Summary Report
of the
Asia Finance and Risk Mitigation Forum 2013
organized by
the Asian Development Bank
and
the Federation of Indian Chambers of Commerce and Industry

"Facilitating South-South Trade and Investment"

Held in Mumbai, India on
30 April 2013 in the week of ADB's 46th Annual Meeting

Date of Report: 10 July 2013
Sustainable Finance & Insurance
Paul H.J. Mudde

Introduction.

On 30 April 2013 the Asian Development Bank (ADB) and the Federation of Indian Chambers of Commerce and Industry (FICCI) organized the Asia Finance and Risk Mitigation Forum (AFRM). The key theme of the forum was "facilitating south-south trade and investment" [1]. The forum took place in Mumbai during the week of ADB's 46th annual meeting, which was held in Delhi, India.

This AFRM forum was attended by approximately 380 people from different governments, development finance institutions (DFIs), and the private sector, including financial institutions and private companies. The purpose of the seminar was to discuss challenges and opportunities in south-south trade and investment. The seminar was opened by Mrs. Nirupama Soundararajan, additional director - Banking and Finance Division - of FICCI, followed by a welcome speech of Ms. Lakshmi Venkatalacham, vice president private sector and cofinancing operations of the Asian Development Bank and a key note address of Dr. Arvind Mayaram. Secretary (economic Affairs) of the department economic affairs of the Ministry of Finance of the Government of India. Shortly before the lunch break Mr John McCormick, Chairman RBS Group & CEO, Markets & International Banking of RBS Asia Pacific gave a presentation about the trade finance and investment activities of RBS in the region.

During the seminar 4 panel discussions were conducted with prominent representatives from both the public and private sectors discussing the following topics:

1. Using risk mitigation products to finance cross border investments
2. Financing medium to long term trade
3. Creating bank links to support south-south trade
4. Mitigating contractual risks related to trade and investment

The complete agenda of the AFRM forum 2013 including the names of speakers, moderators and panel members can be found in annex I to this report.

[1] ADB hired Mr. Paul H.J. Mudde of Sustainable Finance & Insurance to assist with the organization of this Seminar. Mr. Mudde also prepared this report summarizing the panel discussions. The Asian Development Bank does not guarantee the accuracy of the information contained in this report and accepts no responsibility for any consequences in its use.

I. Opening Remarks Mrs. Nirupama Soundararajan (FICCI).

The forum was opened by Mrs. Nirupama Soundararajan, additional director - Banking and Finance Division - of FICCI.

She welcomed all participants and thanked all sponsors for their support of the event. In her speech she explained some recent activities of FICCI to support the Indian business community and she gave a brief introduction on the role of India in south-south trade and investment.



Mrs. Nirupama Soundararajan, additional director -Banking and Finance Division - of FICCI

II. Welcome address Ms. Lakshmi Venkatalacham (ADB).

The second speaker of the forum was Ms. Lakshmi Venkatalacham, vice president private sector and cofinancing operations of the Asian Development Bank.

Ms. Venkatalacham explained that the main theme of the conference - south-south investments and trade - is important to all developing countries and the multilateral development finance community. She was pleased that many of ADB's "multilateral brothers and sisters" - such as the World Bank, The African Development Bank, the Inter-American Development Bank, the African EXIM Bank and ICIEC, which is part of the Islamic Development Bank, participated in this forum. In view of Ms. Venkatalacham it reflects a shared belief and recognition that south-south trade and investments are indeed key for economic growth and social inclusion, topics that are close to the "minds and hearts" of the multilateral development finance community.

Ms. Venkatalacham mentioned that not so long ago, global cross border investments and trade were dominated by the industrialized OECD countries, such as the United States, Japan and European Union countries. But a structural shift is occurring as demand for goods and services from traditional markets in advanced economies eases in the current economic environment. As international production networks and supply chains expand, deepen and grow more complex, we have seen *intra*regional trade in intermediate goods grow rapidly. Most of this trade is between emerging markets. *Inter*-regional trade—for example, between Asia and Latin

America—is also expanding, as is "South-South" trade in general. During the past 20 years we have seen an increasing role of non–OECD countries such as China, India, Brazil, South Africa, Indonesia and many others in the areas of cross-border investments and trade.



