



For Your Information

October 2004
Volume 9, Number 3

God Helps Them That Help Themselves

(Benjamin Franklin in Poor Richard's Almanac, 1736)

Cory N. Strupp, BAFT General Counsel

BAFT serves its members in various ways. It provides international bankers with opportunities to get together with each other to touch base and compare notes. It also provides members with up-to-date information on new developments that affect their businesses. In addition, BAFT looks after the interests of international bankers on legislative, regulatory, and administrative issues. We let members know when there's something new that might interest or concern them and we present their points of view to decision makers.

The success of each of these functions depends, at least in part, on two-way communication between BAFT and the international bankers it serves. Our recent membership survey is a good example of how communications from members can help us serve them better. We had a tremendous response — more than 60% of the questionnaires were completed and returned — and we received extremely useful information that will help us improve our existing services and

develop new ones that meet our members' needs.

We also need to hear from our members about legislative, regulatory, and administrative issues. When we meet with legislators and regulators they invariably ask for our views on the international banking issues of the day. We usually have a good idea what our members' generally are thinking about legislative and regulatory matters, and often the issues are pending for a long time and we have the benefit of a cumulative history of discussions so that we're well informed. When it comes to trade negotiations, however, it's another matter.

U.S. trade negotiators, both from USTR and the Treasury Department, call BAFT regularly and ask whether our members have any issues they would like to raise with respect to doing business in or with a particular country. Sometimes the inquiries are quite specific, asking whether BAFT members are concerned about a restriction on branching in a particular country or a limita-

[See HELP on page 3](#)

Ex-Im Bank Update:

Ex-Im Bank Launches Insurance and Co-financing Initiatives, Renews Aircraft Financing Offer Linked to Capetown Treaty

The Export-Import Bank of the United States (Ex-Im Bank) recently introduced a foreign dealer insurance product, signed a co-financing agreement with Japan's NEXI, and renewed special financing enhancements for airlines in countries implementing the Cape Town Treaty.

Foreign Dealer Insurance: Ex-Im Bank introduced a new type of insurance policy that covers financing of exports of U.S. machinery and equipment to foreign dealers for resale to local buyers. The insurance supports an important distribution channel for U.S. capital goods exports. Not only do foreign dealers help U.S. companies penetrate local markets, but their ability to hold U.S. machinery and equipment in inventory

[See EX-IM on page 14](#)

INSIDE

- 2 Doing Business in China (Roger Heng interview)
- 4 The Changing Face of China Trade & Finance
- 5 Brave New World; Same Old Political Risks
- 6 A Rational Approach to Emerging Markets Risk
- 7 Supply Chain Collaboration
- 9 A New Lease on Trade Liberalization in India
- 11 Structured Trade Finance
- 13 Open Account
- 15 Factors in the Decision to Outsource
- 16 Congo & Azerbaijan
- 18 Members' Corner

BAFT PLATINUM SERVICE PARTNER



Doing Business in China

An Interview with Roger Heng

As China evolves rapidly into a powerful market force, many companies are looking for ways to protect their margins and market share at home — and seize new market opportunities in China. To develop their strategies, CEOs need answers to some basic questions about China's business climate, BMO's Roger Heng answered a number of them in a recent interview.

Roger Heng, BMO's Managing Director in China, is leading the Bank's expanding presence in China. From his office in Beijing, he monitors firsthand China's evolving political, economic, regulatory and business landscape. And he studies the implications of these changes for both his native country and for North American companies pursuing business opportunities in China. A well-respected business leader, Roger serves as a member of the International Business Leaders Advisory Council to the Mayor of Qingdao and his Municipal Government.

Roger was born in Hingling, Guangdong Province, China, and received his Bachelor's Degree in Economics from the University of Western Ontario and a Commerce Degree in Finance from the University of Windsor, Ontario. He remains extremely active in community affairs on both continents, working on behalf of several nonprofit organizations and business groups to promote Sino-North American cultural exchange and trade cooperation. Roger addressed the following questions and issues in recent meetings with BMO Nesbitt Burns clients.

What are some of the most critical components of any successful trade strategy involving China?

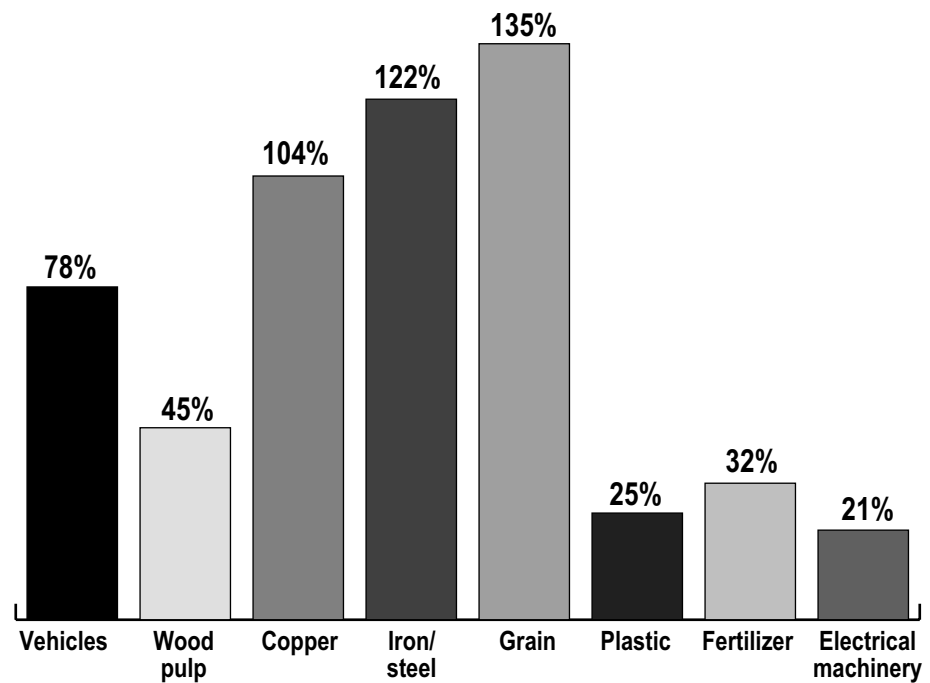
Companies need to study the changes underway in China very carefully and develop a coherent vision of where the country is going — and what business opportunities and risks these changes create. On the one hand, shifting demographic trends, growing consumer purchasing power and advances in technology can stimulate greater demand for goods and services. At the same time, variables such as policy decisions and changing legal, regulatory and financial frameworks can affect current strategies for investment direction, market distribution and cost structure. The companies that do the best job of reading and anticipating these changes — and identifying the development gaps that result — will profit most from their business activities in China.

What new markets/platforms are likely to open next for North American investors in China? In other words, what will the next "development gaps" be?

Many of the recent development gaps are directly tied to China's growing middle class. These consumers have strong appetites for products and services that are very familiar to most North American consumers. For example, 400,000 new cars were delivered in Beijing alone last year, and consumers are paying premium prices for cars available for immediate delivery. The construction industry is also booming as consumers set their sights on private home ownership. These trends in turn create opportunities to supply everything from energy, cellular phone and Internet services to engineering, environmental and

See CHINA on page 3

In 2003, U.S. exports to China grew by 21%.



Source: U.S. Department of Commerce

CHINA from page 2

financial services.

As consumers continue to display their greater spending power and cultivate more sophisticated tastes, North American companies may have growing opportunities to support education, travel, recreation, media and entertainment. There will also be increased demand for environmental technologies; fire prevention and security; food packaging equipment; housing and building products such as plastic materials, scrap metals and resins; power generators; telecommunications equipment; and waterway, railway and highway construction, transportation and infrastructure.

What are some of the better purchasing opportunities for North American companies seeking to procure low-cost raw materials, finished goods and parts manufactured in China?

