THE SSH GUIDE TO EXPORT CREDIT FINANCING

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WHAT ARE EXPORT CREDIT AGENCIES AND WHAT ROLE DO THEY PLAY IN INTERNATIONAL TRADE?

Export credit agencies (ECAs) were originally government agencies charged with supporting the development of exports through the provision of export financing, as well as various types of risk insurance or guarantees, intended to mitigate risk and thereby encourage the pursuit of opportunities in international commerce.

ECAs are acknowledged to be important contributors, often highly expert, to the enabling of international trade. ECAs are a key resource to gather information on countries, industries, markets of opportunities as well as challenges around the world.

The role of ECAs, and the respective services offered, help companies grow their sales volume on the international market while making sure to manage the risks it takes when entering the international market. Furthermore, ECAs provide opportunities to collaborate with market players and to facilitate growth in exports.

How export credit agencies have evolved

Since their origins in post-war Europe, export credit agencies (ECA) have evolved from relatively straightforward government agencies with mandates that were primarily driven by public policy, to entities critical to the conduct of international trade across the globe.

There are a variety of ECA models in existence to meet the evolving needs and expectations of the international business community, including the government lender of last resort model to quasi-commercial agencies and those that are partly privatized.

'ECAs offer a variety of products and services and are involved in supporting the full range of trade and commercial transactions—from short-term commodity exports to long-term capital projects and project finance.'

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Export credit insurers have historically focused primarily on supporting deals involving companies or banks from their home markets. However, this has changed in the last decade in that export credit insurers have, within their mandate, been providing financing to foreign affiliates of home companies while also providing financing to foreign buyers of home products and services.

Indeed, it is increasingly common to see banks supporting exports from one country while seeking export credit agency support from another country.

This occurs for a variety of reasons, from competition on pricing to the availability of different solutions (and/or different pricing) at various ECAs. This trend is commonly seen in large multi-million dollar infrastructure projects led by conglomerates when any one ECA and/or bank is unable to provide the required financing.

Furthermore, by diversifying the sources of financing, these conglomerates benefit from an increase in knowledge, variety of products and services, and risk diversification.

Certain agencies may have particular experience in, or insight about, some countries or markets that allow the ECAs to provide support or insurance in those markets, while other agencies may perceive the risk in that same market as unacceptably high.

Export credit insurance and guarantees and export finance solutions are offered by public, private and hybrid agencies.

What's the difference between private and public sector export credit agencies?

The private sector export credit agencies (ECAs) have been strong in many parts of Europe, and are emerging as a viable option in Canada, the United States and elsewhere.

Most commonly, export credit guarantors and insurers from the private sector are, or are affiliated with, commercial general insurers, but have highly specialized skills in areas related to international trade.

The leading private sector providers today include Atradius of the Netherlands, Coface of France, and Euler Hermes of Germany. Major risk insurers generate annual revenues of several billion dollars.

Many public sector export credit agencies (ECAs) are governed by legislation that defines their raison d'être, the details of the mandate and the oversight framework to which the ECA is subject.

It is not uncommon for public sector agencies to be subject to periodic legislative review, as is the case with Export Development Canada and with the Export Finance and Insurance Corporation (EFIC) of Australia.

Similarly, the Export-Import Bank of the United States (Ex-Im Bank) is subject to congressional oversight in terms of its mandate, competitiveness, activities and financial support or appropriations.

In addition to ongoing reviews by national government authorities, ECAs and their activities are closely scrutinized under the increasingly rules-based trading system, and are subject to regulations set by the World Trade Organization. This is because ECAs have grown to play a major role in supporting companies resulting in a material impact on international trade.

Why export credit agencies need different models to meet the needs around them.

While there are certainly recognized best practices related to the business of export credits and export insurance, there is no such thing as the ideal export credit agency (ECA) model or the ultimate ECA to which all others should aspire.

'ECAs evolve very much in context, and as a direct result of the specific needs and characteristics of their primary market.'

The spectrum of options includes ECAs that are primarily driven by public-policy objectives and those that are mandated to operate largely on self-funding, commercial terms.

Certain ECAs are driven primarily by public-policy mandates and are, accordingly, funded by their national governments. These agencies are often lenders of last resort, and may focus on providing a combination of risk insurance, guarantees and financing.

Public policy objectives may be as focused and straightforward as the stated objective of promoting and enabling exports, or they may relate to requiring a level of national content in exported goods as a proxy for assuring that some national benefit accrues as a result of the publicly supported and funded export activity.

