



Advisory Services
International Inc.

Financing International Trade:

Role of ECAs in Financing SMEs Exports

Ankara, Turkey, October 2013

Alexander R. Malaket, CITP, President
OPUS Advisory Services International Inc.



Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation


Key Messages

- The global economic and financial crisis has proven that the role of international institutions and public sector export credit agencies is critical, especially in times of crisis
- ECAs come in a wide variety of models: there is no single “correct” or “best” model
- Public policy and national interest drivers are important elements of ECA mandates for public sector and hybrid models
- Post-crisis, emerging and developing markets have shown increasing interest in establishing ECA-type entities: More OIC Member States would benefit

ECA Scope and Mandates

- The “Arrangement on Officially Supported Export Credits”, also known as the “Consensus” is an agreement which addresses a range of issues related to the role of ECA’s
- OECD member ECA’s are major players in global trade
- Industry groups such as the Berne Union also key

ORGANISATION
FOR ECONOMIC
CO-OPERATION
AND DEVELOPMENT



Trade

Trade

- Export Credits
 - Aircraft and Export Credits
 - Bribery and Export Credits
 - Environment and Export Credits
 - Export Credit Arrangement
 - Unproductive Expenditure
- Agriculture and Trade
- Consultations with Stakeholders
- Environment and Trade
- International Trade and Balance of Payments Statistics
- International Trade and Investment: Economic Issues
- Regionalism and the Multilateral Trading System
- Regulatory Reform and Market Openness
- Services Trade
- Tariffs
- Non-tariff Barriers
- Trade Policy Dialogue
- Trade, Development and Capacity Building
- Trade Facilitation

Export Credits

About Statistics Publications & Documents Information by Country

The OECD's Export Credit Division facilitates work relating to the policies and practices of OECD Member governments who provide Officially Supported Export Credits.

What's new

2007 Sector Understanding on Export Credits for Ships
11-Oct-2007
This Sector Understanding on Export Credits for Ships which came into force on 8 October 2007; it replaces the previous version of that Understanding, in force since 2002.

Monthly Update of Commercial Interest Reference Rates for Civil Aircraft
09-Nov-2007
The Commercial Interest Reference Rates for Civil Aircraft valid from 15 November 2007 to 14 December 2007 have been published.

Monthly Update of Commercial Interest Reference Rates (CIRRs)
09-Nov-2007
The Commercial Interest Reference Rates valid from 15 November 2007 to 14 December 2007 have been published (Cti-F5 to obtain the latest rates).

2007 Arrangement on Officially Supported Export Credits
05-Sep-2007
The Participants to the Arrangement on officially supported export credits have agreed to modifications to the text of the Arrangement. The 2007