Traditionally, China was known principally as a manufacturer of labor-intensive manufactured goods such as textiles, leather goods, toys and sporting goods. But China's product mix has been shifting steadily toward electronic consumables. In fact, China is trying to pattern itself after India, which has become a leading source of value-added and high-tech products. For example, China is now a leading global producer of televisions, telecommunications equipment, personal computers and parts used in a broad range of consumer products. ■

To read the full interview please go to <http://corporate.bmo.com/tradefinance/>

HELP from page 1

tion on ownership of local banks in another. Other times the inquiries are general — do BAFT members have any problems they would like addressed in discussions with Panama, or with countries in the Andean Region (Columbia, Peru, and Ecuador)? Sometimes they're even broader, such as what countries should be on the list for future trade agreement negotiations? In all of these cases our ability to provide a meaningful response depends on hearing from our members.

The U.S. trade negotiators that cover service industries have told me that they hear a lot from some parts of the financial services industry. Insurance companies call all the time, pestering them about a multitude of issues. Not that the U.S. team minds. They are glad to know what that part of the industry wants and they often go into negotiations with a long list of issues to address. Securities firms haven't been as vocal as insurance companies, but they make their needs known. For the most part banks have been much less vocal, however, and the U.S. negotiators wonder why.

It might be the inherently conservative nature of bankers, or it might be that bankers have everything they want. I doubt that either is the case. It's more likely that bankers simply

haven't gotten into the habit of asking our trade negotiators to do things for them. Many bankers aren't aware that our negotiators want, and indeed depend on, input from the private sector when they prepare their lists of issues and set priorities. BAFT staff have gone out to the membership and asked for help in responding to inquiries from the negotiators. In some cases we've gotten better responses than others. But in every case we hoped for more.

The U.S. has a terrific team of trade negotiators that are smart, knowledgeable, effective, and dedicated to opening doors abroad for American business. But they can't do the job without our help. In the future, when you get a request from BAFT asking whether your bank has competitive issues that could be addressed in negotiations with another country, please circulate it to other areas of your bank that might be affected and let us know what you and they come up with. And there's no need to wait for us to ask. When you encounter competitive problems abroad due to foreign government rules, regulations, or policies, let us know and we'll be glad to help you get your issues in front of people who can do something about them. This is one case where the people from the government really are here to help you. ■

Here is an example of how BAFT is using the responses it received from the membership survey. Members told us they would like to hear more about legal and compliance issues. In fact, legal and compliance topics were the most frequently mentioned among the subjects that members said they would like addressed at future conferences. We will take that into account when we do our program planning and we're also working on a series of teleconferences this winter addressing legal and compliance issues. One of the major international law firms in New York has expressed an interest in working with us on the teleconference presentations.

The Changing Face of China Trade and Finance

Terry Newendorp, Chairman & CEO and Xiaochao Wang, Vice President of Taylor-DeJongh

China trade has been flourishing these days. The total value of the PRC's imports and exports has been increasing by more than 20% annually since 2001. The total trade value was \$851 bn in 2003, accounting for approximately 5% of the world's total, ranking the 5th largest in the world. Its total trade value in the first seven months of 2004 amounted to \$623 bn, increasing by 38% year on year. For the first time since 1994, the PRC's trade balance registered a deficit of \$4.8 bn as of the end of July 2004. Its major trading partners are the U.S., Japan, the rest of Southeast Asia, and the EU. Its trade surplus with the U.S and EU is offset by its trade deficit with Japan and other Asian trading partners. Approximately 22% of its imports are primary products including mining products and raw materials. China's demand for machinery and equipment, computers, crude oil and metals as well as grain and soybeans has exerted a major impact on trade in Asia and is reshaping international trade relations.

One key driving force for the fast trade growth is the strong performance of the PRC economy, with GDP growth at 9.1% in 2003 and 9.7% in the first half of 2004. IMF predicts that the PRC economy will grow by 9% in 2004 and 7.5% in 2005. The second driving force is the increase in the world's commodity prices. The PRC has become a major buyer in the world's commodity markets. For instance, it became the second largest oil consumer and the third largest crude oil importer in the world in 2003. The economic resurgence has strained supplies of raw materials, causing price hikes and shortage of electricity. Since April this year, the government has instituted administra-

tive measures to curb excessive investment in certain sectors such as steel, aluminum, and real estate. This has already achieved certain results as the industrial production slowed down in July. However, it may take a few years for the economy to truly cool off, as the previous economic surge which started in 1992 did not bottom out until 1999. It is expected that the PRC economy will continue to grow at an average rate of 7% before the end of this decade.

China trade is booming and changing, and so is the way it is financed. Foreign banks have become major players in providing trade finance services, and new structured finance transactions have also taken place in recent years.

Foreign banks have spearheaded innovations in trade finance in the Chinese market since they followed their clients into mainland China in the early 1980s. They have established a stronghold in the local market ever since, boasting 199 operating offices as of June 2004. They provide a range of trade service products including L/Cs, D/P, D/A, forfeiting and factoring. Ninety seven foreign banks are now allowed to conduct business in RMB, the local currency. With the PRC's WTO membership in December 2001, foreign banks are now permitted to own less than 25% of local financial institutions. A number of international financial institutions have already invested in 6 local financial institutions as of June 2004, further strengthening their influence in the local market.

One major breakthrough made by foreign banks is structured commodity finance. A number of international banks have arranged cross-border

structured commodity finance transactions involving aluminum, coking coal, and even frozen fish. Fortis Bank, for example, arranged a 1-year coking coal prepayment financing transaction in 2003. The borrower, a trading company based in Singapore, is the off-taker of the coking coal to be produced by a local coal company in Shanxi province, a major coal producing area in northern China. The proceeds of the loan were used by the coal producer for producing coking coal to be exported to the Singapore-based purchaser.

Another landmark development in trade finance is export financing by foreign banks with cover from Chinese ECAs. For instance, SG EIB and the state bank ICBC made a 5-year \$40 million loan to Algerian Telecom with political risk cover from Sinasure, a Chinese ECA. The proceeds were used to finance purchase of telecom equipment from a Chinese telecom equipment manufacturer based in Shenzhen.

Other inroads made by foreign banks in China are in the project finance and related trade finance services. Foreign banks were the major lenders to foreign-funded enterprises and infrastructure projects including highways and power plants in the 1990s. Foreign banks made their loans to infrastructure projects with ECA political risk cover from major OECD countries. In the past few years, foreign bank participation in project financing has been very limited and decreasing due to competition from domestic banks with excess liquidity in a very low interest rate environment. However, international banks are still the dominant players in providing project finance advisory services due to their structuring expertise.

See FACE on page 5

FACE from page 4

Domestic banks, which dominate the Chinese trade finance market, have also made contributions to new trade finance techniques. In particular, the 11 new commercial banks established in the past two decades have demonstrated their improved ability to price risks and creativity in providing innovative trade finance products. For example, the Shenzhen-based China Merchants Bank, the leader of the new commercial banks, has designed a new structure to finance commodity deals which usually involve the bank, an importing company, an oil storage facility and final users. In the traditional approach, the bank requires the importing company to provide full col-

lateral or third party guarantee as a pre-condition for issuing L/Cs, which places excessive burden on the importing companies. The new structure allows the bank to issue L/Cs on behalf of the importing company by solely relying on a 15% to 30% margin deposit and a pledge of the oil products to be imported. The bank will make payments on behalf of the importer once the conditions set in the L/Cs are met. By making payments under the L/Cs, the bank makes a loan to the importer, which is to be repaid by the proceeds from the sale of the oil imported products. The bank holds title to the imported oil products through agreement with a specific oil storage facility and the importing com-

pany, and will not release the title until cash payments by final users are received by the bank. The final users are directed by the oil importing company to pay directly into its account with the bank through an agreement between the bank, the importing company and the final users. The bank takes the risk of price decline of the imported products, which is mitigated by the margin deposit. This structure also applies to other commodity trade deals such as aluminum, copper, soy beans, etc. Such an innovation has proven very successful for the bank to attract a large number of importing companies as customers. ■

Brave New World Features Same Old Political Risks

Stephen Kay, AIG Global Trade & Political Risk Ins. Company

With today's global media coverage, it seems political risk is everywhere. Pick up a newspaper on any given day, and you might read about Middle Eastern conflicts, protests against economic liberalization in Latin America, or various governments around the globe on the brink of debt default.

