

[Risk Mitigation Mechanisms \(including guarantees and political risk insurance\)](#)

[Further Readings on Financing and Risk Mitigation](#)

Page Specific Disclaimer

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