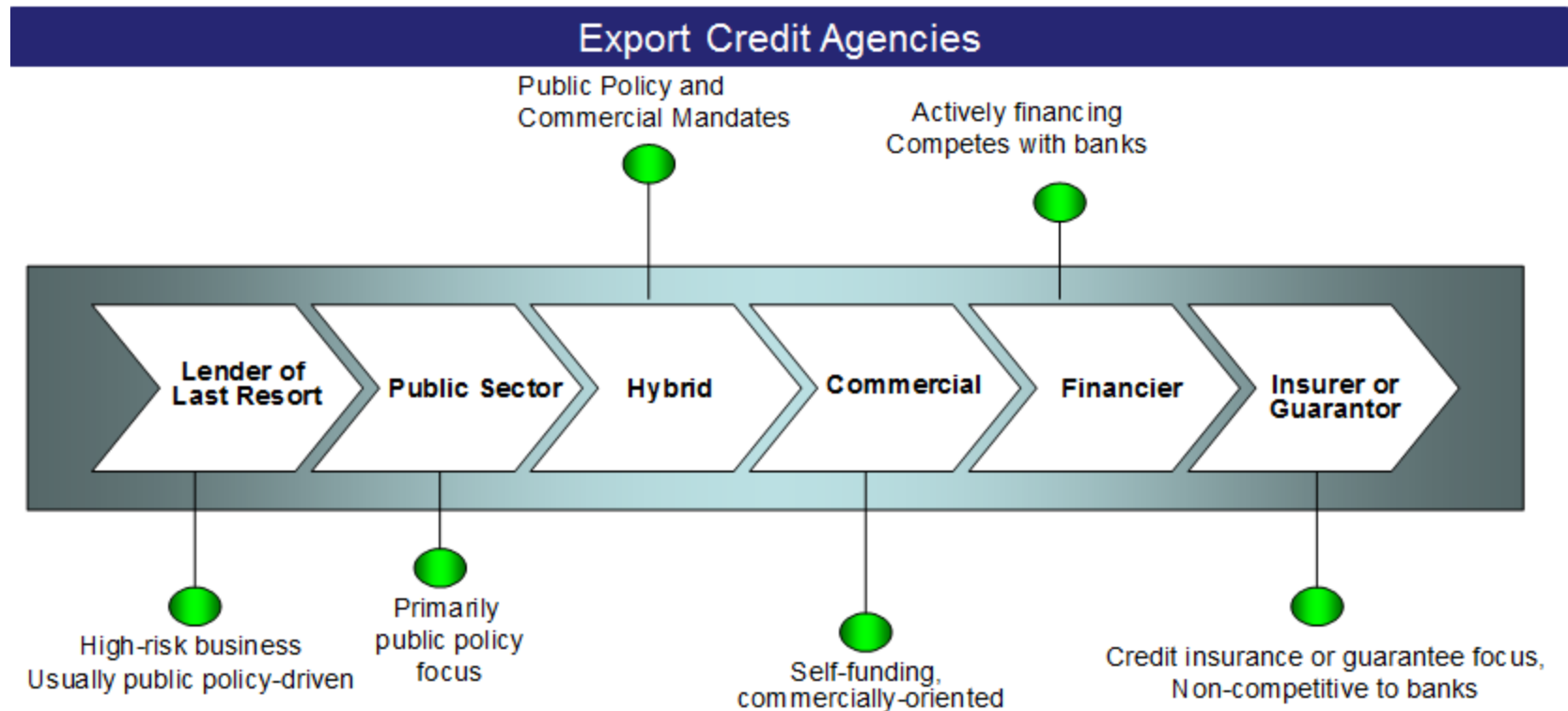
Back to

- OECD home page
- Topic List

Related Topics

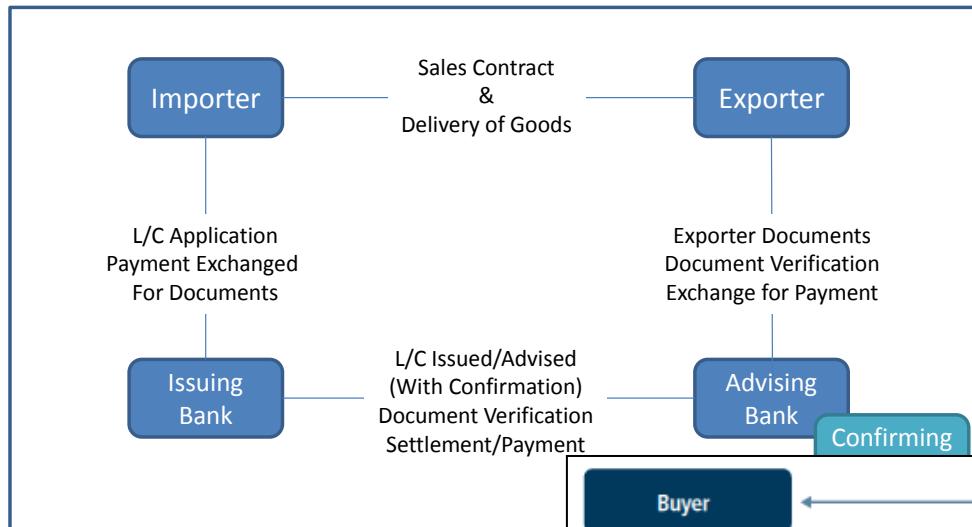
- Agriculture and Fisheries
- Development
- Economics and Growth
- Environment
- Fighting Corruption