Companies operating around the world can be exposed to significant, unanticipated difficulties emanating from these and other types of political risks. America's legal system offers investors an objective and relatively predictable venue for seeking recourse should things go awry. This may not be the case elsewhere, leading to unpaid contracts, or total loss of assets or investments with little hope for recoveries. Overseas opportunities can be considerable, but if such risks exist even at home, how can companies feel secure enough in emerging markets?

While it may seem exotic, political

risk, which involves company exposure to property, liability, or net income related losses, is an exposure to be assessed, managed and potentially insured just like any other. For example, assets could be destroyed or expropriated; unpaid invoices could impact cash flows and net profit; higher borrowing costs may result from lenders' perceptions of additional risk due to overseas exposures; and company officers could be held responsible for not taking reasonable measures to protect the organization from unanticipated losses. While political risk losses tend to be of lower frequency than, for example, property or casualty losses, the severity of political risk losses can be very high and should therefore be carefully assessed. How to go about assessing political risk?

Political events giving rise to such exposures can come about suddenly, or occur gradually over time. Either way, events are often very difficult to predict

in terms of both probability of occurrence, and severity of loss on an investment or trade transaction. Nevertheless, the organization should consider the political risk factors before significant resources are committed, in the context of the nature of the transaction which itself influences these potential probabilities and severities.

Political events can emanate from sources that may be quite localized, or more global in nature. Local issues leading to political upheaval could include privatization of sectors such as roads and water — necessities many people think should be provided for free, rather than paid services provided by the private sector. Another local issue might be a persistent or increasing gap between rich and poor, which may lead to resentment and eventually a popular uprising. National or international issues may include change in government through democratic elec-

See BRAVE on page 9

A Rational Approach to Emerging Markets Risk

By Daniel W. Riordan, Executive Vice President and Managing Director, Zurich

Developing countries are truly exciting and alluring places in which to do business. These emerging markets are doubling their Gross Domestic Product (GDP) roughly every 12 years. In the next decade, their collective economies are expected to account for more than 65 percent of the world's production, as measured by GDP. Add to this growth a surge in population and continued urbanization, and experts estimate there will be nearly 50 mega-cities created in developing countries in the next 50 years.

The commercial risks in carefully considered emerging markets are frequently no greater than those in developed countries. These rapidly growing economies generate cash for dividend and debt payments, as well as opportunities for arbitrage that either don't exist or would quickly evaporate in developed countries.

It is rather the political risks — stalled reforms, civil war, expropriation and currency inconvertibility — that create uncertainty. While many of these risks cannot be eliminated, they can be managed in a rational way — partly through the protection of risk-transfer products, partly through the use of public and private partnerships and partly through preventive measures.

Certainly insurance products should form the basis of any rational approach to risk mitigation. They are highly effective mechanisms that can protect a financial institution from the risks of expropriation, political violence, inconvertibility, as well as payment defaults caused by financial reasons specific to a local company.

During the past several years, the effectiveness of insurance products has been strengthened by partnerships between private insurers and public agencies. Initially, private insurers brought much-needed capacity to a marketplace where growing demand exceeded coverage for infrastructure projects. Over time, these public-private partnerships have delivered better products to the marketplace. Insurance buyers now benefit from public agencies' local market intelligence and technical know-how related to policy wording, and from private insurers' underwriting and pricing expertise.

These partnerships have increased the flow of information and the ability to efficiently service political risk and trade credit insurance buyers.

While the primary purpose of these partnerships is to promote development, it is important to note that they also provide leverage when disputes arise. Perhaps a prime example of the increased protection that private-public partnerships may add occurred recently in Argentina.

In 2002, the Berne Union (an international union of credit and investment insurers) gained exemptions from Argentinean exchange controls that would have prevented businesses from converting local currency and transferring it to investors or lenders outside the country.

Public-private partnerships may often take a strong advocacy position with government ministers who are in a position to make policy decisions. Berne Union members met with officials and explained the extent of its

members' activities in promoting trade and investment in their country. Many host governments, when they understand the value of these relationships, are willing to listen and moderate their positions.

More recently, Zurich was instrumental in gaining exceptions to Venezuelan exchange controls for its insureds. Admittedly, the insurers averted losses. But more important, payments from insured companies continued — uninterrupted.

While public-private partnerships are invaluable in mitigating disputes that arise from the political and economic conditions of a country, that is not where all disputes between host governments and businesses arise. Some are simply the result of poor operating practices on the part of businesses — and these disputes can often be prevented. It is in the best interests of both banks and insurers that we work with companies that exhibit the following sound business practices:

Clear and simple project agreements. All project participants need to have a clear understanding of project requirements and responsibilities. Project agreements that make transparency a benchmark serve as a vehicle to resolve disputes rather than ignite them.

Dispute resolution mechanisms. Project agreements need to include a provision for a dispute resolution mechanism that allows for international arbitration. Such a provision should be a mandatory part of every project agreement. As evident as this practice

See *RATIONAL* on page 7

RATIONAL from page 6

may seem, it is nonetheless being ignored in the heat of negotiations by some of the savviest companies.

Solid local partnerships. Recent events in many countries have borne out the often-fleeting value of a politically connected partner. What political risk insurers view as a bonus is the commercial or technical expertise that a local partner brings to a project.

Mode of operations. A company's culture may put it at risk of becoming embroiled in costly legal barriers. Companies that are confrontational often set the stage of disputes, while

companies that emphasize negotiation as a way of resolving disagreements present less risk.

Local roots. Companies that establish roots in the region by becoming involved in or sponsoring social programs, soliciting the comments of indigenous people and showing respect for the environment build goodwill with the community and country in which they operate. In the end, a sense of fairness and reciprocity is the best prevention against political risk.

The prospects in emerging markets are bright. Our challenge is to devise a rational approach to managing the

risks inherent in developing economies. Through a combination of risk-transfer products, the use of public and private partnerships and institution of preventive measures, lenders and their customers can more confidently seek the opportunities that emerging markets provide. ■

Zurich's strategic business unit offering insurance solutions in emerging markets (www.zurich-na.com/politicalrisk) is based in Washington, D.C., with offices in London, Barcelona, Hong Kong and Tokyo. The unit provides political and trade credit risk solutions to financial institutions, multinational corporations, investors, exporters and infrastructure developers. Zurich is a member of the Berne Union, an international union of credit and investment insurers.

Supply Chain Collaboration: The Pass-Through Benefits of Integrated Trade Solutions

by Patrick Fisher

Financial Institutions need to realize that they will be left behind if they do not adapt to changing client models. The move toward vertical integration between trading partners has shifted buyer-seller relationships from being competitive and distributive to cooperative and integrative.

However, managing the increasing, multiple touch points has become more difficult and essential for success. From order management to reconciliation, banks are recognizing the benefits of being ingrained throughout the entire supply chain. At the same time, with burgeoning levels of international procurement and a limited amount of investment dollars, importers and exporters are scrambling for help.

Large importers want deeper relationships with their overseas vendors to tap into the value of collaboration and the mutual benefit found in taking cost

out of the supply chain. To that end, some companies have taken radical steps to streamline operations and begun to integrate with their suppliers at all levels. *The Wall Street Journal* cited Liz Claiborne's creation of a "supply chain city" whereby design, sourcing, and product development teams have moved into their vendor's production sites in China. Through their collaboration, both buyer and seller have shortened turnaround times and eliminated duplicative processes leading to lower unit costs than ever before.