Ms. Lakshmi Venkatalacham, vice president private sector and cofinancing operations of the Asian Development Bank

According to UNCTAD statistics, in 1990, the global share of developing countries in outward Foreign Direct Investments (FDI) was around 7%. In 2011 this had increased to a global share of 17.5%. An impressive growth. Similar interesting growth figures can be seen in the area of international trade. In 1990, developing countries had a market share of 24% of global merchandise exports. In 2011 this figure had increased to 42.8%. In 2002 south-south trade accounted for 39.2% of total developing country exports, but according to a recent study of the World Bank this share has topped 50%[2] by 2010. This means that for developing countries, exports to other developing countries are now more important than exports to high-income countries.
These trade and investment statistics reflect the changing global economy, in which developing countries are playing an increasingly more important role. This is a positive development, as it is very well known to us that trade and investments are the real ***engines*** of economic growth. South-south trade and investments could in my view be characterized as the "***turbo-engine"*** for economic growth since it cuts both ways: it has social and economic benefits for two developing countries.

Ms. Venkatalacham mentioned that ADB recognizes that it is important that ADB and other multilateral development banks cooperate closely with commercial banks ECAs and EXIM banks. In this context she explained the various financial products that ADB can offer – i.e. loans, guarantees and equity investments - to its public and private sector clients.

Ms. Venkatalacham briefly introduced the main topics of the four panel discussions and mentioned that she was looking forward to hear the views and

[2] See World Bank report Global Economic Prospects 2013.

opinions of leading experts in the field of international trade finance and investments. She hoped that the forum discussions would lead to interesting suggestions and ideas on how to further enhance south-south trade and investments and that it would contribute to a further improvement of cooperation between development financiers, commercial banks, insurers, investors, exporters, importers and governments in developing countries.

III. Key Note address Dr. Arvind Mayaram (Ministry of Finance India).

The third speaker at the forum was Dr. Arvind Mayaram, Secretary (Economic Affairs) of the department economic affairs of the Ministry of Finance of the Government of India.

Dr. Mayaram mentioned that the world has changed substantially during the past two decades. There is clear shift in the global economy, which during the past ten years in particular is driven by the economies of emerging markets. In this respect he mentioned the economic growth rates of India (5%) and China (7.5%), whereas many economies - in particular in the Western world - are slowing down or even experiencing a recession.



Dr. Arvind Mayaram, Secretary (Economic Affairs) of the department economic affairs of the Ministry of Finance of the Government of India.

Dr. Mayaram advocated a further integration of the south-south financial system. Currently most savings in developing countries are placed within western financial / banking institutions in London and/ or New York. Dr. Mayaram mentioned that developing countries should integrate their financial systems more actively so that savings in Asia can be utilized to finance the needs within the region among which those in infrastructure. In this context he mentioned that the financial needs of India in the field on infrastructure amounts to US$ 1 trillion for the period 2012 – 2017. India and many other Asian developing countries face an infrastructure financing gap. International and in particular domestic capital markets has to become more involved to finance these infrastructure needs.

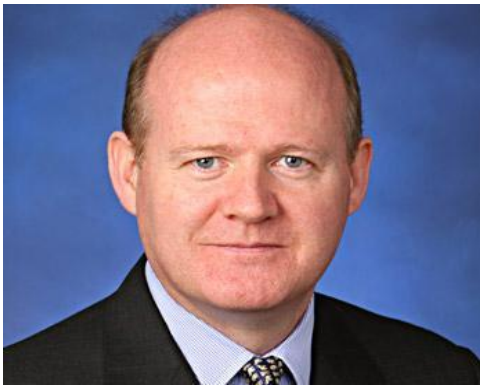
Dr. Mayaram also touched upon the reluctance to allow multinationals to invest in india. Although it is recognized that investments of multinationals have many benefits for developing countries such as the creation of jobs, the transfer of knowledge and the improvement of business standards, he also referred to a recent OECD study regarding the tax avoidance practices of many multinationals. He thought that this topic warrants greater attention of the international community.

