

Challenges facing ECAs in Developing Countries

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The Context

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The worldwide community of ECAs has much in common....

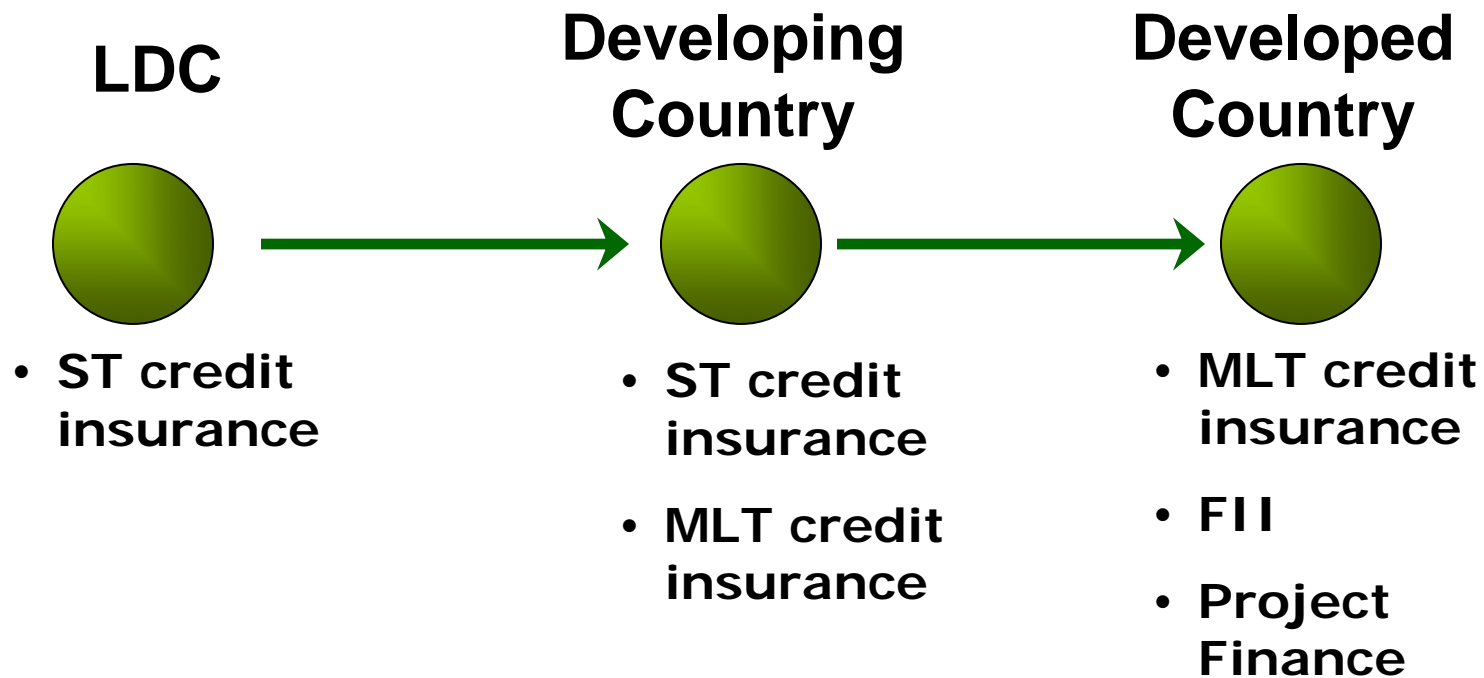
- ❑ All ECAs share the same basic mandate: support and encourage exports and outward investment
- ❑ ECAs provide credit and political risk insurance, guarantees, and sometimes, direct finance.
- ❑ The basic common function of an ECA is to take (or provide cover for) political and commercial risks of foreign buyers/borrowers.

...but there are significant differences

□ In terms of:

- Experience in underwriting, paying claims and making recoveries
- Expertise of staff
- Credit information
- Size of capital
- Facilities offered
- Credit quality of the insurance policy

Facilities offered reflect market gaps⁵ and level of export development



Basic product of ECAs is “trust” that the buyer will pay

- ❑ Trust can be built upon knowledge
- ❑ Knowledge is based on information
- ❑ Awareness of the value of credit insurance having an understanding of the risks that are taken, especially when self-insuring, or even with LCs.
- ❑ Risk = expected losses; capital is for unexpected losses

As OIC ECAs, there is affiliation with all key export credit groups

- ❑ Within the OIC ECA community, there are members of:
 - The Berne Union
 - The Prague Club
 - The OECD Export Credit Group
 - The Asian EXIM Bank Forum
 - The Arab Group

- ❑ Such access to international best practices can be leveraged

- ❑ Knowledge of worst practices or “lessons learned” can also be helpful

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The Role of ECAs



Twin ECA objectives

ECAs must break-even while not competing with private sector

- ❑ Balancing the need to be financially viable with a declining role vis-à-vis the private market.
- ❑ Ensuring exporters have access to internationally competitive export credit facilities and services
- ❑ Competition is increasingly difficult/complex
 - The private sector now does almost all ST and most FII.
- ❑ Being able to maintain sufficient expertise to handle the deals when they come.

What does this mean for ECAs for the ST credit insurance business?

- ❑ The private sector - both insurers and reinsurers - are not transitory players
- ❑ ECAs must consider how to offer world class products and internationally competitive service?
 - The huge entry barriers in terms of credit info
 - The need for significant IT spending to get and update information, including using internally generated information on experience.
- ❑ This begs the questions: Is there any future for small insurers, private or public, in the ST area?

