

# ADB Case Studies: Political Risk Guarantees, Guarantor of Record, B Loans

Political Risk Insurance Seminar  
for Asian Regional Exim Banks  
19 October 2005

Office of Cofinancing Operations  
Asian Development Bank

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## Case Studies

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- \$70m PRG and \$20m B Loan used for AES deal in Bangladesh
- \$25m GOR PRG for Phu My 2.2 in Vietnam
- \$50m PRG for NT2 in Lao
- \$175m PRG Facility covering Political Violence for Pakistan

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## BOT Power Projects - History

- \$70m PRG used in Bangladesh and \$31m PRG used in Sri Lanka
  - had host government counter guarantees
- \$25m PRG for Phu My 2.2 in Vietnam
  - was reinsured by a private sector PRI provider under Guarantor of Record Program
  - w/ World Bank (IDA) as coguarantor
- \$40m PRG for Phu My 3 in Vietnam
  - was provided on ADB's own account
  - w/ MIGA as coguarantor

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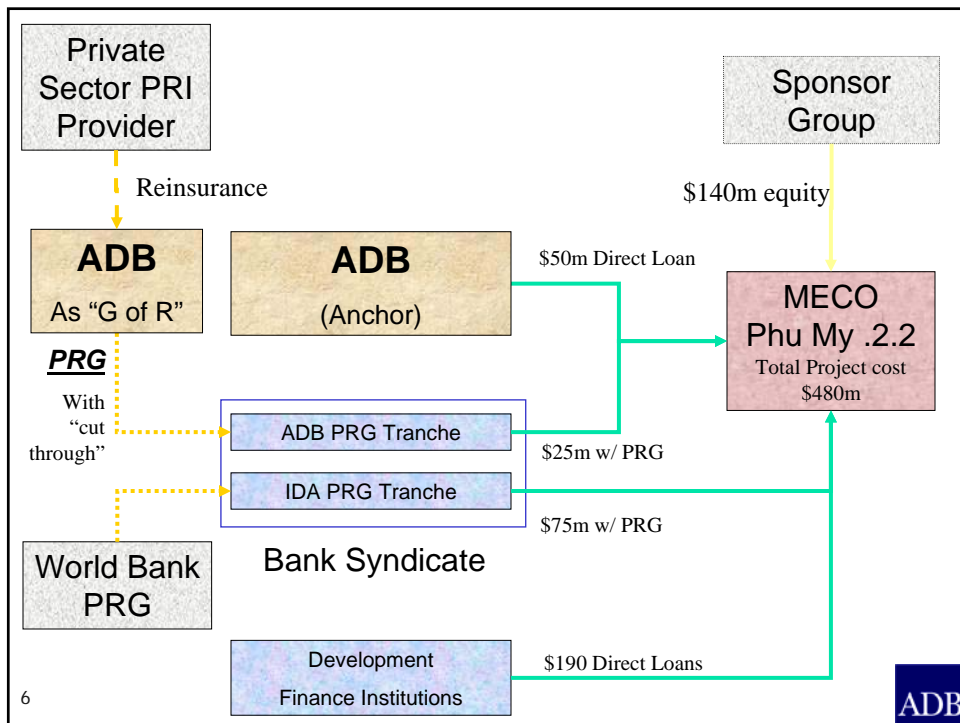
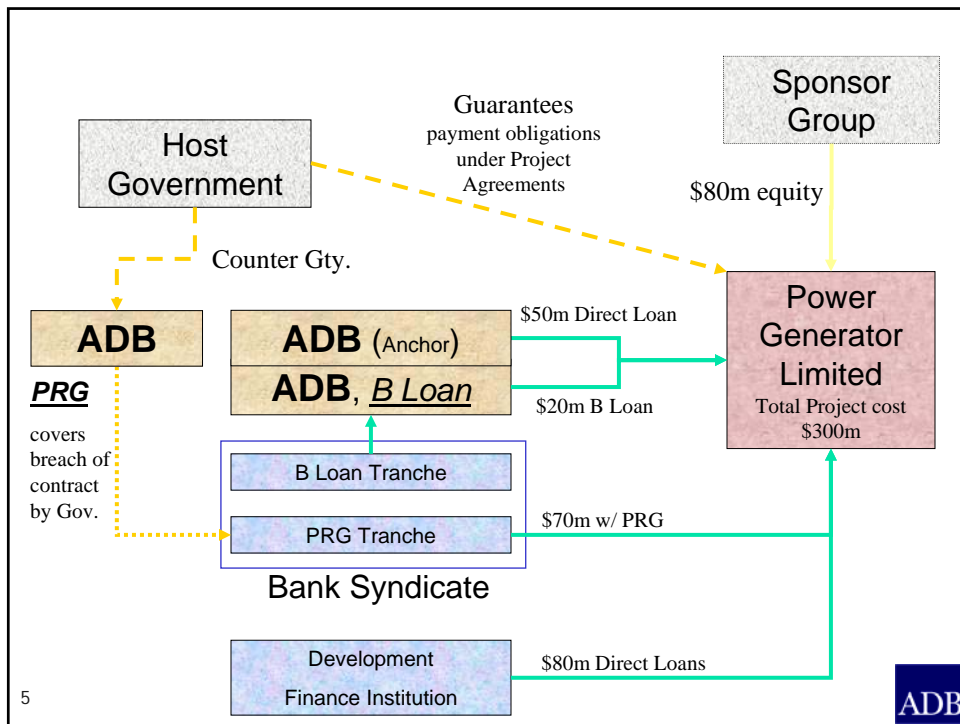