Recalling Ronald Coase's *Theory of the Firm*, there are lower transaction costs within entities, which forms the basis for why firms exist. Some trading partners are seeking to cut transaction costs by creating a synthetic firm with aligned processes and shared resources. At various levels, global buyers and sellers are exploring every means to

increase efficiency and slash costs in their overseas trade.

Although domestic buyers have targeted savings through streamlined trade operations, automated processing and aggressive Letter of Credit pricing, they have failed to see until recently that both parties bear the weight of supply chain costs. Only solutions that extract cost and provide support for buyer and seller will be successful. These trends offer significant opportunities for Financial Institutions that can provide end-to-end solutions, tying the disparate parties and processes together.

Traditionally, banks have maintained their position in the supply chain by focusing on documentation and settlement but have avoided other areas of integration. Ironically, they have relegated themselves to the most

See CHAIN on page 8

CHAIN from page 7

commoditized services, leaving the door open for competitors who would provide:

- Deeper levels of data integration
- Real-time transaction visibility
- Multiple payment methods
- Forecasting and decisioning analytics
- Document creation support
- Workflow tools
- Financing flexibility
- Outsourcing capabilities

Financial Institutions that offer these services for both trading partners will protect their domain and grow their business.

One reason Financial Institutions have failed to see these needs is because of their limited focus on buyers. When looking at the standard single-to-many trade model, banks have historically concentrated on the single buyer rather than the many sellers due to the ease of handling one relationship. Owing to the nature of investment in technology and process improvement, it was only practical to integrate with a sophisticated buyer. As a result, myriad inefficiencies remain in the realm of the seller since restricted capacity and scale have kept them from innovation.

In contrast to their overseas vendors, many large importers are highly advanced in their international procurement systems and operations. The differences are stark — including vary-

ing levels of data automation, access to capital, and technology investments — and exporters are anxious to bridge the gap without the fixed expense of “Build” or “Buy.” Yet, importers now have the ability to pass on their sophistication to their suppliers through end-to-end solutions. Banks have the opportunity to become the middleware connecting trading partners and allowing them to communicate and collaborate more effectively.

Holistic bank solutions that include pass-through benefits to vendors will be the winners in the glut of client propositions. As trading partners move away from “expensive” Letters of Credit to “cheaper” Open Account transactions, the need for new forms of documentary protection and financing vehicles will continue to increase. Going beyond vendor financing, banks can add value through documentation preparation, data integration and transaction visibility. Although a decade ago these vendor services were unfeasible, technology and global reach have enabled banks to extend a variety of sophisticated features without extensive customization to a network of suppliers.

While end-to-end integration is the winning model, not all solutions will look the same. JP Morgan has taken a toolbox approach making possible several combinations of products to create the right individual client solution. From purchase order management to supply chain finance, the Bank's modular technology platform

allows trading partners to mix and match services to unique customer needs.

Although buyers and sellers have steadily integrated, they have yet to cross the chasm completely due to the complexity of these solutions. As a result, the benefits of sophistication have yet to pervade both sides equally. Power buyers have led the charge of automation and innovation due to their scale and the enormous potential benefit to their bottom line. Yet, sellers are clamoring for sophisticated services as the inefficiencies take their toll. Taking cost out of the supply chain through logistics integration, document preparation, and open account methods will create shared benefits for both parties. Early bank innovation and adoption could preempt third parties and take advantage of network externalities and lock-in effects. When successfully tied together, all of the pieces for true end-to-end, multiparty solutions will enable closer integration and mutual gain.

Though the speed of evolution is in question, progress will continue to be made. Will banks lead, follow, or be left behind?

.....
Patrick Fisher works for JP Morgan in Trade Finance, specifically on the Global Supply Chain team dedicated to the retail industry. He has experience working in Asia with Bank One in vendor services and Trade processing. He is a Certified Treasury Professional and has his MBA from Northwestern's Kellogg School of Management.

A New Lease on Trade Liberalization in India

Lisa Wallerstein, Director of Marketing, PIERS

At the top of the year, The Reserve Bank of India issued a report that concluded that, by most measures, the reforms begun in the early 1990s and aimed at “opening up” the economy could be accounted a success. Indeed, said the RBI report, with US\$103 billion in foreign exchange reserves — over 14 months of import cover — India could well afford to speed up planned tariff reductions and end quantitative restrictions on imports.

At the same time, in a bid to boost foreign investment, already at a record US\$7 billion, Prime Minister Atal Bihari Vajpayee's government raised the cap on foreign equity in banks from 49% to 74%, and removed all limits on foreign ownership of oil marketing and exploration companies.

Many economists forecast that India's economy, which expanded by 8% in FY03, was about to embark on a multiyear growth spurt as strong and steady as China's. Then, in May, India's voters turned the ruling party out and the future of economic reform was in doubt.

Now India's Commerce Minister Kamal Nath has unveiled the country's first **National Foreign Trade Policy**

(NFTP), an ambitious program of trade liberalization and incentives aimed at doubling India's share in global trade in the next five years.

As reported in *The Journal of Commerce*, India's merchandise exports now account for nearly \$70 billion a year, and service exports earn an additional \$50 billion. The new policy officially calls for doubling merchandise exports and tripling services exports, for a total of \$300 billion by 2009.

To reach these goals, the India government will simplify the country's cumbersome trade procedures, a move endorsed by the Federation of Indian Export Organizations, among others.

Other measures would allow duty-free imports of capital goods in agriculture and consumables for metals other than gold and platinum (for promoting gems and jewelry exports); provide incentives for setting up biotechnology parks; and exempt exports of goods and services from service taxes. The government also would establish new free-trade and warehousing zones where foreign-owned firms will be allowed total ownership of their subsidiaries and qualify for special incentives.

According to PIERS, the Port Import-Export Reporting Service, and a sister company of the JoC, most U.S. waterborne exports already head west to Asia ... but the leading destinations are China, Japan, and Korea. India is 19th in the list of top U.S. trading partners.

Can India reshape global trade patterns? One place to follow the unfolding story — and find new prospects for trade finance products — is PIERS new Indian Import-Export database. This is authoritative information derived from Indian Customs Daily List and covering the detail from more than one million consignments each month. ■

Founded over 30 years ago by The Journal of Commerce, PIERS is the trusted source of authoritative, current, detailed information on the cargoes moving through ports in the U.S., Mexico, Latin America, and Asia. Businesses with international commercial interests use PIERS trade data to identify and qualify new markets, customers, and suppliers. To learn more about PIERS Indian database, or PIERS Trade Finance database, log on to www.piers.com/piersproducts/, or call +1 800 952 3839, ext. 7128.

BRAVE from page 5

tions or military coup, deterioration in relations with other countries, population growth and resulting resource issues such as access to water or food, or global terrorism.

The extent of political and economic assessment needed for a straightforward trade transaction may be minimal, while that required for a large-scale, long-term direct invest-

ment would be more substantial. An appropriate assessment of the situation — past, present, and potential future — provides a firm basis for consideration of the risk mitigation possibilities.

Controlling the risk

Unless firms only operate domestically, not all risks of doing business overseas can be eliminated, and not all can be insured, so awareness and control are critical. The company should

identify the key exposures for the transaction under consideration, and plan ways to control the risks, possibly in combination with appropriate insurance coverage.

The choice of risk mitigation techniques will depend on the nature of the transaction. For direct investments like a distribution facility or a mining project, the company may consider part-

See BRAVE on page 12

We believe
your needs are as unique as you are.



