

VALLIS REPORT
EXPORT CREDIT AGENCIES (ECAS)



© Figure 1: Taken from Gov.UK <https://www.gov.uk/government/organisations/uk-export-finance>

What is an export credit agency?

ECAs are part-government or private institutions which provide financial assistance to importing or exporting companies in order to promote trade and export activities. Financial assistance can take multiple forms – insurance, loans or guarantees. Credit can be short term (up to 2 years), medium term (2 – 5 years) or long term (5 – 10 years).

ECAs underwrite commercial risk up to around 85%, and political risk 90% to 100%. This would depend on the mandate given by each government to the ECA. Export credit can be mixed with official development assistance (ODA) to finance the same project – this is called mixed credit. Mixed credit is classified as “tied credit”, as the export credit is tied to purchases in the issuing country, even if the ODA is not. Multiple sectors use export credit, as shown in **Figure 2**.

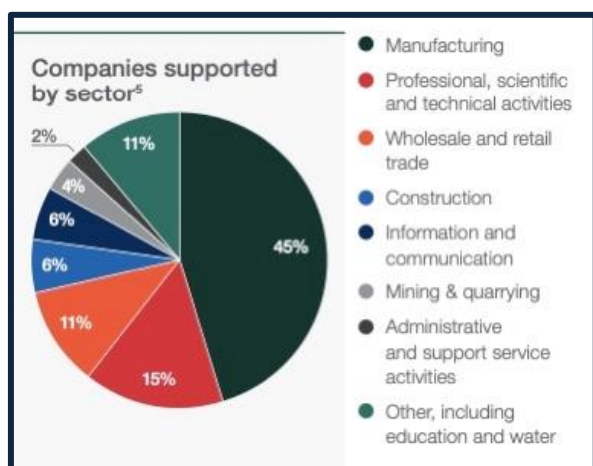


Figure 2: Companies supported by sector – UK Expo1t Finance

How do they benefit their clients?

- **Lowering risk:** Commercial banks are often unwilling to provide finance unless the risk is very low. ECAs are able to support lenders with guarantees, which lower the risk of transactions, allowing

lenders to make decisions that would otherwise be too risky.

- **Increasing opportunities:** ECAs provide importers with access to goods they would not normally have access to, creating another market within the importer's domestic country. ECAs make bilateral and multinational agreements much more achievable than they would be in the private sector alone.

How do they provide financial aid?

1. Direct lending

An ECA acts as a lender to importers, providing funds to purchase items which are then repaid after the items have been sold.

Step 1 – Contract agreed between exporter and importer

Step 2 – Loan agreed between ECA and importer

Step 3 – Exporter delivers products or services to importer

Step 4 – Exporter provides proof to ECA

Step 5 – ECA releases loan to exporter to pay for goods

Step 6 – Importer repays ECA at a later date, as agreed

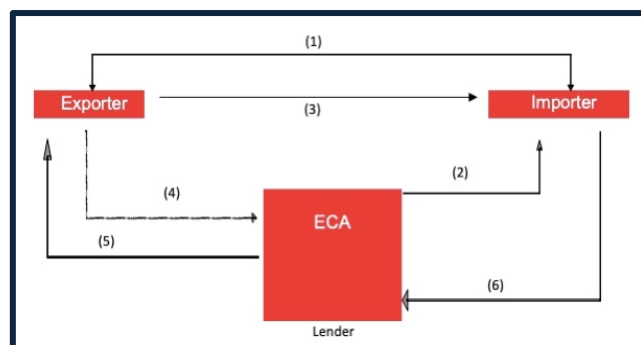


Figure 3: Direct lending – Taken from presentation by Aidan Applegarth, Managing Director, Bankingwise Limited

2. Financial Intermediary Guarantee

ECA provides insurance to a separate lender (such as a bank), allowing the lender to loan money to

exporters or importers knowing that the sales proceeds are covered. It is divided into “buyer credit” and “supplier credit”.

