



BENEFITS OF ECIC-BACKED FINANCING

Emerging African Markets: Risks and rewards

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AFRICA AT A GLANCE

- Second largest continent on earth (approximately 30 million square kilometres)
- Home to 1,2 billion people (15% of world population)
- Has the world's longest river (Nile) and largest desert (Sahara).
- 54 Countries
- 5 Legal Systems
 - i. English
 - ii. Portuguese
 - iii. Roman-Dutch
 - iv. Arabic and Indigenous
 - v. French – of which 17 are Organisation pour l'harmonisation en Afrique du droit des affaires (OHADA)
- GDP growth: 3.7%
- GDP: \$3.52 trillion (2017)
- Trade trends: China and India are increasingly important trade partners
- The Group of Five (Indonesia, Malaysia, Saudi Arabia, Thailand, and the United Arab Emirates) are another increasingly important market for Africa's exports
- Intra-African trade is extremely low and currently accounts for only 10% of all commerce on the continent



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RISKS VERSUS REWARDS: CHALLENGES

- **Infrastructure**
 - Shortage of modern functioning roads, ports, reliable power, access to clean water
 - Lack of Innovation (Communications, including phones and internet still developing)
- **Bureaucracy**
 - Additional time necessary to accomplish tasks, especially land-locked countries
 - Time contingency needed due to additional layers of people and approval
- **Inflation:** Impacted by international food, fuel, & electricity costs
- **Corruption**
 - Scale varies widely from “petty” fines to major corruption in government contracts
 - Increasingly governments and citizens are demanding accountability
- **Health Risks:** Health authorities & health systems unable to respond to large outbreaks
- **Security:** Increased terrorism risk (e.g. Nigeria, Niger, Chad, Congo)
- **Legal and Governance**
 - Land ownership difficult with multiple claims of ownership possible
 - Entrenched leadership and abuse of term limits (e.g. Eq. Guinea, Angola)
- **Skilled Workforce & Local Talent**
 - Shortage of local talent, particularly outside of cities
 - Competition for managerial expertise



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RISKS VERSUS REWARDS: OPPORTUNITIES

- **Africa can lead in sustainable development**
 - Openly embrace new technology and ideas, with no historical imprint
- **Diversification**
 - Diversification beyond commodities
 - Every country now has what are called “*Investment Promotion Agencies*”, which act as one-stop shops for investors, assisting with registration, taxes, and other steps to establish companies locally
- **Digital Transformation**
 - Undersea cables
 - In 2014, Ethiopia set up a telephone hotline allowing small farmers immediate access to advice from agronomists, with over 3 million calls done in the first six months of the pilot programme
- **Customers are changing**
 - Educated, urban professionals are young, brand-aware and sophisticated in terms of their consumption
 - The largest economic forces in Africa are small to medium enterprises, working to meet this new demand and competing with global brands
- **African trade barriers are falling and intra-African trade holds enormous potential**
 - African Free Trade Agreement
 - An increase in local beneficiation in the commodities sector could be a driver of growth – processing local commodities (such as minerals, coffee, cotton) in country rather than exporting them in raw form
- **Connectors**
 - Roads, rails, ports, airports, power grids and IT backbone needed to lift African economies
 - Efficient storage and distribution infrastructure for businesses, entrepreneurs and farmers



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OVERVIEW OF THE ECIC

The mandate of the Export Credit Insurance Corporation of South Africa SOC Ltd (**"the ECIC"**), is to facilitate export trade and cross-border investments between South Africa (**"SA"**) and the rest of the world.

The ECIC was established in 2001 under the Export Credit and Foreign Investment Insurance Act, 1957:

- Is a 100% State owned insurance company;
- Reports to the Minister of Trade and Industry and has authority to conclude insurance contracts on behalf of the government of the Republic of South Africa;
- Is regulated by the Prudential Authority, operating as part of the South African Reserve Bank (**"SARB"**) and the Financial Conduct Sector Authority;
- Provides political and commercial risk insurance to facilitate export trade and cross border investments; and
- an provide cover for South African Rand (**"ZAR"**) and United States dollar (**"USD"**) denominated transactions.