Public policy objectives may also extend into market development, international development and aid, as well as other areas where the support of trade may be an important enabler—regardless of whether it is commercially viable.

Certain ECAs such as the Export-Import Bank of the United States (Ex-Im Bank) are expressly forbidden as a matter of policy from competing with private sector providers. Unlike other agencies, the Ex-Im Bank must proactively exit or cease certain activities, including direct lending, when it becomes apparent that a private sector provider is prepared to engage in those activities.

Understanding hybrid models and the changing mandates of export credit agencies.

Other ECAs are driven by a mandate that combines an element of both public policy and commercial viability, resulting in a type of hybrid model.

For example, Export Development Canada (EDC), the export credit agency of Canada, is fully self-funded and operates much like a commercial operation. At the same time, EDC remains a Crown corporation, and is often a supporter or instrument of public policy, as required by the EDC Act and the regulations that support the Act.

It is worth noting that EDC operates generally on commercial principles but can secure financing at favourable rates because of its status as a Crown corporation, which effectively means that it is treated by the market as sovereign or government risk, not as commercial risk. In many international transactions, this allows EDC to assist exporters with government bids.

Some ECAs have been restructured such that the short-term insurance side of the business has been privatized and separated from the export finance component. While most ECAs continue to focus on country and bank risk, a recent evolution in the industry is that ECAs are beginning to underwrite corporate risk, such as Export Risk Guarantee (ERG) of Switzerland.

Similarly, ECAs are taking a much broader view of their role and mandate and are shifting away from narrow definitions, such as ensuring minimum levels of national content in exports to targeting activities that generate national benefit.

Just like other providers of services related to international trade, such as trade finance banks, ECAs face significant challenges in terms of the organizational scale and geographic scope required to maintain operations. This is particularly true if these operations are required, based on the mandate of a given ECA, to be financially viable and self-sustaining (recall that not all ECAs are held to a standard of financial viability).

At the highest level, the wide range and variety of ECA models and modes of operation provide exporters and importers with a variety of financing, insurance and guarantee options suited to a wide range of transactions across the globe. Equally true, however, is that the variety of models, objectives and mandates complicates the process of aligning ECA standards through vehicles such as the OECD arrangement and others.

The objective of levelling the playing field in international trade becomes difficult in proportion to the variety of models that exist and evolve relative to ECA operations.

This content is an excerpt from the FITTskills 7th Edition International Trade Finance textbook.

WHO ARE EULER HERMES?

The private companies Euler Hermes Deutschland AG and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft have been mandated to manage the official export credit guarantee scheme on behalf of the German government.

Companies applying for officially supported export credit guarantees turn to Euler Hermes and provide the required documentation, which Euler Hermes then evaluates. As with other forms of insurance, the applicant companies have to pay an insurance fee.

Who is involved

SSH work together with Euler Hermes to prepare the applications for discussion and approval in an inter-ministerial committee, which consists of the economic ministry (leading ministry), financial and development ministry and the foreign office. The ministries have to make a unanimous decision.

If companies are requesting a credit guarantee in excess of €1 billion, the German parliament's budget committee must also be informed. Otherwise, the parliament agrees an overall annual budget ceiling for all guarantees, within which the inter-ministerial committee enjoys discretion. Called the statutory cover limit, this budget ceiling was set at €135 billion in 2011, with newly insured projects running at around €30 billion. This equates to about 3% of the total value of German exports.

Euler Hermes insures various industries, most heavily in ships; aircraft; the manufacturing industry; energy; oil and gas production; paper, timber, leather, the textile industry and infrastructure.

Safeguards

In 2001 the government defined guiding principles for Hermes guarantees, including for the first time requirements for ex-post publication of covered businesses, some environmental and social requirements and the exclusion of support for nuclear exports.
When the OECD Common Approaches environmental guidelines came into force, both sets of standards were used in parallel, but in 2009 the new incoming government chose to apply only the OECD Common Approaches, thus abandoning the nuclear exclusion criterion.

SSH AND EULER HERMES

The Federal Republic of Germany has mandated Euler Hermes Aktiengesellschaft (Euler Hermes) with the management of the export credit guarantee scheme – also known as Hermes Cover.

SSH prepares the application of your exporter or the lending bank for a decision on cover.
This means your German business partner should get in touch with SSH and Euler Hermes as early as possible - i.e. while negotiations are still going on and in any case before signing the export contract.