Financial Institutions - Trust in the right partner and realize new opportunities

With its strong focus on financial institutions, Standard Chartered enjoys a reputation as a "banker's bank". As you look for a bank that you can trust and rely upon, Standard Chartered is the one for you. We have more than 500 offices located in 50 countries throughout the world, and developed comprehensive solutions that we know our clients value. We have enhanced our traditional strengths in cash management, trade, regional securities services, liquidity and foreign exchange, as well as built strong capabilities in foreign exchange, derivatives and options, debt capital markets and advisory services. With over 150 years of on-the-ground experience and a dedicated focus on Financial Institutions clients, we can give your business the edge. Contact us today.

| Wholesale Bank |

Visit www.standardchartered.com

Structured Trade Finance

Keeping off shore hard currency funding available to emerging market companies in good and bad times

When things go wrong in emerging markets, financial institutions and international investors stop or drastically reduce hard currency supply and little difference is made between good and bad risks.

Countries and corporate ratings remain key investment drivers for traditional debt and capital markets. Instead, the STF bankers' assessment is based on selective criteria and a tailored risk and solutions approach aiming at bringing emerging countries' companies to the international market, helping them grow and supporting their financing needs in difficult times.

It is established that STF transactions have not been rescheduled by any country, including Argentina. Defaults are rare and when they do happen, they have little if anything to do with country risk.

The point is: there are good companies in bad neighborhoods for which an STF market can be created. Due diligence and adequate structuring are key requirements.

For STF bankers, the main concern is not the country risk but rather the understanding of the performance risk and the ability to sufficiently mitigate such risk.

The first step is a thorough assessment of the key factors that determine whether a company in a particular industry can individually perform under various scenarios and how it is likely to behave under adverse market and macroeconomic conditions. It includes analyzing credit, cash flow and refinancing risk, quality of buyers, logistics, adequate supply of raw materials, domestic and international market conditions, taxes and regulations,

environmental aspects, market risks, commercial domestic and international track record, review of existing commercial commitments, etc...

Once this assessment is made, the STF banker determines the adequate structure, covenants and security that will achieve the best solution to mitigate/transfer country and credit risks, allowing a good reception of the asset in the international market.

One of the key elements is the use of generally pre-sold export trade flows (commodities or manufactured goods) of the borrower to secure the repayment of either short term trade related working capital requirements or longer term equipment and or fixed assets financing requirements. This can be done under pre export, tolling financing agreements and also import financing arrangements with offset through exports or other export mitigating tools.

Financial institutions consider the use of export flows as a natural hedge to borrowers' USD debt and as an efficient way to transfer the payment obligation of the emerging market borrower to the final buyers/offtakers located in OECD countries. The debt is retired by the borrower by shipping and exporting goods from the emerging market rather than transferring USD.

Being exempt of transfer and convertibility risks, these structures are perceived as significantly mitigating country risk.

Offtakers are ideal partners.

Financial institutions also privilege the alliance and partnership with good quality offtakers with an established relationship with borrower. This allows

the bank to enter into risk sharing agreements and best monitor transaction's risks and adjust financing agreements under special circumstances when needed and justified, avoiding brutal defaults. Offtakers can either be end users of the goods purchased from the borrower or global trading houses with a strong marketing capacity.

STF needs a Global network.

The STF banker faces many different risk parameters, cannot work on his own and needs to be supported by a large network of clients and banks as well as other product teams, as required.

HSBC benefits from a large corporate and extensive geographical presence through its local banks in more than 80 countries. A client driven regional STF team structure has been created to better leverage local relationships as well as local market knowledge and the added value to relationships is clear.

A few real world examples:

HSBC helped a Chinese zinc producer and bank client to finance the purchase of raw materials to produce zinc to be exported to other neighboring Asian countries through another HSBC customer. This was the first bank pre export financing for this producer. The partnership with the buyer was also instrumental as China experienced a drastic drought reducing availability of power, thus financing agreement was consequently adjusted.

One of HSBC's key Brazilian soybeans clients used to be a rather small operation back in the nineties. The use

See [STRUCTURE](#) on page 14

BRAVE from page 9

nering locally to help navigate the country's political system. To ensure the operation is seen as a good corporate citizen, it may provide significant local employment, or services to the community. The company might reduce vulnerability to damage from political violence by maintaining a low-key operation with good physical security systems, and mitigate the risk of difficulties with the local judicial system by using well-worded contracts with provisions for international arbitration.

For trade transactions, risks may be minimized by obtaining cash in advance of shipment, or payment by confirmed letters of credit. The transaction may be otherwise structured to mitigate payment risk by, for example, requiring a third party guarantee.

When it makes sense to insure...

Even investors and exporters who do everything right can find themselves on the wrong end of a political event. When sales contracts are well structured and carefully worded, even when foreign investors play by the rules of the game and perform as promised, unforeseen events can occur that adversely impact the organization's chances of getting paid, or cause a government to intervene in the foreign operation. For certain types of risks, political risk insurance (PRI) can be an effective solution.

Insurable perils

For companies making investments in projects or other operations overseas, or leasing or operating valuable mobile equipment, there are a

variety of coverages available to address some key political risks.

Governments can seize assets: for example, natural resource extraction is usually a high-profile business, prone to local opposition and protectionist sentiment, with the result that these projects are vulnerable to takeover by the host country government (otherwise known as CEN — confiscation, nationalization, or expropriation). A CEN occurrence may take place as a single event, or as a series of actions over time that have the cumulative effect of an expropriation. CEN coverage can be enhanced with a number of perils including forced abandonment, forced divestiture, and arbitration award default.

Physical assets such as equipment or buildings are also vulnerable to damage resulting from political violence, whether due to general civil upheaval or specifically directed at discouraging foreign investment. Oil pipelines in countries such as Colombia have been targeted by rebel activity because of the impact such actions have on the country's economy. In other cases like Mexico and Nigeria, recent acts of political violence toward foreign projects stemmed from local opposition to foreign participation in the local economy. Political Violence (PV) coverage addresses these exposures related to politically-motivated violence.

The economic situation of the host country can also impact on the risk of an investment, by prompting authorities to prevent foreign investors from exchanging their local currency earnings into dollars, and transferring those dollars out of the country.

Imposition of exchange controls is a political decision related to the prevailing economic situation, and can be covered as Currency Inconvertibility (CI) under a political risk insurance policy.

Political risks impacts companies trading with emerging markets, as well as those making direct investments. PRI for trade includes contract repudiation (CR): non-payment by a government on a contract or by a private sector counterparty due to political events such as embargo, license cancellation, or currency inconvertibility. Another trade-related PRI coverage is wrongful calling of guarantees (WCG), for companies which post bid or performance bonds when working overseas. Often these are "on-demand" instruments, and vulnerable to being seized through no fault of the contractor. A WCG policy can protect against arbitrary call of the bond by a government counterparty, or legitimate calls, such as those caused by political events such as embargo or license cancellation.

The world may be more unpredictable, both economically and politically, and events may be changing more rapidly than ever before. Such changes create major opportunities for businesses that are willing and able to capitalize on them. Along with awareness of the risks and good risk mitigation techniques, political risk insurance can help companies manage some of the risks that go along with taking advantage of new opportunities around the globe. ■

Stephen Kay is East Coast Manager, Political Risk, at AIG. He can be reached at 212-458-3620 or stephen.kay@aig.com.

Banking On Private-Labelled Open Account: A Win-Win Outsourcing Solution

Deborah Scholl, Director, ABN AMRO Global Trade Advisory

Outsourcing of trade services has proven successful over the past several years. Banks that have chosen to outsource to industry leaders have seen revenue growth and cost reductions, while customer satisfaction has improved. Now, the growth of open account introduces an important new dimension to the outsourcing discussion. It's a development that is likely to transform the industry further, for it marks a change from the traditional trade services product set to a technology solutions mindset. Open account solutions provide a new entry point with existing and potential insourcing partners. Outsourcing banks that offer open account solutions enjoy a distinct advantage in the marketplace, as they are more competitive and better positioned to withstand the pressures of consolidation. Insourcing banks stand to benefit, too, by reinvigorating their businesses.