## BOT Power Projects – History

- \$50m PRG for NT 2 Hydro Project in Lao
  - Partial Indemnity from Lao Government
  - w/ MIGA and IDA as coguarantors
  - Majority of debt provided by Thai Exim and Thai commercial banks

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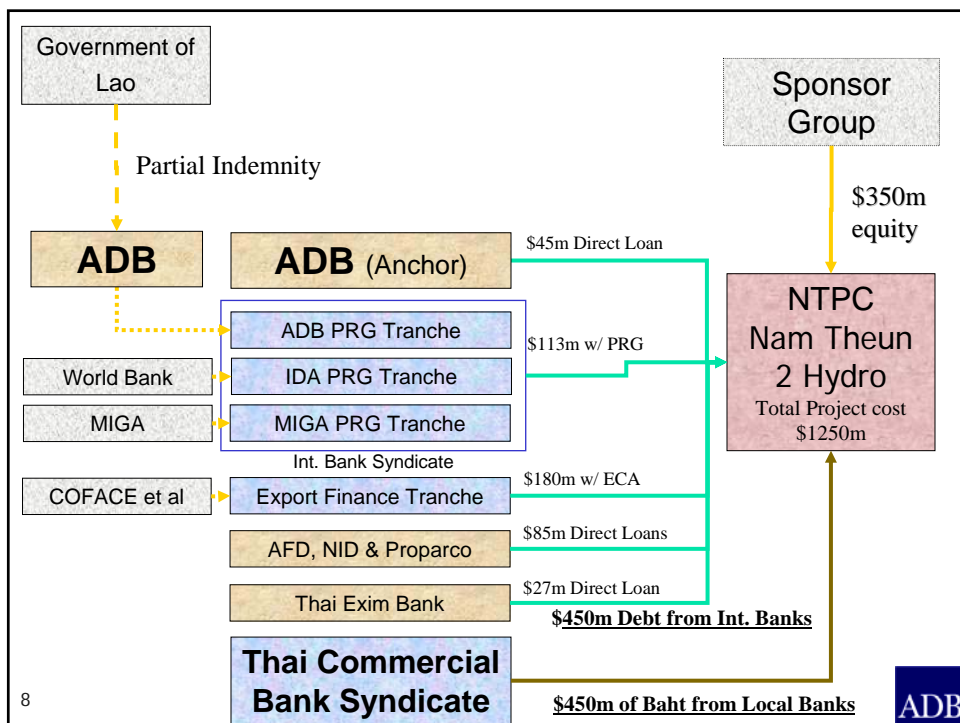