SSH will be able to arrange the cover of transactions on short credit term.

This is your role in getting "Hermes Cover"
After you have asked SSH to get in contact with Euler Hermes in order to apply for Hermes cover there is just one more thing to do.

In order to be able to judge whether you as importer of goods or services will be able to meet your contractual obligations, our experts will assess your creditworthiness.

Provide us the information required
The assessment focuses on your BALANCE SHEET, your ASSETS, your FINANCIAL POSITION and your PROFITS during the past three years.

The more detailed the information you provide is, the swifter a decision can be taken.

In addition to the assessment of your own creditworthiness, we consider the current situation in your country.

We understand your needs.

Besides pure product and services “Made in Germany” you are looking for:

EFFICIENT AND RELIABLE PROCESSES
Negotiations and the drafting of contracts can be tough and challenging. Additional bureaucracy and unnecessary paperwork are not helpful.

SUSTAINABLE TRUST IN OUR BUSINESS RELATION
Good processes rely on a solid confidence base and long-term relations.

FINANCING ON GOOD CONDITIONS
For most import businesses financing by a bank is requested. But how to achieve the best conditions?

ATTRACTIVE PRICE LEVEL
Not only the quality of a product but also its price are essential. There are ways to strengthen your position.

COMPETITIVENESS
All these issues determine your competitive position.

WE SUPPORT YOU TO MEET ALL YOUR REQUIREMENTS!

...and provide you with the best solutions

EXPERIENCE
Our experience in export business lasts for more than 60 years, building up a large knowledge base and a broad network in fitting “Made in Germany” to your business interests.

FLEXIBILITY
We are aware of the fact that no business is comparable to another one. Therefore we offer a wide range of export guarantee products provided by the Federal Republic of Germany which will help you and the German exporter to arrange optimized solutions and realize best conditions.

ADVICE
We support you and your German business partner where necessary throughout the entire process of the transaction.

FINANCING CONDITIONS
Your company will benefit from the cover against losses for German exporters and your financing banks to buy “Made in Germany”. You will receive medium to long-term financing conditions at highly competitive conditions.

Who we are.
SSH are mandated by Euler Hermes Aktiengesellschaft who manage the official export credit guarantee scheme on behalf and for the Federal Government since 1949, with a combined expertise of around 400 employees. In the year 2015 Euler Hermes promoted international projects with an accumulated amount of EUR 25.8 bn, with a sizeable portion being referred via SSH.

In 2015 readers and experts of the Trade and Forfaiting Review (TFR) voted Hermes Cover as Best Export Credit Agency.

Exporters and export financer of TXF, Trade and Export Finance, voted the Export Credit Guarantees as the winner of the Exporters' Choice Award 2016.

In the year 2015 Euler Hermes promoted international projects with an accumulated amount of EUR 25.8 bn, with a sizeable portion being referred via SSH.

GULF NEWS

IN TIMES OF TIGHT LIQUIDITY, EXPORT CREDIT AGENCY IS A SOLUTION.

Gulf nations are experiencing an economic environment that is very different from that of recent years. Lower oil prices for a sustained period it seems are putting significant pressure on government budgets, and tightening regional banks' liquidity. Yet, both governments and corporates continue to plough ahead with large-scale strategic projects, in sectors such as transportation, infrastructure or energy, in pursuit of social and economic diversification goals.
So — how can these large financing needs still be met efficiently in a deteriorating liquidity environment?

Export Credit Agency (ECA) backed financing is one solution in the new government and corporate financing toolkit — a solution that governments and corporates in the Gulf have already started to master, but that deserves much wider attention in current times. Export Credit Agencies are government-affiliated institutions in countries that have a significant manufacturing base, such as Germany, France, Korea, or the US. These ECAs support their domestic companies in their international export activities, for example producers of power generation facilities, oil and gas or telecoms equipment, railways, and so on. Essentially, they act as an insurer, covering, through a guarantee from their domestic governments, a large part of the risk that banks take by lending to the entities importing those capital goods.

The GCC has always been a very active region for imports of capital goods, in the absence of a sufficient industrial base in key development areas. However, the financing of these imports was not necessarily considered in combination with an ECA-financing package, perhaps due to unfamiliarity about how ECA works and its relevance.