Another topic that was raised by Dr. Mayaram concerns the issue of technology (including intellectual property rights) in relation to the policies of the international community on climate change. The energy consumption per capita in developed countries is much higher than that in developing countries. Many developing countries are asked to contribute to the reduction of Co2 emissions and join the global efforts to reduce the impact of climate change through amongst others investments in renewable energy. Fact is that most of the technology regarding alternative sources of high tech renewable energy - e.g. solar or wind power - is in the hands of western companies. He mentioned that this technology issue requires a further examination.

Dr. Mayaram encouraged ADB to further enhance its' activities to develop integrated financial markets in Asia. In his view such a further integration is key for the development of south-south trade and investments, in particular within the Asian region.

IV. Key note speech Mr John McCormick (RBS Asia Pacific).

Mr John McCormick, Chairman RBS Group & CEO, Markets & International Banking of RBS Asia Pacific gave shortly before the lunch break of the forum a brief presentation of the role of RBS in the Asia Pacific region. Mr McCormick mentioned that RBS has a long-standing experience in working in India. RBS is since the crisis of November 2008 for 80% owned by the UK government. It has gone through a challenging restructuring process. RBS serves currently approximately 33 million clients globally. The bank has a wide international network, which offers a broad range of products for internationally oriented companies. RBS offers leadership in



Mr. John McCormick, Chairman RBS Group and CEO, Markets & International Banking of RBS Asia Pacific.

products and technology in transaction services. It is in the global top 5 of foreign currency trading and in the top ten of traders in bonds and interest rate derivatives. Mr McCormick mentioned that RBS highly appreciates the cooperation with their clients, the multilateral development banks and the regulators and local banks in the various countries in which RBS operates.

V. The four panel discussions.

Here below follows a brief summary of the discussions in the four panels

Panel I

Theme: Using risk mitigation products to finance cross border investments.



Panel I members from left to right: Michael Barrow (ADB), Lav Chaturvedi (Reliance Capital), Pankaj Gupta (IBRD), Chris Vermont (PIDG), Khawar Iqbal (HSBC), Mohamud Hussein Khalif (ICIEC), N. Shankar (ECGC India)

Key remarks & recommendations:

- The panel focused on both outward investments from India and inward investment into India and relevant risk mitigation strategies and possibilities.
- Over the past few years ADB has substantially expanded its' lending to private sector infrastructure projects, which included Public Private Partnerships (PPPs). In large infrastructure projects ADB often cooperates with commercial banks and other development financiers.
- ECGC is an important Export Credit Agency (ECA) in India and supports Indian exports of goods and services. Furthermore it provides investment insurance for Indian investors. It cooperates closely with India EXIM bank, which is the second government agency of India that supports exports and foreign investments of Indian companies.
- Indian investment activities in Africa are not comparable to those of China. The Indian ECA ECGC does not provide any concessional finance to Africa, whereas this is an important part of China's strategy in the region.

- ICIEC is part of the Islamic Development bank group, which is based in Jeddah, Saudi Arabia. ICIEC provides export credit and investment insurance. The export credit insurance business covers both ST and MLT trade. It cooperates with official Export Credit Agencies all over the world and many private insurers. ICIEC would very much welcome cooperation with the Indian government agencies such as ECGC to support Indian investments in ICIEC member countries (Islamic countries).
- The World Bank group (WB) is very active in financing infrastructure and providing risk mitigations solutions for public and private sector projects in developing countries. IFC and MIGA are only involved in private sector infrastructure projects. IFC provides loans, guarantees (partial credit Guarantee) and equity investments. MIGA provides political risk insurance for equity and debt investments in private sector projects. IBRD / IDA can be involved in both public and private sector projects. During the past few years the cooperation between the various entities within the WB group has improved substantially. In large infrastructure projects you now see much more than in the past the involvement of two or more WB group entities.
- HSBC is one of the largest MLT financiers of infrastructure in India. In this area it cooperates with various risk mitigation providers such as ECAs, private insurers and multilateral development banks.
- Facilitating MLT south-south exports is quite a challenge, because commercial banks cannot obtain a risk mitigation instrument that meets their counterparty risk requirements. Either there is no ECA or the ECA has a too low credit rating. Against that background many developing countries have set up an EXIM bank.
- Reliance Capital one of the largest infrastructure finance organizations in India. Reliance Capital has interests in amongst others asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking and investment banking. In meeting the challenges between on the one hand the enormous investment needs of India and on the other hand the limited resources of the government and their donors, Reliance Capital believes that the development of public private partnerships is very important. Both the public and private stakeholders in infrastructure have their unique roles and responsibilities.
- The pricing of MIGA guarantees is based upon the risk profile of the project and the host country. IBRD / IDA guarantees do not have risk based premium similar to that of MIGA. All guarantees are priced the same irrespective the country of the project. IBRD / IDA guarantee pricing follows IBRD / IDA loan pricing.
- ADB has similar political risk guarantees (Partial Risk Guarantee) and comprehensive guarantees (Partial Credit Guarantee) as the IBRD / IDA. For non-sovereign projects (projects without a sovereign counter-guarantee), ADB charges market based guarantee fees. For sovereign projects (projects with a sovereign counter-guarantee) ADB charges a fixed guarantee fee, which is not market based. The guarantee fee is the same as the spread that ADB charges in its' sovereign lending business. The guarantee fee for sovereign projects is for all ADB member countries the same.

