

I N T E R N A T I O N A L  
F I N A N C I A L  
C O N S U L T I N G

## **Leading an ECA – Not for the Faint of Heart**

Running an export credit agency (ECA) is not for the faint of heart. It requires among other things a clear vision, a strong hand and excellent listening skills. Listening skills? For what purpose? Yes, for the multitude of stakeholders who have something to say to you – often in contradiction to each other.

As a senior manager or CEO of an ECA you have to be one part commercial banker, one part diplomat, one part export cheerleader, one part environmentalist, one part loan recovery shark. Not to mention that you had better be a good leader to your staff and a good civil servant to your Minister and taxpayers. The main challenge facing leaders of public sector entities is to try to reconcile or strike the right balance between a range of objectives, some of them competing or going in seemingly opposite directions.

So, how do you measure success in a job like this? What constitutes good performance? How do you strike the right balance between the competing voices? Is the volume of exports financed or insured in a year a good measure? Well not necessarily because it might simply signal that the private sector sources of finance are doing more. Is the number of exporters or clients supported a good measure? It is hard to tell, as it might mean that there is more competition. Isn't it a good thing if exporters have more choice?

In our advisory business, we have worked with many ECAs and their government authorities. We have seen what can be classified as “international best practices” and what can only be euphemistically be called “lessons learned” about what not to do. From these examples across many countries (from Bangladesh to USA), across various stages of development (from LDCs to high income OECD countries) and with many business models (from a government department such as ECGD in the UK to outsourced underwriting model in New Zealand) we have seen the pitfalls and highlights.

Although all ECAs are different, they have similar mandates and requirements to be financially self-sustaining. We have therefore developed an “Export Credit Health Index” which measures the overall health of the export credit system itself. It considers export credit systems from the broadest perspective of exporters, banks, government authorities and the institutions themselves. While it is recognized that no two ECA's are alike, there are common dimensions and features of the overall systems that can be compared.

In particular, four main common dimensions are identified:

- a) Government Control and Oversight
- b) Exporter Focus/Service

- c) Institutional Strength
- d) Private Sector Participation

In general, a healthy system is one that effectively balances various stakeholder needs and interests while accomplishing the ultimate goal – providing exporters with the support they need to be internationally competitive.

### ***Government Control and Oversight***

For Government Control and Oversight, the questions considered are the extent to which the government both has the appropriate level of control relative to its involvement and is providing the ECA with the necessary guidance to ensure that public policy objectives are being met and that the ECA is fulfilling its mandate. Moreover, this measurement looks at whether there are controls – adequate or otherwise – over the fiscal costs of providing export credit support.

### ***Exporter Focus/Service***

For Exporter Focus/Service, the issue is whether exporters are receiving the support they need to be internationally competitive. In particular, this area examines the extent to which the kind of facilities, risk appetite and capacity are being made available to exporters for the markets in which exporters are doing business and at an all-in price which is internationally competitive. Also considered is whether the ECA is being proactive for and on behalf of exporters and is demonstrating flexibility and innovation, for the purposes of helping make exporters more competitive.

### ***Institutional Strength***

The issue of Institutional Strength addresses the question, from the perspective of the ECA as an organization, of whether it is operated on a viable and sustainable basis.

### ***Private Sector Involvement***

Another crucial area in determining the overall health of the export credit system is the extent to which the private sector is actively engaged in providing export credit facilities. Specifically, this area considers whether the ECA is promoting and facilitating their involvement or whether it is displacing or impeding the private sector, either as a result of its actions, or as a result of a deliberate policy. Both private insurers as well as the banking sector are considered.

### **Conclusion**

It is important to recognize the crucial inter-relationships/inter-dependence between the four common dimensions. One must be careful in trying to effect positive changes within an export credit system, since “tweaking” one dimension could have unexpected short- and long-term consequences for other dimensions.

Moreover, it is not enough to be very strong in one area. One stronger area does not necessarily offset a weaker area. The healthiest systems are those that find a balance between all four dimensions. For a strong and healthy export credit system, the harmony or balance among the four common dimensions is as important (if not more important) than the absolute “scores” of individual dimensions.

Taken together, there is no one perfect model or approach to running a successful ECA. It depends on the unique national circumstances in the country – types of exports, level of industrialization, involvement of the private sector financial players, government preferences. Moreover, it is not certain that the same business model that exists in many countries would be reinvented today if no ECA existed. In fact, it is more likely that if ECAs did not exist in many countries, they would not be created in the image of today's ECA, if at all.

This leaves the CEO of today's ECA feeling somewhat unsure of what is expected of him and from whom. Commercial banks want better coverage in more markets at cheaper prices. Exporters want the same, plus help in arranging their financing and ease in administration. Private underwriters envious of the government's capital underpinning the ECAs' activity wonder why they could not supply the underwriting expertise, whilst the government takes the risk. Buyers of the exported goods or services want the cheapest financing available and think the premium that is ultimately passed onto them is exorbitant and not at all reflecting their excellent credit risk. The taxpayer rues the day of deficits, the Minister and the bureaucrats dread front page news, the environmentalists are horrified that certain transactions are supported.

Therefore, being able to measure the health of your system against a set of balanced objective criteria can give you something to aim for. In practice the index can help not only the CEO but also the Guardian Authority and private sector parties.

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