ECA Scope and Mandates



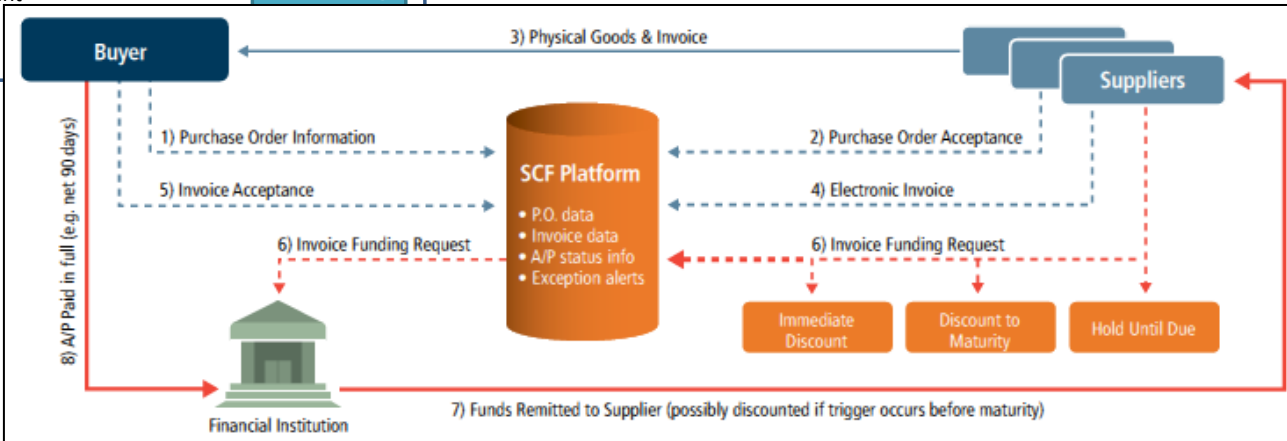
ECA Scope and Mandates

Payment <ul style="list-style-type: none"> Secure Timely & Prompt Global Low-cost All leading currencies 	Financing <ul style="list-style-type: none"> Available to importer or exporter Several stages in the transaction No impact in Operating Line for exporters 	Risk Mitigation <ul style="list-style-type: none"> Risk Transfer Country, Bank and Commercial Risk Transport Insurance Export Credit Insurance 	Information <ul style="list-style-type: none"> Financial flows Shipment Status Quality of Shipment L/C systems include web & desktop solutions
--	--	---	---



Supply Chain Finance

The Documentary Letter of Credit



ECA Scope and Mandates

- There is no ideal or optimal global model for an export credit or export insurance agency
- Scope and mandates must align with the needs and objectives of the home jurisdiction, and/or with the nature of the ECA involved (public sector, PPP or private sector, for example)
- ECA mandates and scopes of activity evolve over time, often influenced by shifting political priorities
- International attention to ensure that ECAs play an appropriate and equitable role in the support of trade activity, and that they not provide indirect subsidies
- OECD Arrangement and WTO guidelines can and do influence the scope, mandate and approaches of ECAs

ECA Scope and Mandates

Countries	ECAs/Other government agencies	OECD member	Short-term insurance	Medium/Long-term export credit schemes	Fixed rate financing (CIRR)	Foreign exchange risk cover	Direct lending	Investment insurance	Bond support scheme/Issuance	Unfair calling insurance	Letter of credit guarantee scheme	Working capital facility	Score
United Kingdom	ECGD	Yes	✗	✓	✓	✗	✗	✓	✗	✓	✓	✗	5
Australia	EMC	Yes	✗	✓	✓	✗	✓	✓	✓	✓	✓	✓	8
Austria	OeEB	Yes	✓	✓	✓	✗	✗	✓	✓	✓	✓	✗	7
Belgium	ORDD	Yes	✓	✓	✓	✗	✗	✓	✓	✓	✗	✓	7
Brazil	SBCF	No	✓	✓	?	?	✓	?	✗	?	?	?	3
Bulgaria	BAEZ	No	✓	✓	?	?	✗	✓	?	✓	✓	✓	6
Canada	EDC	Yes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
China	Sinosure	No	✓	✓	✗	✗	✗	✓	✓	?	✓	✓	6
Croatia	HBOR	No	✓	✓	✓	✗	✓	✓	✓	?	✓	✓	8
Czech Republic	EGAP/CEB	Yes	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	9
Denmark	EKF	Yes	✓	✓	✗	✗	✓	✓	✗	✓	✗	✓	6
Finland	Finvera/FEC	Yes	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	9
France	Coface	Yes	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	9
Germany	Euler Hermes/KfW	Yes	✓	✓	✓	✗	✓	✓	✓	✓	✓	✗	8
Greece	ECIO	Yes	✓	✓	?	✓	✗	✓	✓	?	?	?	5
Hungary	MEHB/Eximbank	Yes	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	9
India	ECGC/Exim Bank	No	✓	✓	✗	✓	✓	✓	✓	?	✓	✓	8
Italy	SACE/IMBKT	Yes	✓	✓	✓	✗	✗	✓	✓	✓	✓	✓	8
Japan	NEKI/IBEC	Yes	✓	✓	✓	✗	✓	✓	✗	✓	✗	✓	7
Luxembourg	ODD	Yes	✓	✓	✓	✗	✗	✓	✗	✓	✗	✗	5
Malaysia	Exim Bank	No	✓	✓	✗	✗	✗	✓	✓	✓	✓	✓	7