What does this mean for ECAs in the FII area?

- ❑ While private insurers have provided a large amount of capacity, they have benefited from co-insuring with public ECAs
- ❑ The “halo” effect has been beneficial

The ECA Dilemma

- ❑ Can ECAs really do nothing but plug market gaps yet not lose money?

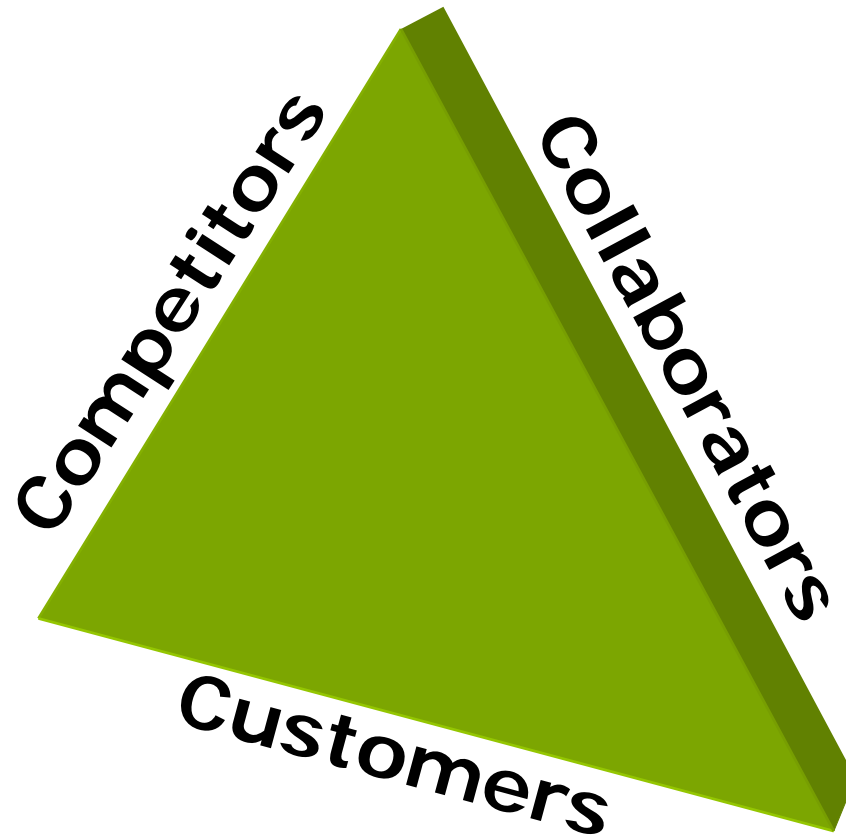
Developing Country ECA Challenges

- Access to credit information
- Awareness of the product
- Reinsurance capacity
- Growing Competition
- IT costs
- Training and Development needs of staff

ECAs and Banks



The Private Market to ECAs: a multi-faceted relationship



ECAs are considered by the private market to be all things

- ❑ **Competitors:** when ECAs are taking risks (that the private sector could) to help meet the “break-even” objective or for other reasons
- ❑ **Customers:** when ECAs provide cover for deals that otherwise would not get done
- ❑ **Collaborators:** when ECAs provide “catalytic cover” by re-insuring or co-insuring the private sector

The relation with banks is a crucial one for ECAs

- ❑ Banks are both customers and competitors.
- ❑ As collaborators, they also play a vital role in providing finance.
- ❑ ECAs cannot finance all exports so the role of the banks is vital - both for credit and working capital.
- ❑ ECAs need to be sensitive to the needs of banks and to understand the approach they take and why.

Use of a letter of credit does not mean that all risks are covered

- ❑ ST credit insurance cover is still necessary, eg to take pre-credit risks or failure of the opening bank or transfer difficulties.

Special ECA products for banks

- Cover to enable banks to confirm letters of credit
- Cover for factoring or to facilitate invoice discounting
- Cover for unfair calling of bonds
- Cover for normal buyer credits and lines of credit
- Sometimes, cover for working capital. Preferably, banks should accept insurance policy as collateral against which to lend working capital

A bank with an ECA facility must exercise the same duty of care

- Banks need to exercise a duty of care when handling or checking documents.
- The same diligence is required by the banks as they would if they were lending without an ECA facility

ECA facilities for banks without risk sharing is dangerous

- ❑ Great caution is needed when the bank of an exporter needs cover from the ECA for exporter risks.
- ❑ The ECA - normally with no security - may feel able to guarantee or provide such a facility. But, the ECA does not have a day-to-day relationship with the exporter and the bank does.
- ❑ What enables an ECA to take such a brave decision?

Impact of Basel II on bank's approach to ECA cover

- ❑ Under Basel II, banks will require full unconditional guarantees to claim capital relief
- ❑ ECA cover is not normally unconditional, but most bank supervisors will allow ECA credit insurance. Political risk only cover may be more difficult
- ❑ Also of concern to developing countries, particularly when competing against OECD countries is the credit quality of developing country ECA cover compared with OECD ECAs

Overall, there is a need for ECAs to be close to the banks

- ❑ to appreciate where they are coming from
- ❑ to market actively and professionally to them
- ❑ to ensure that they understand the ECA's facilities
- ❑ to cooperate with them but also to be firm with them
- ❑ to look for them to share risks and security

Thank You!