- ICIEC pricing system is risk based. Different guarantee fees apply to different risks / countries. ICIEC's pricing practices are close to common market practices, which makes it possible for ICIEC to cooperate closely with other private insurers and re-insurers.
- The India ECA ECGC has its' own pricing system, which amongst other is based on the risk classification of countries.
- IBRD always asks for a counter-guarantee from the host government, irrespective the nature of the project (public or private). It was asked whether this is not an unnecessary burden for the promotion of PPP in developing countries. In response it was mentioned that IBRD / IDA are only involved in complex low income / high risk countries and that other parts of the WB group (e.g. IFC MIGA) can be involved in projects in countries where counter-guarantees are not needed or cannot be provided. Furthermore it was mentioned that the availability of a counter-guarantee is a strength for the project. It implies a clear commitment of the government to the project and it helps in preventing or minimizing potential losses.
- India is very much looking at institutional investors – pension funds and insurance companies – to invest in infrastructure. It was remarked that these institutional investors are only able and willing to invest substantial amounts in MLT financing for infrastructure if they are comfortable with the risks and obtain a reasonable return. For pension funds have to ensure that they can meet their future pension obligations. In the US many institutional investors used mono line insurance from MBAC and MBIA, so that the investments would get the highest ratings. Adequate risk mitigation is therefore of great importance to attract finance from institutional investors. This will likely also be of great importance for infrastructure projects in India, since the country is only on investment grade level. It does not have the highest ratings such as the US, Japan or many European countries.
- First loss guarantees can be very efficient instruments to catalyze private capital.

Evaluation Panel I: Using Risk Mitigation Products to Finance Cross Border Investments

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Total
Moderator	62.16%	37.84%	0.00%	0.00%	100.00%
Panelists	43.24%	51.35%	5.41%	0.00%	100.00%

Panel II
Theme: Financing medium to long-term trade.



Panel II members from left to right: Fabien Conderanne (Coface), Hideo Naito (JIBC), Paul Mudde (SFI), T.C.A. Ranganathan (EXIM bank India), Abu Rashed (Advisor prime minister's office, Government of Bangladesh) Ramesh Subramanyam (Tata Power Company Ltd)

Key remarks & recommendations:

- In India there are two government agencies that have been set up to support trade and investments out of India. These entities are India EXIM bank and ECGC. ECGC provides export credit and investment insurance and India EXIM is mainly involved in financing Indian exports and investments.
- Coface is one of the largest export credit insurance companies in the world. It offers both ST and MLT credit and investment insurance. Coface is also the official Export Credit Agency of the French government. Coface does ECA business for the account of the French government. In addition Coface operates as a commercial insurer – on its own corporate account – for both ST and MLT credit and investment insurance. Coface is very active in Asia. It has various offices in the region. In the area of MLT business Coface offers on its own account comprehensive cover (covering both commercial and political risks) and political risk insurance. In particular commercial banks and large trading houses are important clients for the commercial MLT business of Coface. During the past few years Coface experienced an increasing demand from Asian banks to provide cover. It seems that they are partially replacing the trade finance role of international banks, of which some have retreated as a consequence of the Eurozone crisis and increased solvency requirements of Basel III.
- JBIC is the largest EXIM bank of the world. It offers a broad range of products to support Japanese exporters, importers and investors. These products include: export loans, import loans, investment loans, untied loans and guarantees. Guarantees are for example used to cover bond issues of Japanese subsidiaries abroad. Recently JBIC introduced a new product to