Loan guarantees

Over the past year, however, ECA-backed financing has been gaining popularity. Indeed, in 2016, we expect to see double the number of transactions executed in both 2014 and in 2015 across the region. The Al Sufouh tram in Dubai, for example, received loan guarantees from ECAs in France and Belgium in support of construction contracts won by their domestic companies, while some of the large defence contracts in the region benefited from the cover of the ECAs of the importing countries. It is also important to note that this type of financing is not limited to government companies or projects. For example, Tahrir Petrochemicals Corporation, owned by private Egyptian firm Carbon Holdings Ltd, expects to receive ECA backing for the multibillion petrochemicals complex in Egypt's new Suez Economic Development Zone.

So how does it work? The cost of ECA-backed financing combines the cost of the cover (i.e. insurance) from the ECA and the cost of a straight financing by the buyer. This is how it is all calculated: the rating is an average of the credit rating of the sovereign backing the Export Credit Agency (which, since major ECAs are from OECD nations, is usually quite high), and the credit rating of the borrower. This average, due to the strong rating of the sovereign, often more than offsets the cost of non-ECA-covered financing, which is based solely on the borrower's rating. ECA backed financing tends to cover a wide spectrum of potential financing sizes between circa $50 million (Dh183.5 million) to several billion with the participation of one or multiple ECAs and banks. ECA financing can also be done in an Islamic format, a relevant structure for many borrowers in the Middle East region.

Specialist banks

A common misconception is that export credit agencies only work with their national banks — in other words, that only German banks can work with Hermes, the German ECA, American banks with the US EXIM Bank, and so on. But this is not the case. ECAs work with banks from all jurisdictions as long as the underlying transaction matches their criteria, in particular, the portion of domestic production of the particular goods to be imported. Some banks are recognised as specialists of ECA-backed financing, through their reach and knowledge of a wide variety of ECAs in the world.

As international banks are even more than before stepping in to support the GCC economies and their ongoing investment programmes, borrowers should take a serious look at the competitive cost of financing through ECAs versus other sources of funding. As long as they are importing a bulk of their equipment from a single country, and that country is a member of the OECD, or China and India, (countries with their own ECAs), they could qualify. Sovereigns or corporates with large international procurements in sectors such as infrastructure, energy, transportation, telecoms, and so on would be particularly well-placed to benefit from this option, which serves the buyers, protects the lender, and supports the economy of the equipment provider.

Easy credit era

In this new economic environment, banks and borrowers will have to show increased creativity and technical expertise, to deploy and select a variety of financing solutions. Gone is the era of "vanilla" answers and easy credit. Yet with well-understood tools, like ECA, the new environment can continue to be conducive for structural projects and large job-creating programmes. Governments will preserve their ability to source capital goods from a variety of exporting countries; and banks will learn to cooperate with governments, government related entities and large corporates in an ever more innovative way.

Original Article: https://gulfnews.com/business/sectors/banking/in-times-of-tight-liquidity-export-credit-agency-is-a-solution-1.1894536
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ECA'S WE WORK WITH .