Source: UK Export Finance

ECA Scope and Mandates

- Will an ECA be an effective partner to trade bankers, or a strong and credible competitor?
- US Exim Bank has a firm, Congressionally mandated directive to avoid competing with the private sector – to the point that it will exit a line of business if a credible private sector provider emerges
- Export Development Canada, which has a strong commercial orientation, is viewed as both a critical partner and a serious competitor by the Canadian Banks
- Other leading ECA's such as Coface, are taking the commercial orientation to a global scope
- The role and contribution of ECA's is acknowledged to be very important to the conduct of global commerce

ECA Scope and Mandates

- ECA's expanding their view of what should be seen as a "Market Gap"
- Mandates evolving to incorporate export, import and investment
- Crisis led to expansion of powers for some ECA's
- IFI's, likewise, flexing their creativity and financial strength

In some markets, banks that argued against broader involvement of public sector and IFI entities have come to appreciate and acknowledge the importance of the role played by these entities

Impact of ECA Support



Short Term Credit Insurance Cover, ECAs

MILLION USD	2005	2006	2007	2008	2009	2010	2011	2012
New business covered	843,719	975,262	1,126,721	1,296,878	1,122,608	1,257,794	1,495,227	1,530,097
Claims paid	702	783	1,007	1,128	2,418	1,508	1,323	2,093

Source: Berne Union


ECAs and Berne Union Member Organizations directly supported and enabled about 10% of global trade flows in 2012

Sample Role of ECA



Sample Role of ECA

- Support of high-value service sector trade
- Innovative solution in financing and trade finance
- Policy-driven with market discipline included in solution characteristics
- Lending capacity and tenor notable – up to 70% of contract, to 5 year term

PRODUCT DISCLOSURE SHEET	
<p>Read this Product Disclosure Sheet before you decide to take out the Export Of Services. Be sure to also read the general terms and conditions.</p>	<p>Export-Import Bank of Malaysia Berhad Export Of Services</p> 
1. What is this product about?	
<p>Export Of Services facility is available to Malaysian owned and controlled companies, engaged in the provision of services for the global market, such as Information Technology Service, Engineering Architecture and other professional services.</p>	
2. What does the facility offer?	
<ul style="list-style-type: none"> • Margin of financing is up to a maximum of 70% of the contract value • Tenor is up to a maximum of 5 years 	
3. Who is eligible for the product?	
<p>This product is available for Malaysian owned and controlled companies such as education and training services, ICT, R&D and design activities.</p>	
4. What is the rate offered to the facility?	
<p>The interest rate based on Cost of Fund plus spread. The spread shall be based on the risk rating of the company and other non-quantitative considerations.</p>	
5. What type of expenditure can be financed?	
<ul style="list-style-type: none"> • Provision of working capital/guarantee/assets financing of foreign services contracts. • Acquisition of technology for services for the global market. 	
6. What are the fees and charges I have to pay?	
<p>Processing fee at 1.0% on loan amount.</p>	
7. What is the repayment method applied in this facility?	
<p>Against Contract proceeds or fixed repayment either monthly or quarterly</p>	
8. What is the security required for taking the facility? (Not limited to the following terms and conditions)	
<ul style="list-style-type: none"> • Cash collateral • Corporate Guarantee • Shareholders and/or Directors Guarantee • Assignment of relevant contracts, agreement and insurance policies • Others as required 	