Open account constitutes about 80% of all trade transactions. As recent trade figures indicate, the shift to open account trade is irreversible and shows unabated growth. With the current emphasis on maximizing working capital, CFOs and treasurers are seeking to reduce reliance on L/Cs, thereby reducing costs and improving the efficiency of their supply chains. During the period 2000 – 2003, traditional letter of credit volume decreased 13%, whereas open account volume increased 17%.* At the same time, companies are increasingly automating their logistic supply chains and moving their internal information into a straight-through processing environment.

Most banks that service the international trade market surprisingly don't offer a full suite of services for this large market segment. They are neglecting a need common to most businesses. The growing use of open account needn't threaten to disintermediate banks from trade flows, as some fear. On the contrary, banks are in a unique position to benefit from this growth opportunity.

While open account eliminates the processing and service fees incurred under letters of credit, it presents an administrative challenge for companies that must now manage the documentary processing activities among disparate counterparties, which was formerly handled by banks under letters of credit. This non-core function places new and often onerous demands on limited resources. The opportunity for banks is to create value by automating this process, providing integration among all counterparties, whether they operate in a paper, web-based or digital environment. Banks are able to leverage their processing expertise, knowledge of regulatory issues and sophisticated technology for this purpose. They are unrivalled in managing documentary processes, as evidenced by the centuries-old business of L/Cs, a process that not only provides lines of credit to ensure payment, but one that is determined by the negotiation of complex shipping documents.

Some banks have responded to this development by providing their financial institution partners with a corporate outsourcing service that relieves companies of this administrative burden. For example, ABN AMRO's

MaxTrad PO Manager automates the administrative tasks on both the buyer and seller sides of a domestic or cross-border trade transaction. It covers the entire process from electronic delivery of a purchase order for online supplier review and approval, submission of supplier documents, invoice comparison, electronic discrepancy reports, and images of documents related to the transaction to reconciliation and payment.

By connecting to corporates' back offices and downloading PO data, banks are then able to distribute that information to corporates' suppliers through a common message platform. Banks can use their sophisticated technology and offshore processing capabilities, much of which was developed to automate transactions involving traditional trade instruments on the internet, to manage documents and data associated with trade from a central point, acting in essence as a clearing house between buyers and sellers.

The other value-add component that outsourcing banks provide is that they do not require their partners' customers to change their current processes. Instead, they deliver greater efficiency and automation to existing processes, while reducing operating costs. In addition to lower A/P costs, automated open account solutions eliminate inefficient manual processes, shorten invoice approval times and reduce tedious and time-consuming inquiries.

Of all the players in the market today that provide documentary, logistics and settlement services for the

See **OPEN ACCOUNT** on page 14

EX-IM from page 1

overseas allows them to respond immediately to resale opportunities. Three types of dealer financing are now covered under a single off-the-shelf policy, eliminating the need for the exporter or commercial lender to obtain multiple policy types. The insurance provides innovative coverage of a type of financing that is specific to dealers: short-term inventory financing followed by the option to refinance the short-term debt for medium-term tenors, according to market standards. For more information about this program, call Charles Goohs, Business Initiatives Division, at 202-565-3790.

Co-financing Agreement With NEXI:

Ex-Im Bank and its Japanese counterpart, Nippon Export and Investment Insurance (NEXI) signed a co-financing agreement that will facilitate export transactions involving companies in

both the United States and Japan. The agreement will enable Ex-Im Bank and NEXI to provide "one-stop" trade-finance services to buyers in third countries purchasing both U.S. and Japanese goods and services. The two export credit agencies will share risk under one financing package, creating administrative efficiencies for foreign buyers. The partnership will enable businesses in both countries to compete more effectively in high-value, multi-source transactions. It is Ex-Im Bank's fourth co-financing agreement. The Bank's first three agreements were with the Export Credits Guarantee Department (ECGD) of the United Kingdom, the Export Development Corporation (EDC) of Canada, and Servizi Assicurativi del Commercio Estero (SACE) of Italy.

Special Commercial Aircraft Financing Offer: Ex-Im Bank renewed

its offer to reduce exposure fees by one third on financings of U.S. large commercial aircraft for buyers in countries adopting, ratifying and implementing the Cape Town Treaty. The treaty is an international agreement that will facilitate asset-based financing and leasing of large commercial aircraft, and reduce certain risks associated with cross-border sales and leases of aircraft and aircraft engines. Ex-Im Bank's offer enables eligible foreign buyers to receive an Ex-Im Bank exposure fee of as low as 2 percent, a one-third reduction of the current minimum 3 percent exposure fee on financings of large commercial aircraft. More favorable financing terms also apply to asset-based financings of spare engines to such buyers. Ex-Im Bank has extended the offer for approvals issued through fiscal year 2005 ending September 30, 2005. ■

STRUCTURE from page 11

of pre export financing deals became the most significant funding source for the company and continuously supported the company's dynamic growth over the last decade through various macro economic cycles in Brazil.

This company is now one of the largest soybeans marketers in the world HSBC is part of the bank group that

significantly contributed to this success and client recognition is very high.

Conclusion

STF has become a key financing product in bilateral, club deals and major syndicated loans for emerging market producers. Amounts can range from USD5M to several billion dollars with tenors varying from 6 months to

5 years. Export flows are now also being used by capital markets (secured export notes, future flows securitization programs) and ECAs.

STF is now more frequently a key component of multi tranche financing arrangements and is a very effective way to weather difficult macroeconomic conditions. ■

OPEN ACCOUNT from page 13

open account market, outsourcing banks with open account offering are the most sensible choice. They can easily collect all third-party data as they do with L/Cs. They can make this data available through their technology infrastructure and, most important, they can provide information to determine when it is appropriate to make payment and settle the transaction.

The processing efficiency and tech-

nological savvy of large global trade banks has made a compelling argument in favor of outsourcing in the past. Many financial institutions have opted to remain in the trade business by choosing to partner for growth, extending their reach and enhancing their capabilities without incurring the high costs of ownership. ABN AMRO's proprietary research, as well as published market surveys, confirms that outsourcing of trade processing clearly

results in greater customer satisfaction. With the advent of private-labelled open account outsourcing solutions, insourcing banks have an opportunity to increase customer satisfaction by expanding their product portfolio while continuing to provide, as needed, traditional documentary credits. It's a win-win survival strategy, one that favors growth and success. ■

.....
**Sources: World Trade Organization and FCIB*

Factors in the Decision to Outsource

Vikram Gupta*

The decision to outsource — once taken by the IT department and the CTO — is today taken in boardrooms. The most important reason for this shift in the decision-making process is the financial gain immediately apparent to the executive management in the outsourcing route. On the highway to financial efficiency, reduced costs in the near view and savings in the distance are attractive neon signs. In times of economic downturn, these signboards acquire considerable appeal. The benefit of cost reduction, however, often eclipses other and arguably more critical issues relating to outsourcing. For financial institutions, especially those operating in the securities markets and other highly specialized fields, these issues are of particular importance. Gazing at the cost benefits of outsourcing, with a mere nod to these other issues, could put businesses at serious risk.

So, if you are a securities firm looking to outsource your IT needs, what are the issues that you should weigh?

Training Your Eye Beyond the Neon Glare

Risk, in its many dimensions, is the single biggest danger that the glare of financial gains blinds you to. As an institution operating in a highly evolved industry such as securities, you open yourself up to risks on several fronts when you consider the IT outsourcing option. Some of these risks are:

- partnering with a vendor who is technologically adept but lacks an intuitive understanding of the sub-text of your business requirements;

- partnering with a vendor who is financially unstable and works with unreliable infrastructure;
- receiving an application after substantial delays and which does not adhere to your quality standards;
- exposing confidential or sensitive data to a vendor; and
- facing in-house resistance.

In the pressure to stay competitive, especially when your competition has already outsourced, it is likely that these issues are passed over. Examining these risks closely could help you arrive at a more considered decision — a decision that could ensure a better ROI.