Euler Hermes

Serve - Switzerland

Coface - France

Sace - Italy

OeKB - Austria

Credendo - Belgium

SINOSURE - China

EximBank - Korea

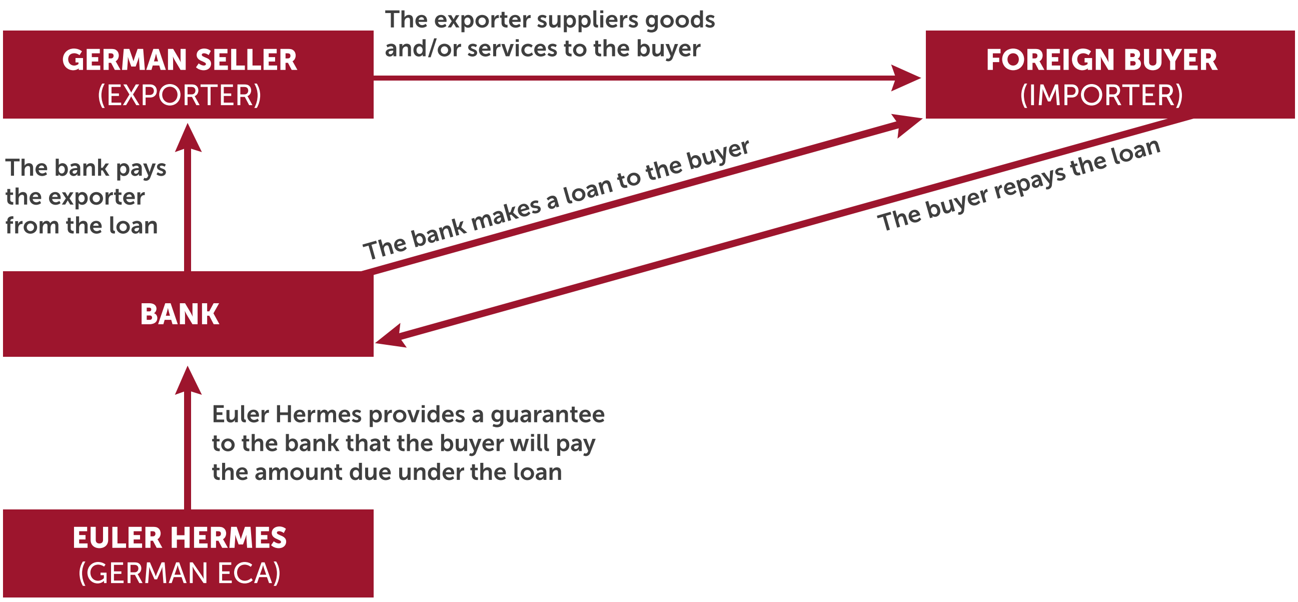
African Export/Import Bank (AFREXIMBANK)

WHAT IS A SUPPLIER CREDIT?

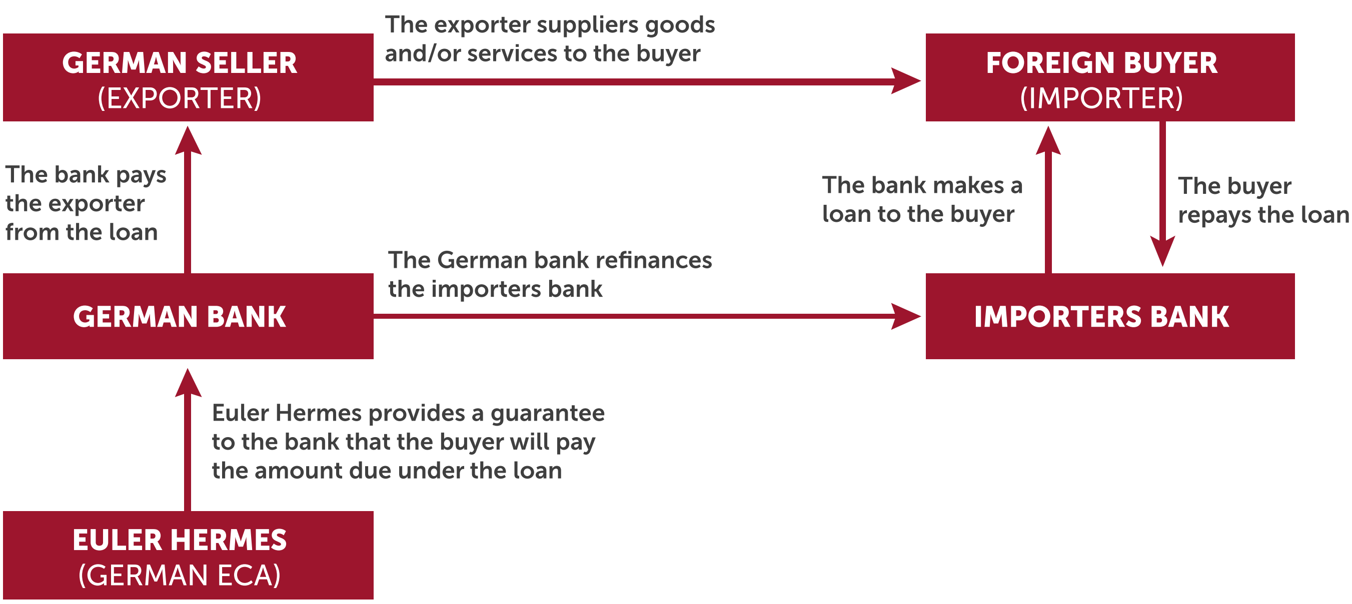
Under a supplier credit financing facility, Euler Hermes as German Export Credit Agency (ECA) provide a guarantee to a bank for a loan to an overseas buyer to finance the purchase of capital goods and/or services from an exporter carrying on business in Germany – known as a supplier credit loan facility;

Finance can be made available in the main trading currencies (including EURO, US dollars, UK sterling). Other currencies can be considered.