Sample Role of ECA

A proportion of Turk Eximbank's funds arise from borrowings from commercial banks and Turk Eximbank is able to indirectly channel part of the Turkish commercial banks' reserves to export financing. Discount programs are another tool used to achieve this aim. In addition, in offering guarantee schemes to commercial banks, Turk Eximbank is creating a risk free environment for the banking sector to encourage them to engage directly in export financing.

Increased Focus on Small and Medium Scale Enterprises...

Turk Eximbank aims to increase the focus of its programs on helping small and medium scale enterprises (SMSEs). Such enterprises play an important role in the Government's strategy, particularly since the establishment of the Customs Union with the EU. SMSEs usually experience difficulties in passing the rigid qualification tests for loans, even if they are fully capable of complying with the terms of their export contracts. Turk Eximbank, therefore, has placed special importance on SMSEs in its strategy.

Sample Role of ECA

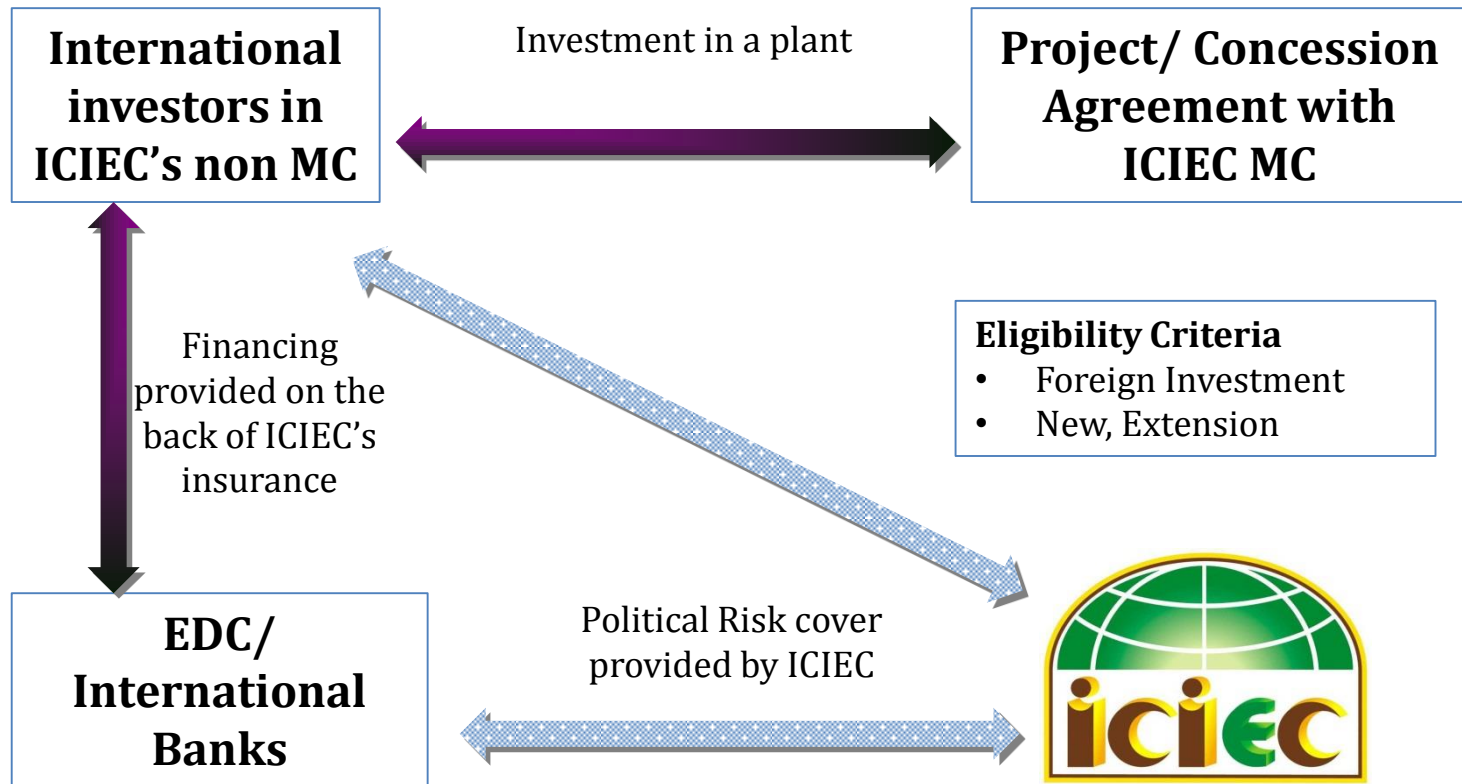


PT Asuransi Ekspor Indonesia (PERSERO), for example, created an affiliate entity on the basis of a public/private partnership, to enable the development and delivery of a wider range of products.

Additionally, the ECA devised another affiliate aiming specifically to meet the financing and risk mitigation requirements of businesses and banks seeking to do business on the basis of Islamic Finance and commercial principles.

Source: Improving the SMEs Access to Trade Finance

Sample Role of an ECA



Canadian Company Setup of Plant in ICIEC Member Country

Developing an ECA

the absence of national ECAs suggests a compelling opportunity to advance trade, economic growth and development through the establishment of ECA-type entities where the need is deemed most urgent, and where the economic benefit can be the most immediate.

A multi-shareholder model such as the one applied to the African Trade Insurance Agency, where Uganda is a part owner, or the ICIEC, can prove effective in facilitating the development of ECA entities in a larger number of OIC Member States.

Source: Improving the SMEs Access to Trade Finance

Developing an ECA