Step 1 – Contract agreed between exporter and importer

Step 2 – ECA provides guarantee to the lender

Step 3 – Loan agreed between importer/ exporter and lender

Step 4 – Exporter delivers products or services to importer

Step 5 – Exporter provides proof to lender

Step 6 – Lender pays exporter in advance of sales (buyer credit only)

Step 7 – Importer repays lender at a later date

Step 8 – Lender pays balance to exporter (supplier credit only)

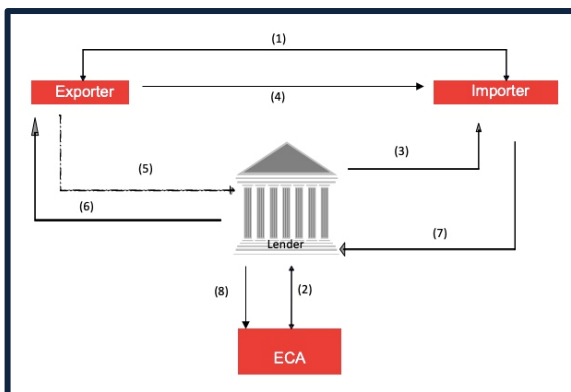


Figure 4: Supplier credit – Taken from presentation by Aidan Applegarth, Managing Director, Bankingwise Limited

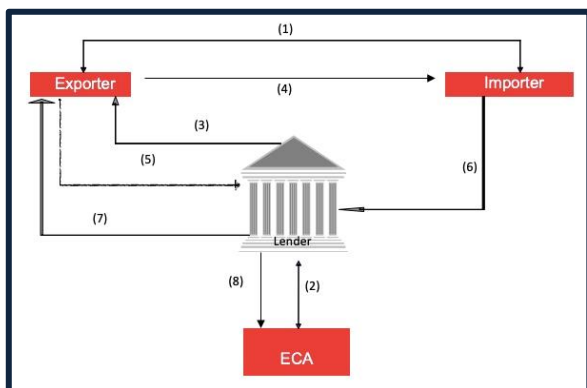


Figure 5: Buyer credit - Taken from presentation by Aidan Applegarth, Managing Director, Bankingwise Limited

3. Interest Rate Guarantee

A commercial lender provides a loan at below market interest rates to importing entities. An ECA acts to compensate the difference in interest rates.

Step 1 – Contract agreed between importer and exporter

Step 2 – ECA provides interest equalisation agreement to lender

Step 3 – Loan agreed between lender and importer at below market interest rates

Step 4 – Exporter provides goods or services to importer

Step 5 – Exporter provides proof to lender

Step 6 – Lender pays exporter in advance of sales

Step 7 – Importer pays lender at a later date

Step 8 – ECA pays interest equalisation amount to lender

Step 9 – Lender makes recovery claim (in absence of Step 8)

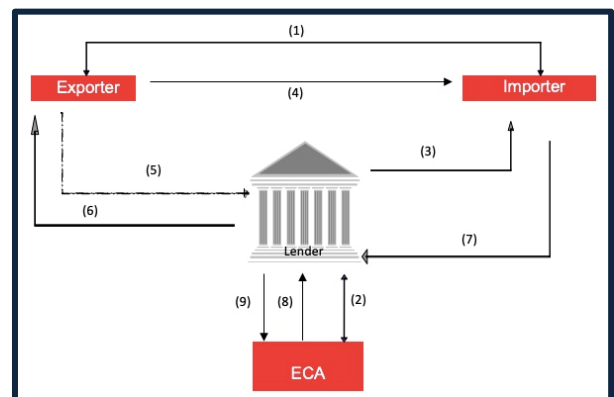


Figure 6: Interest rate guarantee - Taken from presentation by Aidan Applegarth, Managing Director, Bankingwise Limited

The different types of support are split as shown below, in **Figure 7**.