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GOVERNMENT SUPPORT

The corporation;

- Holds a Reserve Fund as part of its balance sheet, which is utilised to settle claims as and when they fall due; and
- Has a special dispensation from the SARB to offer insurance in US Dollars and receive and keep the premium in US Dollars to hedge its USD exposure.
- The National Treasury records a contingent liability in the State Accounts for the insurance exposure incurred by ECIC (from time to time) in excess of its capital.
- The South African government has undertaken to replenish the Reserve Fund, should it be projected that ECIC may not have sufficient own funds to meet claims as they fall due.
- The ECIC can reinsure its exposure directly or through its broker Arthur J. Gallagher & Co.
- The National Treasury and the Department of Trade and Industry are represented on the ECIC Board.



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SUSTAINABLE DEVELOPMENT POLICIES

The ECIC adheres to Sustainable Development Policies

Anti-Bribery

- The ECIC does not support export contract and investments secured through bribery or from debarred entities; and
- Requires disclosure of any agents (and fees) involved.

Environment & Social Impact

Projects need to:

- meet International Finance Corporation ("IFC") (World Bank) standards on environmental assessment; and
- be compliant with Environment & human rights laws.

Sustainable Lending

- The ECIC will not support sovereign lending that will severely burden the recipient country's economy.



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ECA BACKED FINANCING BENEFITS

ECA backed financing can be harnessed right across the capital spectrum, from equity to long-term senior secured , sovereign and project finance debt. It can also be used for short-term working capital financings.

The ECIC support across sectors includes but not limited to:-

- Agri-processing
- Aviation
- Defence (excludes offensive weaponry , the rest on a case by case basis)
- Energy
- Ports / Railways / Pipelines
- Power / Water Desalination
- Real estate
- Healthcare
- Shipping
- Steel Mills / Rolling Plants
- Telecommunications

Benefits to Lender

- Substitution of borrower and or country risk with that of South Africa domestic risk
- Higher Return on Economical Capital ("ROEC") output with lower RWA (Risk Weighted Asset) allocation



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THE ECIC: PRINCIPLES

- A minimum of 15% of the export contract value must be paid to the exporter by the buyer and only the 85% of the export contract value is eligible for ECIC backed finance and insurance support.
 - Of this 15%, at least 5% should be received upon contract signature.

Supported Tenors:

- Minimum credit repayment period of 2 years
 - Minimum tenor not applicable to working capital and bond products
- Up to 15 years repayment period for investments and project finance transactions
 - Longer tenors can be considered depending on the nature of the project
- ECIC can support sovereign backed financing, subject to procurement and project status, budget and legal authority to borrow - this may require Ministry of Finance guarantee.
- For corporate transactions, we typically need to assess, at a minimum, the last 3 years of audited accounts.
- Important criteria is the creditworthiness of the Buyer (Sovereign, Corporate or Project Finance structure).



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TYPES OF INSURANCE COVER

Our value add is risk sharing and risk mitigation. The insurance cover is provided for losses arising from:

POLITICAL RISK EVENTS (90% TO 100%)

- War and civil disturbance;
- Expropriation, confiscation, nationalization;
- Transfer restriction (includes currency inconvertibility);
- Change in law;
- Non-honouring of sovereign financial obligations;
- Breach of contract;
- Terrorism, piracy (optional, provided on a case-by-case basis).

COMMERCIAL RISK EVENTS (95% TO 100%)

- Insolvency of the foreign buyer;
- Protracted default by the foreign buyer.