In Germany, Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC AG) have been appointed to manage and handle public export credit guarantees. They have been mandated to act on behalf and for account of the Federal Republic of Germany. Since Euler Hermes Kreditversicherungs-AG is the leading partner in this consortium, the public export credit insurance policies are often also referred to as "Hermes Cover".

Source: Heidelberg AG (Printing Solutions) Website

The absence of a fully-fledged ECA leaves companies at a disadvantage on the international stage. This gap can be effectively closed by the conception and implementation of an Agency on Export Credit and Investment Insurance. Their common aim is to safeguard and to enhance the competitiveness of national exporters and to diversify the local economy. Moreover, it is in exporting companies, especially in the SME sector where many highly qualified jobs are created and secured by Export Credit Agencies' activities.

Source: PWC Aid for Trade Paper, 2011

ECAs and the Market

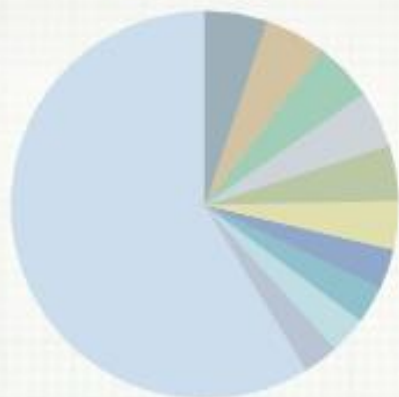
- ECA's are under close scrutiny by various NGO's
- Many adhere to environmental guidelines such as those in the "Equator Principles", promote sustainability and CSR (Corporate Social Responsibility)
- Such initiatives impact financing and can impact trade bankers to align in order to secure ECA support
- Issues of transparency are also central to ECA business
- Banks are generally looking for ECA's to complement or partner
- ECA's often seek a broader mandate
- From straight guarantor to financier and equity investor, the range of ECA activities varies significantly

ECAs and the Market

- ECAs provide a range of financing and risk mitigation solutions
- Equally importantly for SMEs, they are often also a source of advisory support and domain expertise
- Leading ECAs provide a wide variety of resources, often at minimal or no charge, that can be very valuable to SMEs, from market reports to trade guides, foreign party credit checks to local, in-market support in international markets
- Often play a critical role in supporting banks and other lenders to be able to provide trade finance on the basis of ECA support
- Along with IFIs, often lead the way to “Frontier Markets” ahead of banks and other providers of trade finance