The Anti-glare Measures You Need to Consider

The risks listed above are only some, albeit major, vendor-related risks associated with the outsourcing option. In fact, analysts warn that you could face your biggest challenge in-house: keeping the morale of your team high while fighting the resistance to outsource. We believe that the exercise of drawing up a list of possible risks alone will orient and shape your response to the question of outsourcing, helping you choose an appropriate outsourcing model and partner. Let us examine the vendor-related risks and the possible measures you would want to take against potential pitfalls.

Choosing a Vendor Who Intuitively Understands the Sub-text of Your Requirements

With an all-round reduction in IT spending, a high percentage of bud-

gets, paradoxically, are likely to be allotted to outsourcing. For securities firms climbing on board the bandwagon, this is risky because of the specialised and highly involved nature of the business domain. Signing up with a vendor who is technologically adept, but who lacks an intuitive understanding of the sub-text of your requirements could quickly mire you in an expensive situation. In a business plan designed to cut costs, you could end up incurring more. Choose an outsourcing partner with a strong domain focus and seasoned experience in your space.

Partnering with a Stable and Dependable Vendor Operating in an Environment of Secure Processes

For obvious reasons you wouldn't want to partner with an unreliable and unsafe vendor. Moreover, securities firms that are outsourcing application development, maintenance and integration run the additional risk of exposing confidential or sensitive financial data to vendors. How then do you evaluate vendors for their financial stability and infrastructure and how do you measure the robustness of the vendor's security environment?

There are several globally accepted standards against which you can measure a prospective vendor. COBIT (Control Objectives for Information and related Technology) is a global standard for IT infrastructure, instituted by the Information Systems Audit and Control Foundation (ISACA), a recognised global leader in IT governance, control and assurance.

See [OUTSOURCING](#) on page 16

OUTSOURCING from page 15

Likewise, SAS 70 (Statement on Auditing Standards No. 70) is a standard developed and maintained by the American Institute of Certified Public Accountants (AICPA). Using SAS 70, independent evaluators can measure the system of internal controls that are defined, implemented and followed by service organisations such as outsourcing vendors. Choose an outsourcing partner who has been audited for these global standards.

Ensuring That Your Vendor Measures Up to Your Quality Standards

It is important that you evaluate the quality environment in which your vendor works as this directly impacts the service you receive. You can ensure that the quality of the services you

receive from your vendor is resonant with the in-house standards you follow by benchmarking against global quality models such as SEI-CMM (Software Engineering Institute–Capability Maturity Model). This standard has been developed specifically for the IT industry.

The Other Benefits of Outsourcing

When you are careful with your choice of an outsourcing partner, you inevitably benefit from quality services, reduced turnaround times for delivery and, of course, reduced costs and an improved ROI. However, there are other benefits that are not often dwelt on but which could tilt the balance in favour of outsourcing. Consider this: enterprises judicious with their outsourcing stand to benefit in a host of

ways, including a quicker turnaround time to the market; the freedom to re-deploy internal resources on high-end, high-value projects; and the advantage of having access to people with specialised skills for short-term projects.

The Bottom Line

The decision to outsource IT and chunks of business process to destinations such as India should be a considered decision, not an intuitive one. This is especially true for financial institutions operating in the securities space. Focusing on the cost benefit and ROI could cloud critical issues relating to risk. Cost savings implicit in the outsourcing option should round off not eclipse these issues. ■

Vikram Gupta is Head, e-Solutions, i-flex Solutions Limited. www.iflexsolutions.com

Democratic Republic of Congo and Azerbaijan – Two Countries in Transition

Democratic Republic of Congo

Pricing on Democratic Republic of Congo (former Zaire) trade debt has decreased from 12–15 cents to 8–12 cents in the US dollar over past months. Recent events, including a coup attempt, have clearly reminded the market that, although the country is no longer at war, its creditworthiness has yet to be fully established. Although DR Congo is potentially one of Africa's richest economies, with extensive mineral resources, war has had a substantial impact on national output and external debt. The country is currently entering enhanced HIPC status. Total external debt, after a

recent debt rescheduling, stands at USD 11.4 billion. And with a total GDP of USD 5.2 billion and a population of 58 million, GDP per capita currently stands at around USD 90 from USD 230 in 1990. The main contributors to GDP are agriculture and mining of natural resources. However, much economic activity now lies outside official GDP data, not least the diamond trade. In the last few years, the government has made concerted efforts to revitalise the economy and attract foreign investment. Including tax and legal reforms and debt restructurings, supported by both the IMF and World Bank. As a result, the Congolese economy grew by 3% in

2002 and 5% in 2003, with inflation returning to a more stable 12% from a high of 300% in 2001. However, in order to attract serious inward investment, economic growth will have to match that of other members of the HIPC programme — such as Ethiopia, Mozambique and Uganda, which are now achieving growth rates closer to 8%.

To give momentum to the economic reform, at least USD 2.5 billion has been pledged by international donors for the period 2004–2006. Moreover the Paris Club has concluded a debt relief of USD 4.3 billion and a restructuring for a further USD 4.6

See AZERBAIJAN on page 17

AZERBAIJAN from page 16

billion of debt. This takes place on Naples terms — meaning a 67% write-off. Currently the government is attempting to reach similar agreements with its London Club creditors. Figures on commercial debt vary widely as it is unclear how many trade-debt related claims are still outstanding. Most of these claims are on state owned entities and have arisen due to non-payment as a result of poor management and or the extraction of funds for political means. One such company, the state owned mining company Gecamines has more than USD 1 billion of liabilities outstanding. A number of claims have already been restructured and/or recovered through legal means. The current inflow of foreign funds into the mining sector, aided by new transparent investment codes, seems to create momentum to solve more of these claims. Estimates of claims on other state-owned entities vary widely.

Although the economic reform could improve the country's prospects, it seems that there is still too much uncertainty about the credit worthiness of the country. This is evidenced by the pricing of DR Congo (distressed) debt, which has decreased over a period of three months from 12-15 to 8-12 cents in the US dollar. It seems that investors are wary of a resurgence of internal conflicts, which could scare off international financial creditors and major donors, further delaying a solution for the country's defaulted debt. However, considering that current prices are at par with prices at the time of war and pre-debt relief, current prices seem to have limited downward potential. Should the economic reform hold, debt buy-backs, debt restructurings and debt swaps could provide for sig-

nificant upward potential in the intermediate term.

Azerbaijan

Azerbaijan regained its independence after the collapse of the Soviet Union in 1991. Since then, the political situation has been relatively stable, except for an ongoing conflict with Armenia over the Nagorno-Karabakh enclave, which leaves 20% of Azerbaijan under Armenian control.

Azerbaijan continues to demonstrate strong economic growth and macroeconomic stability based largely on its vast oil and gas resources. Higher world oil prices and a rapid increase in direct foreign investment in the energy sector helped to fuel real GDP growth to 11% in the last two years.

The success of developing the energy sector has, however, not been copied in other sectors, such as agriculture. Foreign direct investment in the non energy sector is very limited due to the non transparent and arbitrary regulatory system, poor contract enforcement and a high level of corruption. No solid platform for dispute settlements exists. Moreover, only limited and expensive credit is available from Azeri banks due to the poor state of the banking system. Azeri banks charge 15 to 25% interest rates on dollar denominated loans, when inflation is only 2%.

On a positive note, Azerbaijan recently signed a protocol of intent with the World Customs Organization, which could be the start of a more transparent custom administration. Regulatory and fiscal reforms were introduced under a USD 100 million program on poverty reduction and economic growth, signed in 2001 with the IMF. As part of the program, the state oil fund SOFAZ was estab-

lished to manage oil revenues and to control expenditures. Increased development aid is expected due to the US waiver of section 907 of the Freedom Support Act, which prohibited aid to Azerbaijan. The privatization process has not been encouraging though, with only a small number of the earmarked companies being privatized.