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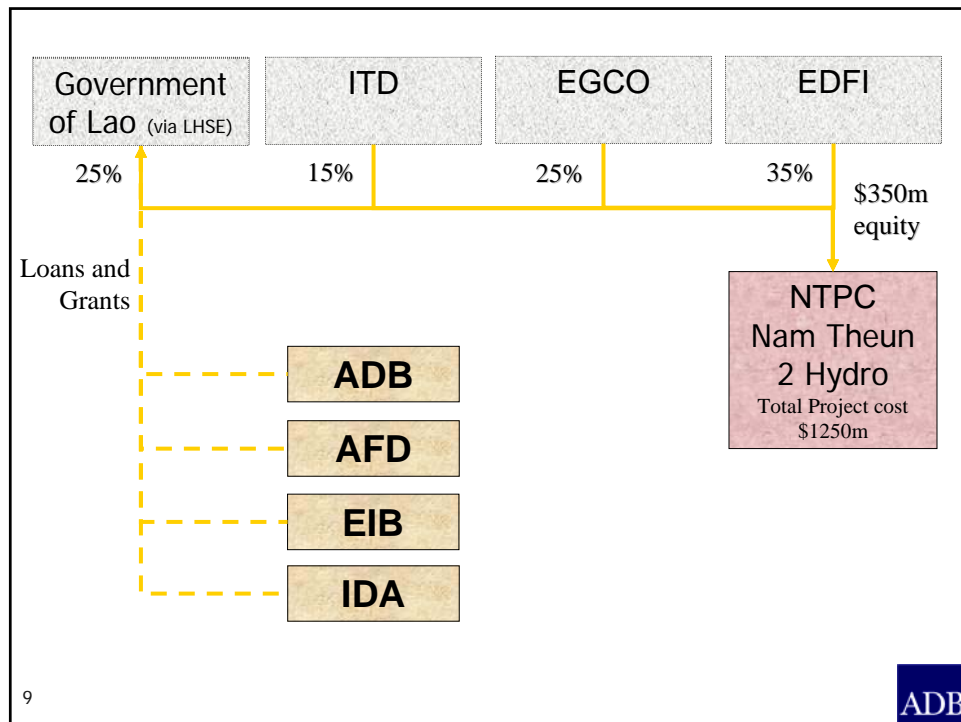
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## BOT Power Projects w/ PRG

Lessons learnt ...

- Host Government Counter Guarantees
  - For some deals no longer available or needed
  - Other deals they are a must
- Breach of Contract
  - Deeming Provision often needed
  - Is denial of justice the real concern?

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## BOT Power Projects w/ PRG

Lessons learnt ...

- Premium calculations differ
  - Should premium be charged for all interest to accrue?
- Local Currency Finance
  - Available and cost effective
  - Can PRI cover local lenders?

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## BOT Power Projects w/ PRG

Lessons learnt ...

- Claims Cooperation
  - Can and should 'preferred creditor status' be shared?
- Political Violence
  - Who is taking the 1<sup>st</sup> loss on terrorism and sabotage risk?
  - What about 'nuclear' or 'WMD' exclusion?

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## Political Violence PRG Facility

- 9/11 and subsequent global and regional events resulted in
  - general exclusion of terrorism risk cover from most property insurance contracts
  - significant hardening of the reinsurance market



## Political Violence PRG Facility

- Availability of property, business interruption and construction insurance - ***including terrorism cover*** - is crucial to
  - sustain investment and economic growth
  - protect lenders and others who are not able or should not take this risk



## Political Violence PRG Facility

- A number of developed countries responded to this market failure with a variety of government supported schemes
- Pakistan also responded
  - particularly when its direct insurers found it hard to impossible to get terrorism risk reinsurance