ECAs and the Market

MLT New Business 2012: Top 10 Countries



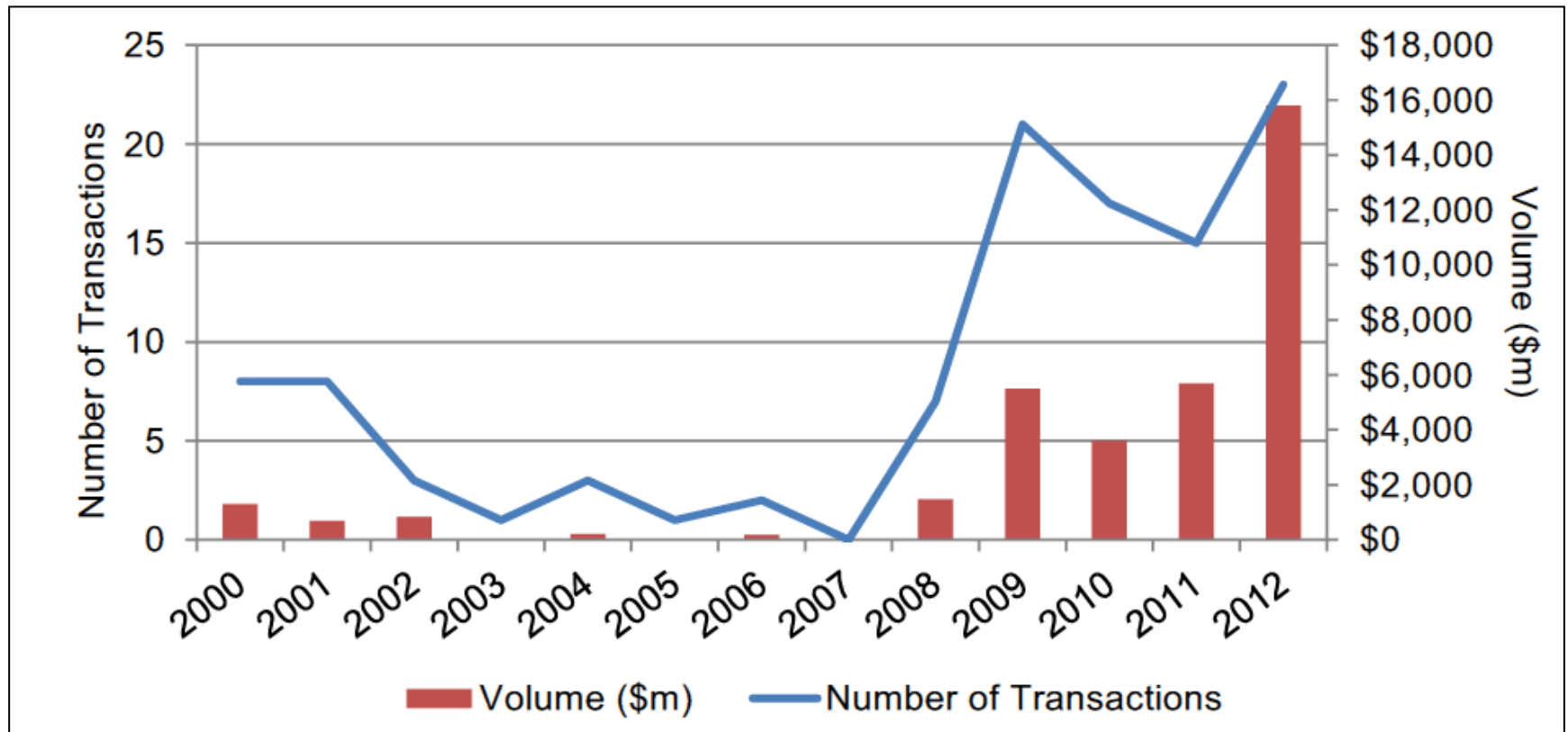
- Russia
- United States
- India
- Saudi Arabia
- China
- Australia
- United Arab Emirates
- Korea Republic
- Italy
- Mexico
- Other

		all figures given in USD Million	
	Russia		9,386
	United States		9,224
	India		8,993
	Saudi Arabia		8,499
	China		8,444
	Australia		7,297
	United Arab Emirates		5,985
	Korea Republic		5,694
	Italy		5,568
	Mexico		5,386
	Other		106,160

Source: Berne Union

ECAs provide medium and long term financing and risk cover which is often not available elsewhere

ECAs and the Market



Source: US Eximbank Competitiveness Report 2012

Certain ECAs like US Exim provide long-term direct loans in support of trade.