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ECIC RANGE OF PRODUCTS

EXPORT CREDIT INSURANCE

Supplier's Credit (Pre and Post Delivery)	<ul style="list-style-type: none"> Exporter offers credit to foreign buyer. Cover: 100% political risk insurance ("PRI") and 85% commercial risk insurance ("CRI") of amount outstanding in terms of the credit agreement (Amount outstanding: 85% of contract price).
Buyer's Credit	<ul style="list-style-type: none"> Financial institution becomes involved & proceeds of loan paid to exporter. Foreign buyer (corporate or sovereign) undertakes to repay loan.
Small and Medium Transactions ("SMT")	<ul style="list-style-type: none"> This is a corporate loan facility (financial statement analysis) for export contracts with a value of US\$20m or less. The repayment tenor: 5 years or less, less security required. ECIC provides 100% PRI cover and 100% CRI cover on the loan amount (i.e. 85%).
Lease and Physical Loss / Return of Equipment	<ul style="list-style-type: none"> ECIC's cover will be limited to the loss, which results from PRI and CRI events. Important that the exported goods fulfil the African content requirements.
Bank Credit Lines	<ul style="list-style-type: none"> Financial facility between a SA bank and a foreign financial institution (central bank, commercial bank, merchant bank, building society, savings bank), which in turn, will on-lend to its respective clients. The payment default is placed on the foreign bank since it is the borrower of record; and the maximum credit amount is US\$20 million. The recommended upper limit of the credit period is 5 years. Insurance cover: 100% cover for both PRI and CRI.
Bond Insurance	<ul style="list-style-type: none"> Bid Advance Payment, Performance and Reclamation Bonds. There is no restriction on the credit term. The term of the bond should be linked to the underlying supply contract.

INVESTMENT COVER

Equity Investment	<ul style="list-style-type: none"> Cover provided – up to 15 years - against PRI causes of loss, which prevents the foreign business to: <ul style="list-style-type: none"> operate as envisaged for at least one year; and/or produce profits for three consecutive years.
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PROPOSED SATIPP INITIATIVES

- The collaboration between the two entities resulted in the recent launch in June 2018 of the programme in South Africa for initial amount of **US\$1 billion**. SATIPP will identify and support large South African companies with various interventions including but not limited to:
 - Supporting SA company operations and their subsidiaries through pre-approved credit lines to fulfil their financing needs and Supplier Finance;
 - Investment in industrial parks and special economic zone where Afreximbank is financing or developing;
 - Finance the importation of equipment needed by SA export manufacturers to upgrade and retool their equipment for improved competitiveness;
 - Support efforts at improving the skills of SA exporters in export marketing through capacity building initiatives (to improve market access for SA exporters);
 - Deploying project finance to support the construction of trade enabling infrastructure such as power plants, transport infrastructure including warehouses;
 - Stocking/Inventory Financing Facility for exporters that procure during seasons and sell all through the year.



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PROPOSED SATIPP INITIATIVES (CONT.)

- The Programme offers many advantages and benefits, combining the expertise and capacity of both ECIC and Afreximbank. Some of the main benefits include:
 - Improve access to trade finance solutions by using a variety of different instruments such as **Letters of Credit (LC) Confirmation, Pre-export Finance, Payment and Investment Guarantees, Forfaiting and Factoring** solutions to South African companies exporting to or importing from other African countries;
 - Expand opportunities for South African Companies bidding for and executing large contracts in other African countries by offering a variety of instruments and financing instruments such as **Bid Bonds, Performance Bonds, Advance Payment Guarantees, Working Capital Guarantees**, as well as **Export Credit Guarantees**;
 - Facilitate ease of transportation of SA exports to other African countries through Afreximbank's **Inter-State Transit Guarantee** programme (to allow goods to move throughout the continent under one guarantee/bond that is backed by Afreximbank); and
 - Support South African businesses to showcase their products and services through the Intra-African Trade Fair ("IATF").



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CONCLUSION

- As an African ECA with a strong footprint across the continent, the ECIC is an invaluable strategic partner for doing business in Africa
- The SATIPP programme includes co-operation with the ECIC regarding Export Credit Insurance to support exports of capital goods and/or services by South African ("SA") based businesses to other African countries
- There is also scope for co-insurance and re-insurance under this programme
- The collaboration allows for sharing information and access to markets. This is important to grow trade as we need capacity, technology, investment, and growth
- The ECIC utilises waiting periods to conduct advocacy work during the pre-claim phase in transactions to avert potential claims – the recent examples being Sudan, Zimbabwe and Angola.
- The ECIC will continue to build strategic relationships that create more synergies between the ECIC and strategic partners



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BUSINESS DEVELOPMENT TEAM CONTACT DETAILS

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THANK YOU



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