How does a supplier credit loan facility work? – as bank to corporate facility



How does a supplier credit loan facility work? – as bank to bank refinancing facility?



Alternatively, there is the possibility that the German bank will not refinance the importer's bank, but will grant the financing directly to the buyer - with an additional guarantee from the bank

What are the benefits of supplier credit financing?
The benefits are:

• the exporter is paid as soon as the goods have been shipped and/or services performed

• the buyer or borrower has time to pay over a number of years and can borrow at fixed or floating rates

• the bank receives a guarantee from Euler Hermes (German ECA) for the amounts due under the loan.

Risks covered
The bank is protected against non-payment under the loan. However, the bank must take the documentation risk and will therefore need to ensure that the loan agreement is legally enforceable.

Eligibility
Following criteria must be met:

• the exporter must be carrying on business in the Germany

• the export goods/services must be predominantly German in origin

• the importer must be acceptable to Euler Hermes

Maximum amount
The maximum amount that can be made available under the facility is 85 per cent of the contract value. A minimum of 15 per cent of the contract value must be paid directly to the exporter by the buyer before the facility starts to be repaid.

Term
The period for payment under the facility must be at least two years and is usually granted for a maximum of 5-7 years (exceptions: i.e. renewable energy)

FEES.

Determining Factors

SSH try to be as open and transparent and the costs and the fees associated with Export Credit Financing in order to help Buyers understand the process, and the determining factors. However, this is still difficult as every transaction is different. Overall, the transaction needs to be judged according to its risk factors Countries are listed according to their risk by Euler Hermes, and their methodology consists of analyzing hundreds of economic indicators, both quantitative and qualitative, to provide the best understanding of the economic, political, business environment, commercial and financing risks.

They also measure the risk of non-payment for 20 sectors in 70 countries. They aim to provide a view of demand, profitability, financing and competition risks in each country. The result is a four-scale risk level from low (sound fundamentals with a very favorable or fairly good outlook) to high (imminent or ongoing crisis).

Risks covered include political risks, such as bad debt losses due to legislative or administrative measures, war, and civil commotion, losses due to the inability to convert or transfer sums paid in local currency by the debtor due to restrictions in the international payment system, inability to fulfill the contract due to political circumstances, and loss of goods (before the risk has passed to the foreign buyer) due to political circumstances, such as the goods being confiscated or destroyed. They also include commercial risks such as protracted default and bankruptcy of the buyer.

Charges

The charges for these export credit guarantees include an Application Fee, a Policy-Issuing fee, a Risk-Dependent Commission, a Duration-Dependent Commission, and an additional charge. The costs depend on the type, size, and duration of the transaction and on the risk assessment for the importing country. In the case of a claim, there is an excess paid by the exporter, generally between 5 and 15 percent. SSH will guide you through the process and will ensure that the payment of these fees is transparent. The total charges for the entire transaction are generally between €78,000 and €125,000, and vary according to the determining risk factors mentioned above.

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Payment Stages

Once we have concluded our due diligence and accept your application (which will require a fully completed Capital Questionnaire and a fully completed SSH KYC with all additional required documentation enclosed), we will handle start the Application Process with Euler Hermes, or the applicable ECA. When your application is ready to be presented to be considered.

Decisions on matters of principle and the underwriting of large export transactions are made by an inter-ministerial committee comprising representatives not only of the German Federal Ministry of Economics and Technology but also of the Federal Ministry of Finance, the German Foreign Office and the Federal Ministry for Economic Cooperation and Development (known as an IMA).

The first half of the due payment will need to be made prior to the IMA, and following the IMA when a Letter Of Intent is issued from the Bank who will lead the financing, the second half of the due payment is to be made. At that point Euler Hermes will also provide their intention to provide Insurance Coverage of the transaction.

Non-Payment

We should point out that in the event that a company does not fulfil their payment obligations to SSH, we will inform the ECA, and in the case of Euler Hermes, the company would be entered into the Federal Gazette, making alternative financing arrangements difficult if not impossible. Other ECA's will do likewise with their own national databases.

Please note – SSH have over two decades of experience understanding which transactions are approved by ECA's, and which are not. If we are not confident that your company or your transaction is not eligible, we will not proceed with your application. This avoids a situation of a company paying fees and not receiving financing.

How do SSH make money?

SSH are paid a commission of up to 6% of the total financing provided.

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