ECAs and the Market

INV New Business 2012: Top 10 Countries



- Australia
- Kazakhstan
- China
- Russia
- India
- Uzbekistan
- Indonesia
- United Kingdom
- Peru
- Mexico
- Other

		all figures given in USD Million	
Australia		9,752	
Kazakhstan		8,858	
China		8,200	
Russia		6,032	
India		4,184	
Uzbekistan		4,143	
Indonesia		3,512	
United Kingdom		3,359	
Peru		3,068	
Mexico		2,946	
Other		39,448	

Source: Berne Union

ECAs provide investment insurance cover in support of FDI activity

- Opportunity to support SMEs through development of ECAs
- National or supra-national models
- Funded or backed by IFIs
- Limited initial mandate, grow over time
- Support with capacity development and technical assistance
- Include “National Interest” dimension

Algeria	Compagnie Algerienne d'Assurance et de Garantie des Exportations http://www.cagex.dz/index.htm	Afghanistan		Benin	
Bahrain		Albania		Burkina Fasso	
Comoros		Azerbaijan		Cameroon	
Djibouti		Bangladesh		Chad	
Egypt	Export Credit Guarantee Company of Egypt www.ecgegypt.net	Brunei		Cote d'Ivoire	
Iraq		Indonesia	PT Asuransi Expor Indonesia (PERSERO) www.asei.co.id	Gabon	
Jordan	Jordan Loan Guarantee Corporation www.jlgc.com	Iran	Export Guarantee Fund of Iran www.egfi.ir	Gambia	
Kuwait		Kazakhstan	KazExportGarant Export Credit Insurance Corporation www.keg.kz	Guinea	
Lebanon	The Lebanese Credit Insurer s.a.l. www.lci.com.lib	Kyrgyz		Republic Guinea-Bissau	
Libya		Malaysia	Export Import Bank of Malaysia Berhad www.exim.com.my	Mali	
Mauritania		Maldives		Mozambique	
Morocco		Pakistan		Niger	
Oman	Export Credit Guarantee Agency of Oman www.ecgaoman.com	Tajikistan		Nigeria	
Palestine		Turkey	Export Credit Bank of Turkey www.eximbank.gov.tr	Senegal	
Saudi Arabia	Saudi Export Program www.sep.gov.sa	Turkmenistan		Sierra Leone	
Qatar	Qatar Export Development Agency (TASDEER) www.qdb.qa	Uzbekistan	Uzbekinvest National Export Import Insurance Company www.uzbekinvest.uz	Togo	
Somalia		Guyana		Uganda	African Trade Insurance Agency www.ati-aca.org
Sudan	National Agency for Insurance and Finance of Export www.naife.org	Suriname			
Syria					
Tunisia					
United Arab Emirates	Export Credit Insurance Company of the Emirates www.ecie.ae				
Yemen					

ECAs in OIC States



Is there an opportunity to build on the creation of the Aman Union, as a basis for a multilateral solution to ECA needs among OIC Member States?

What are the strengths of the Aman Union, and what lessons might be drawn from models and practices of ECAs within and outside of the OIC Member States, to evolve the organization's value proposition?

For Consideration...

- Consider the opportunities in supra-national entities like the Aman Union and the ICIEC
- Assess the advisability of linking existing and future ECAs' mandates to public policy objectives related to SMEs
- Envision creative guarantee solutions for non-standard, SME-targeted lending, such as zero-or low-collateral lending
- Assess the potential in linking ECA activity and solutions to emerging, SME-focused options like supply chain finance and like the Bank Payment Obligation



Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation



Thank You.

Alexander R. Malaket, CITP, President
OPUS Advisory Services International, Inc.

ar.malaket@opus-advisory.com

Mobile: +1 647 680-6787

www.opus-advisory.com

www.opus-seminars.com



Advisory Services
International Inc.