support Japanese subsidiaries abroad. The current export finance facilities, which have to adhere to OECD regulations on officially supported export credits (the OECD Consensus) cannot always be used for projects of Japanese subsidiaries. Often these subsidiaries are involved in projects that do not involve any Japanese exports. Another issue concerns the financing of domestic production and sales of these Japanese subsidiaries. Such financing is not eligible under JBIC's regular export loan program. For these specific issues JBIC has developed a new product - an untied investment guarantee - , which can support south-south trade. The guarantee can cover both political risks and commercial risks.

- Bangladesh recognizes that the government plays a very important role in PPP projects through amongst others various government undertakings towards the project and their owners (sponsors) and financiers. These government undertakings can be in various forms among which payment guarantees, a concession agreement, revenue guarantees etc... These government guarantees /undertakings lead to all kind of different contingent liabilities for the government. It is very important that the government makes a solid risk assessment before commitments are made and that the contingent risks are adequately monitored and managed during the life of the project.
- According to Tata Power the main challenges in financing infrastructure in India are the tenor constraints of local Indian banks. Multilateral development banks could assist the local banks in providing guarantees to lengthen the tenor of the loans of local banks in India. Furthermore capacity building on guarantees and infrastructure finance would be very helpful for many local banks in India and the Asian region as a whole. Multilaterals could also assist local banks and sponsors in managing social and environmental risks in infrastructure projects. Obviously the multilaterals have strict sustainability standards, but it would be good if the multilaterals would play a more proactive role (through technical assistance) to the stakeholders involved to implement these standards at a project level. A similar more pro-active role could be provided by ECAs and commercial banks to assist their clients in implementing relevant sustainability standards. Many companies in developing countries would appreciate such assistance at a project level. ADB could consider a capacity building facility for this purpose.
- Indian EXIM bank believes that multilaterals and ECA / EXIM banks should cooperate more closely with one another. Multilaterals could play a leading role in project development and seek active support from relevant ECAs to finance the project. Where ECAs are unable to provide support multilaterals could play a unique complementary role.
- Local currency devaluation is an important risk in many infrastructure projects. Most projects generate only local currency income, whereas the loans on which basis they are financed are often denominated in hard currency. Multilaterals should be more active in developing local currency markets and also consider to provide project loans and / or guarantees in local currency.

- Capital markets should become more actively involved in financing infrastructure. Institutional investors are, however, not familiar with complex drawdown mechanisms and managing MLT credits on a daily basis. This can be solved by commercial bank loans during the construction phase, which will be taken out by financing provided by the capital market financiers once the project is fully operational. Obviously both the banks in the construction phase and institutional investors during the loan repayment phase would need adequate guarantees to cover the risks. Here multilaterals and ECAs could play an important role. Furthermore for the daily management of capital market loans the institutional investors could appoint a bank to take up that role.
- Coface sees good opportunities for cooperation between multilaterals and private insurers. Coface can provide cover for loan exposure of multilaterals or re-insurance for guarantee exposure of multilaterals. There are interesting opportunities for co-insurance. Coface and other private insurers can provide additional risk capacity for large projects where a multilateral is not able or willing to take a large stake in the project. Cooperation with multilaterals is attractive for private insurers since they will be able to benefit from the political clout of the multilateral to prevent or minimize losses. Furthermore the involvement of a multilateral often creates comfort for private insurers regarding the technical, economical, social, environmental and financial soundness of a project. Fact is that most multilaterals are mainly funding projects. Their involvement as guarantor is thus far fairly limited. The experience in insuring loan exposure of multilaterals is rather limited.
- Many international banks - in particular European banks - face challenges in providing long term financing, which is caused by the Euro-zone crisis, losses in the banking sector and more severe Basel III solvency regulations. In reaction to this many European governments have developed various funding instruments (e.g. refinancing schemes, funding guarantees) to support the funding of banks for their MLT export finance business.

Evaluation Panel II: Financing Medium to Long Term Trade

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Total
Moderator	60.53%	36.84%	2.63%	0.00%	100.00%
Panelists	60.53%	39.47%	0.00%	0.00%	100.00%

Panel III
Theme: Creating bank links to facilitate south-south trade.