Although the country seems to lack sufficient funds for the required expenditures on infrastructure and social welfare, the budget deficit is unlikely to grow very much. New funds are expected from multilateral organizations, such as the EBRD. Azerbaijan's debt level seems sustainable and from an economic perspective, repayment of external debts should not constitute a major issue. The long-term credit rating of Azerbaijan is BB-. Azerbaijan seems to be inventive in its debt repayments, evidenced by a recent rescheduling of debt owed to Turkey. Instead of a cash transfer, Russian and Azeri electricity shall be transmitted to Turkey via Georgia. A number of (state-owned) companies did accumulate trade related claims due to mismanagement and corruption. These claims are priced at around 35 cents in the dollar with limited upside as there is, as yet, no sign of improvement in the regulatory system. Long-term prospects will therefore not only depend on world oil prices and Azerbaijan's ability to manage its oil wealth, but also whether or not a more transparent and less arbitrary legal system is introduced.

For more information on debt prices or trading or recovery possibilities on Democratic Republic of Congo or Azerbaijan please contact: Omni Whittington Emerging Markets BV Jan Mekenkamp Tel: +31 70 3384343 E-mail: jhmekenkamp@omniwhittington.nl

MEMBERS CORNER

■ **Atradius Acquires Debt Collection Agency**

Baltimore, (July 15, 2004) — Atradius Trade Credit Insurance Inc. today announced the expansion of its services to include commercial collections through the acquisition of Chicago-based International Collections Incorporated. International Collections Incorporated, (ICI) will use the trade name Atradius Collections.

The acquisition will enable the U.S. arm of Atradius Group, the second largest credit insurer in the world, to provide seamless service for the entire receivables management process, from risk transfer and financing to full debt collection services, according to Atradius Trade Credit Insurance president Neil Leary.

ICI was an affiliate of the North American Specialty Insurance Company Inc., a subsidiary of Swiss Re America.

ICI serves a broad range of customers including insurance, credit insurance, energy, manufacturing, distribution, transportation, broker and freight companies.

ICI rebranded as Atradius Collections, will immediately be integrated in the worldwide Atradius Collections activities. Atradius Collections is already present in 8 European countries with more than 300 employees.

This acquisitions allows Atradius to further pursue its strategy of rapid development of its collections activities.

Atradius is majority owned by Swiss Re and Deutsche Bank. Atradius Group provides protection for more than \$360 billion in transactions annually.

Atradius Trade Credit Insurance, Inc. offers commercial credit insurance, trade receivables securitization, and other credit management services to meet the

needs of U.S.-based companies. Atradius credit insurance policies cover losses due to bankruptcy, payment default or events in overseas markets such as political turmoil or import and trade restrictions.

For further information about commercial credit management, please contact Arjan van de Wall at (410) 246-5511 or arjan.vandewall@atradius.com or visit our Web site at www.atradius.us.

■ **Let BANKERSalmanac.com help you to reduce your incoming enquiries with the new Due Diligence Repository**

Send BANKERSalmanac.com the following information and documents for your institution, which will be placed on their website for FREE, attached to your institution in the Due Diligence Repository.

1. Corporate Governance Documents
2. Banking Licence(s) for the countries in which you operate
3. Anti-money laundering policy/statement
4. Names and contact details of your Compliance Officers.

Please send your documents to: Cathryn McKellen, Information Resources Director, BANKERSalmanac.com Due Diligence Repository, Windsor Court, East Grinstead, West Sussex, RH19 1XA, UK or fax +44 (0) 1342 335940 or email duediligence@bankersalmanac.com.

If you would like further information or to find out how you can access the information, please phone +44 (0) 1342 335889, email: sales@bankersalmanac.com or take a look at the demo for the Due Diligence Repository www.bankersalmanac.com/dd.htm

MEMBERS CORNER continued

■ Analysts give thumbs-up to TD-Banknorth deal

TORONTO, Aug 27 (Reuters) — Analysts gave a broad thumbs-up on Friday to Toronto-Dominion Bank's \$3.8 billion acquisition of a majority stake in Banknorth Group Inc., while the stock settled after a volatile week.

TD Bank said on Thursday the acquisition of the 51 percent stake in Portland, Maine-based Banknorth, would immediately add to earnings and act as a platform for more U.S. acquisitions.

"TD has essentially resolved the largest strategic challenge facing the bank (and the sector) by acquiring a high quality U.S. platform with strong management," National Bank Financial analyst Robert Wessel said in a research note. "With Banknorth and (U.S. discount brokerage) TD Waterhouse, the bank now has the best U.S. platform — by far." Wessel raised his rating on TD to "outperform", the equivalent of "buy", from "sector perform".

TD Bank, Canada's second-biggest with C\$312 billion (\$240 billion) in assets, made the announcement as it reported a 17 percent rise in third-quarter profit. But attention was focused on the acquisition.

"We believe that this deal slightly improves TD's earnings outlook without adding undue risk," said UBS analyst Michael Overvelde, who boosted his rating on the bank to "buy" from "neutral".

Shareholders appeared uncertain of how to view the deal, pushing TD's stock up 3.1 percent on Tuesday in anticipation of the deal, then selling it off even more sharply after the talks were confirmed and the deal announced.

Others warned of the possibility of "flowback" hurting Toronto-Dominion's stock when the deal closes, as U.S. index traders sell the TD shares that replace their Banknorth stock. But for most analysts, the main point

of the deal appeared to be the opportunity for further U.S. expansion, a key factor as Canada's banks wait for a green light on domestic mergers.

"Given the limited near-term consolidation potential in Canada, we believe in the strategic merits of establishing growth opportunities outside of the country," Merrill Lynch analyst Heather Wolf said in a note.

■ World Trade Press (WTP)

World Trade Press (WTP) is a well-respected publisher of books, e-content and maps that are designed for use by those who are involved in international trade, finance, communications, or travel. WTP has been around for well over a decade and has now some 70 different product offerings.

Not only do WTP products make invaluable resources for your staff, but also WTP is known for its ability to customize its products, as by including your logo and design on book covers, electronic products, or map posters. This customization makes these very practical products perfect for use as customer premiums, door-openers, or holiday gifts.

Among their most popular products are the best-selling Dictionary of International Trade, 6th edition; a truly comprehensive international trade database called World Trade Ref; and its Short Course Series, which contains titles relating to such topics as international payments, contracts, joint ventures, economics, marketing, and trade documentation.

For further information about World Trade Press and its products, an electronic product demonstration, or to receive complimentary product samples, please call their V.P. of Corporate Sales, Mr. Kenneth Kovitz, at 800-833-8586, ext. 201 (e-mail: Kkovitz@worldtradeexpress.com), or feel free to visit their website at <http://www.worldtradeexpress.com> for further information.

Save the Date

**BAFT's 14th Annual Conference
on International Trade
November 4 - 5, 2004
Intercontinental Hotel
Chicago, Illinois**



International banking executives, trade experts and government officials will discuss new international trade opportunities and challenges.

The continual threat of terrorism, the proliferation of free trade agreements, and the economic rise of China, have all led to an increasingly complex world marketplace. This year's conference gives trade practitioners the information and tools they need to succeed in a risky and difficult trade environment.

U.S. Representative Judy Biggert (R-IL) will give an insider's look at where Congress stands on upcoming free trade negotiations and world trade events. Kevin Woelflein, former senior advisor, Coalition Provisional Authority, will provide an update on the financing of Iraq's reconstruction. And, John LaRue, executive director, Port of Corpus Christi Authority, will discuss threats to U.S. ports and the maritime transportation system, which processes 95 percent of all U.S. international cargo. Other sessions will include panel discussions on:

- identifying trade opportunities in China's booming economy;
- maneuvering the global supply chain to provide better customer service;
- understanding new US PATRIOT Act and anti-money laundering initiatives;
- responding to the movement to open account trade;
- offsetting portfolio and transactional risk; and
- collecting payment on trade transactions that go awry.

For more information, please call 1-800-BANKERS, or visit the conferences section at www.baft.org.