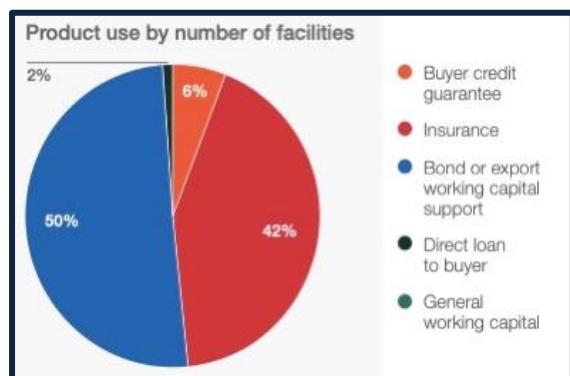


Figure 7: Product use by number of facilities – UK Export Finance

How are they regulated?

The Organisation for Economic Co-operation and Development (OECD) set forth an agreement (the Arrangement) for the use of officially supported export credits.

The Arrangement seeks to promote competition based on quality and price of goods or service, rather than the level of support and terms provided by each government. Larger or riskier than normal transactions are reviewed by a committee of government and ECA officials before being approved. Since 2011, ECAs in EU member states have been obliged to follow the EU development policies. ECAs must also follow World Trade Organisation rules.

Why are ECAs particularly relevant now?

The **COVID-19 pandemic** has had a huge impact on the global economy, with some sectors, such as aviation, facing possible collapse without additional support. A reduction in spending has led to decreased liquidity for many industries, creating a market for ECAs to provide finance.

During the **2008 financial crisis**, European ECAs financed 1/3 of annual Airbus delivery output. In

June 2020, the French government announced it will increase state guarantees on airline exports as part of a €15 bn rescue package.

“At the end of the year and into next year, deliveries should pick up and at that point, the form of financing will be more important. In the past, the export credit agencies have stepped up during downturns and have financed as much as a third of the deliveries during the trough of downturns.” – Craig Fraser, Analyst for Fitch Ratings

Other countries are likely to make similar decisions.

The Islamic Development Bank Group partnered with the UAE Ministry of Economy to present a live webinar entitled IsDB Group Private Sector Action Response to COVID-19. Amongst other things, this webinar discusses the role of export trade agencies in supporting trade opportunities and the

“While the disruption to global trade and investment flows is unavoidable due to the unprecedented nature of the coronavirus pandemic, it is essential that institutions with the mandate and means to stabilize the trade ecosystem during the crisis heighten their efforts to do so.” – Mr Oussami Kaissi, Chief Executive Officer of The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

economy.

References

Islamic Development Bank Group in partnership with UAE Ministry of Economy and Annual Investment Meeting to Host a Live Webinar

Accessed 26/06/2020

https://www.zawya.com/mena/en/press-releases/story/Islamic_Development_Bank_Group_in_partnership_with_the_UAE_Ministry_of_Economy_and_Annual_Investment_Meeting_to_Host_a_Live_Webinar-ZAWYA20200625133610/

Arrangement on Officially Supported Export Credits

OECD, January 2020

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg\(2020\)1](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2020)1)

Arrangement on Officially Supported Export Credits

OECD

<http://www.oecd.org/trade/topics/export-credits/arrangement-and-sector-understandings/>

Aircraft Financing in a Post Covid World

Bryan Cave Leighton Paisner LLP, 30th April 2020

<https://www.lexology.com/library/detail.aspx?g=44821232-044a-4650-aff-4c544765b80b>

France rolls out export credit support to ailing aviation sector after growing calls for ECA backing

Felix Thompson, 10th June 2020

<https://www.gtreview.com/news/global/france-rolls-out-export-credit-support-to-ailing-aviation-sector-after-growing-calls-for-eca-backing/>

Export Credit Agency

Trade Finance Global

<https://www.tradefinanceglobal.com/export-finance/export-credit-agencies-eca/>

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Cover image taken from Gov.UK

<https://www.gov.uk/government/organisations/uk-export-finance>

Annual Report and Accounts 2019-2020

UK Export Finance, 25 June 2020

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/895102/ukef-annual-report-and-accounts-2019-to-2020.pdf