Panel III members from left to right: Yaw Addu Kuffour (AfDB), Rajat Misra (SBI Capital markets), Steven Beck (ADB), Jozal Luiz Pellegrino (Consul General of Brazil in Mumbai), Manohari Swarnamitta Gunarwardhena (DFCC bank), T.C.A. Ranganathan (EXIM Bank India)

Key remarks & recommendations:

- Basel III affects international trade finance negatively. Too high solvency requirements have been set for trade related guarantees, such as letters of credits. ADB, ICC, WTO various other international bodies and a large group of international trade financing banks are currently conducting research on trade related guarantees with a focus on collecting relevant loss data to convince the Bank of International Settlements to amend its' too severe regulations for trade finance. The study can be found on the website of ICC[3]. Initial findings are that the Letter of Credit (LC) business of commercial banks is a relatively low risk type of business with low default rates and losses. Against this background many trade finance banks consider that the Basel III solvency regulations are too severe for the LC business of commercial banks.
- The market is currently as a result of the international financial crisis and economic recession in many developed markets facing serious challenges in financing international trade. Governments and multilateral development banks can play an important role to overcome these challenges.
- DFCC Bank is a bank in Sri Lanka and makes actively use of the ADB trade Finance Program.
- SBI Capital Markets is India's leading investment bank active in various areas of trade and investment finance. (including project finance)

[3] See IIC report on global report on trade finance: http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2012/ICC-Global-Report-on-Trade-Finance-2012/

- AfDB is in the process of setting up a Trade Finance Program similar to that available within other multilateral development banks such as ADB, IFC and EBRD.
- It was referred to a recent study[4] conducted by ADB about the strategic importance of trade finance. Access to trade finance is key for business development and job creation.
- South-south trade has grown substantially during the past 5 years, in particular intra-regional trade. Extra-regional trade is much less developed, but there are interesting business opportunities in this area.
- Open account trade finance, whereby the supplier provides a credit to the buyer is the dominant form of international trade finance. The Trade Finance Programs (TFPs) of various Multilateral Development Banks such as ADB that provide cover for a.o. Letters of Credits of commercial banks play an important complementary role in facilitating global trade, including south-south trade.
- One of the key challenges in south-south trade finance is the lack of reliable credit information.
- The "know your client" (KYC) policies of commercial banks are important to avoid banks to get involved in criminal business or money laundering. At the same time an in-depth screening of clients is quite costly for the banks involved. Governments in developing countries should therefore encourage business transparency and the availability of reliable credit information.
- Multilateral Development Banks should work much more closely with one another under their TFP programs.
- Commercial banks look at the list of issuing and confirming banks under the TFP programs of multilateral development banks. For many banks it creates some comfort that banks are a TFP partner bank of multilateral development banks.

Evaluation Panel III: Creating bank Links to Support South-South Trade

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Total
Moderator	40.54%	40.54%	18.92%	0.00%	100.00%
Panelists	43.24%	40.54%	16.22%	0.00%	100.00%

[4] See ADB Briefs no. 11 of March 2013. http://www.adb.org/sites/default/files/pub/2013/trade-finance-survey-major-findings.pdf

Panel IV
Theme: Mitigating contractual risks related to trade and investment.



Panel IV members from left to right: Nicolas Banerjea-Brodeur (Bombardier), Emil Elastianto Dardak (IIGF), Luigi de Pierris (AfDB), Sanja Kedia (Marsh), Ashwin Ramanathan (AZB & Partners) Stefan Schussele (Munich Re), Tim Warren (Zurich)

Key remarks & recommendations:

- IIGF (Indonesia Infrastructure Guarantee Fund) is a new entity set up by the Indonesian government to provide guarantees on behalf of the Indonesian government for PPP projects in Indonesia. Through IIGF guarantees certain contractual risks in PPP projects can be mitigated.
- Zurich is an important MLT credit and political risk insurer and is active all over the world. The policies of Zurich can cover various financial risks among which “breach of contract risks” in PPP projects through which contractual risks can be mitigated. In case of a breach of contract of for example a long term off take contract the policy holder is required to start an arbitration procedure to establish that the off taker that caused the breach of the contract was legally not entitled to do so. In that case Zurich will pay out the loss suffered by the policyholder.
- Munich Re is the largest re-insurance group of companies in the world. It is very active in covering disaster risks and has an extensive database to analyze these risks globally. Covering disaster risks is very important for both private sector and public sector infrastructure projects. The fact is that many governments do currently not make use of disaster risk insurance for their infrastructure assets. These government owned assets are often “self-insured” and as a consequence when a disaster affects the country the government ‘s budget is severely impacted by the disaster, often leading to request to the donor community to assist in financing the costs of the disaster.
- The AfDB provides partial risk and partial credit guarantees to mitigate contractual risks in infrastructure projects. In addition the AfDB assist its’

member countries to structure projects. AfDB has a so-called Africa legal support facility that can be used by African governments to support the structuring of projects and the negotiations with private sector parties in infrastructure projects.

- Corruption and bribery are important contractual risks in conducting business. The consequences of bribery are very serious. Contracts can become null and void. Companies may be put on a black list of for example the IBRD, which implies that the company can no longer benefit from IBRD financing. The OECD guidelines for multinational enterprises provide guidance for multinationals in conducting business. These regulations include that complaints about the behavior of multinationals can be filled at so-called national contact points in OECD countries. Apart from the legal consequences it is also important to highlight that involvement in corrupt practices has a negative impact on the reputation of a company. Obviously a negative reputation will also influence the business potential of the company involved.
- Regulations in countries on corruption differs substantially among countries. In many developed countries fraudulent practices of foreign subsidiaries of a multinational may lead to criminal procedures against the mother company in the investor's country. It was mentioned that in India corruption regulations do apply to Indian companies that are active in India. But these regulations do not apply to corrupt practices by Indian subsidiaries abroad. This is an area where the Indian government could further enhance its corruption regulations.
- Zurich offers both political risk insurance and comprehensive cover to its' customers. Given current market circumstances (solvency constraints banks, Basel III) most transactions are now covered on the basis of comprehensive cover. Zurich has paid out substantial amounts of claims. Only in a limited number of transactions claims payments have been refused. In these cases the policyholder had not met key insurance obligations or made misrepresentations to Zurich.
- Dispute resolution clauses in trade and investment contracts are very important. You have to be careful in selecting the applicable law and relevant arbitration procedure.
- In working in developing countries it is very important to investigate the regulatory framework in the country. In this way unpleasant legal surprises can be avoided.
- In breach of contract insurance policyholders may face two loss scenarios:
    1. breach of contract leading to an arbitration award in favor of the insured, but the contracting party of the insured does not honor its payment obligation. This would normally be covered under policies that cover breach of contract.
    2. Breach of contract whereby the legal / arbitration procedure is frustrated by actions or inactions of the government of the country where the investments are made. This is often called as "denial of justice". Some insurers cover such denial of justice and some will make a provisional claims payment if it is likely that the arbitration award will be granted to the insured.

- Many private insurers exclude losses as a result of a nuclear accident from cover. This has to do with the potential magnitude of the losses that insurers and more importantly their re-insurers face in case a nuclear accident occurs. An aspect that also plays a role is the fact that nuclear risk is difficult to assess because many governments do not allow independent inspection of their nuclear power plants.

Evaluation Panel IV: Mitigating Contractual Risks related to Trade and Investment

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Total
Moderator	64.86%	32.43%	2.70%	0.00%	100.00%
Panelists	54.05%	45.95%	0.00%	0.00%	100.00%

VI. Overall experience of participants.

According to the feedback received it can be concluded that the AFRM forum 2013 in Mumbai, India was highly successful. The table below reflects the overall experience of participants.

Overall, how would you rate the AFRM 2013 Forum?

Excellent	Very Good	Good	Fair	Poor	Total
42.50%	32.50%	22.50%	2.50%	0.00%	100.00%

VII. ADB Contact Person.

For more information about this Seminar please contact: Christophe Bellinger, Lead Guarantees and Syndications Specialist, Private Sector Operations Department Operations, Asian Development Bank, at cbellinger@adb.org.

Annex I.

Agenda of the Asia Finance and Risk Mitigation Forum 2013
Facilitating South-South Trade and Investment
30 April 2013, Taj Mahal Palace Apollo Bunder, Mumbai, India