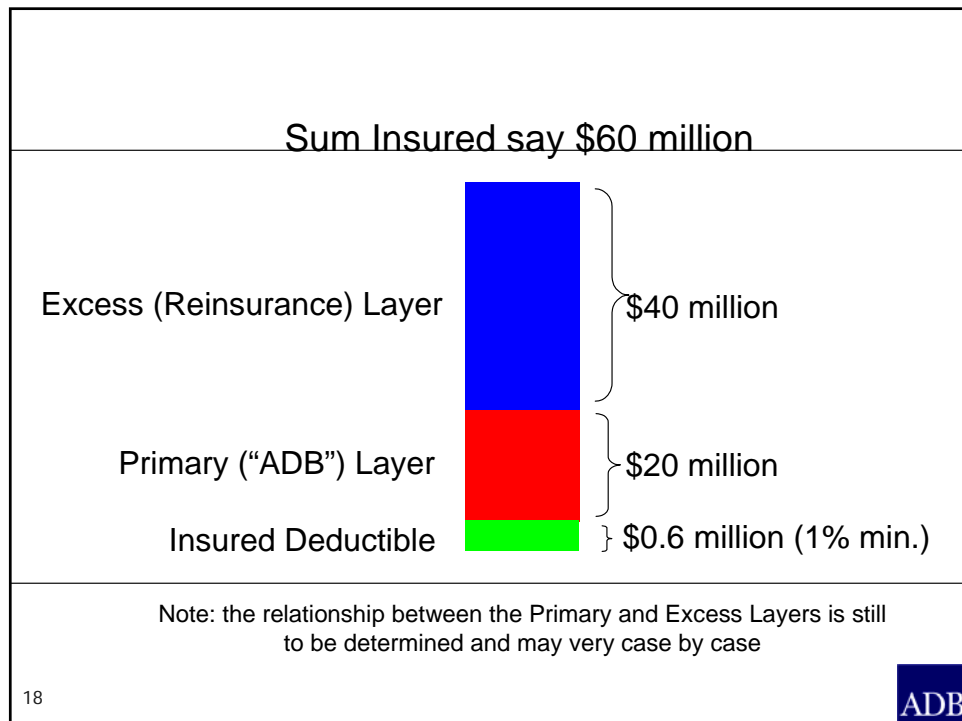
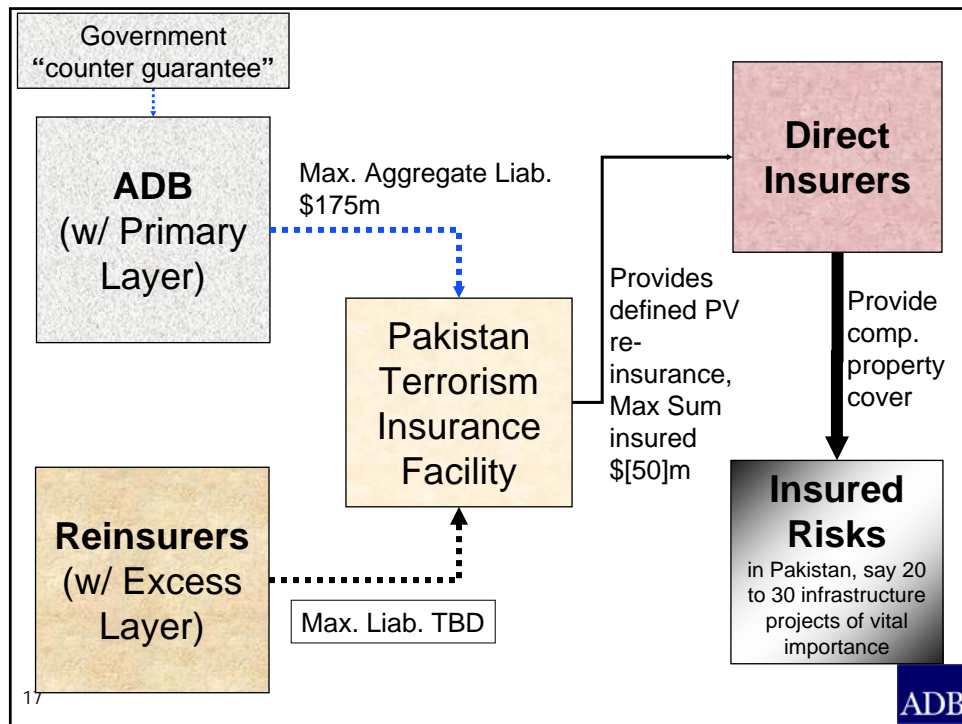



## Political Violence PRG Facility

### Objectives

- ✓ Cover new or existing assets of vital economic importance in Pakistan
- ✓ Support direct insurers providing property, business interruption and construction cover
- ✓ Encourage participation of international reinsurers







For further information about ADB  
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