



# **Presentation to the KZN Exporter Week**

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# ECIC Environment

- **Self-sustained state-owned public entity registered as a Schedule 3 (b) business entity in terms of the PFMA**
- **Official Export Credit Agency of the South African Government**
- **Established in 2001 in terms of the Export Credit & Foreign Investments Insurance Act (as amended)**
- **Regulated by the Financial Services Board in terms of the Short Term Insurance Act**
- **Independent Board appointed by the Minister of Trade & Industry**
- **Facilitate the exports of capital goods and related services as well as investments abroad**



# Export & Trade Associated Risks

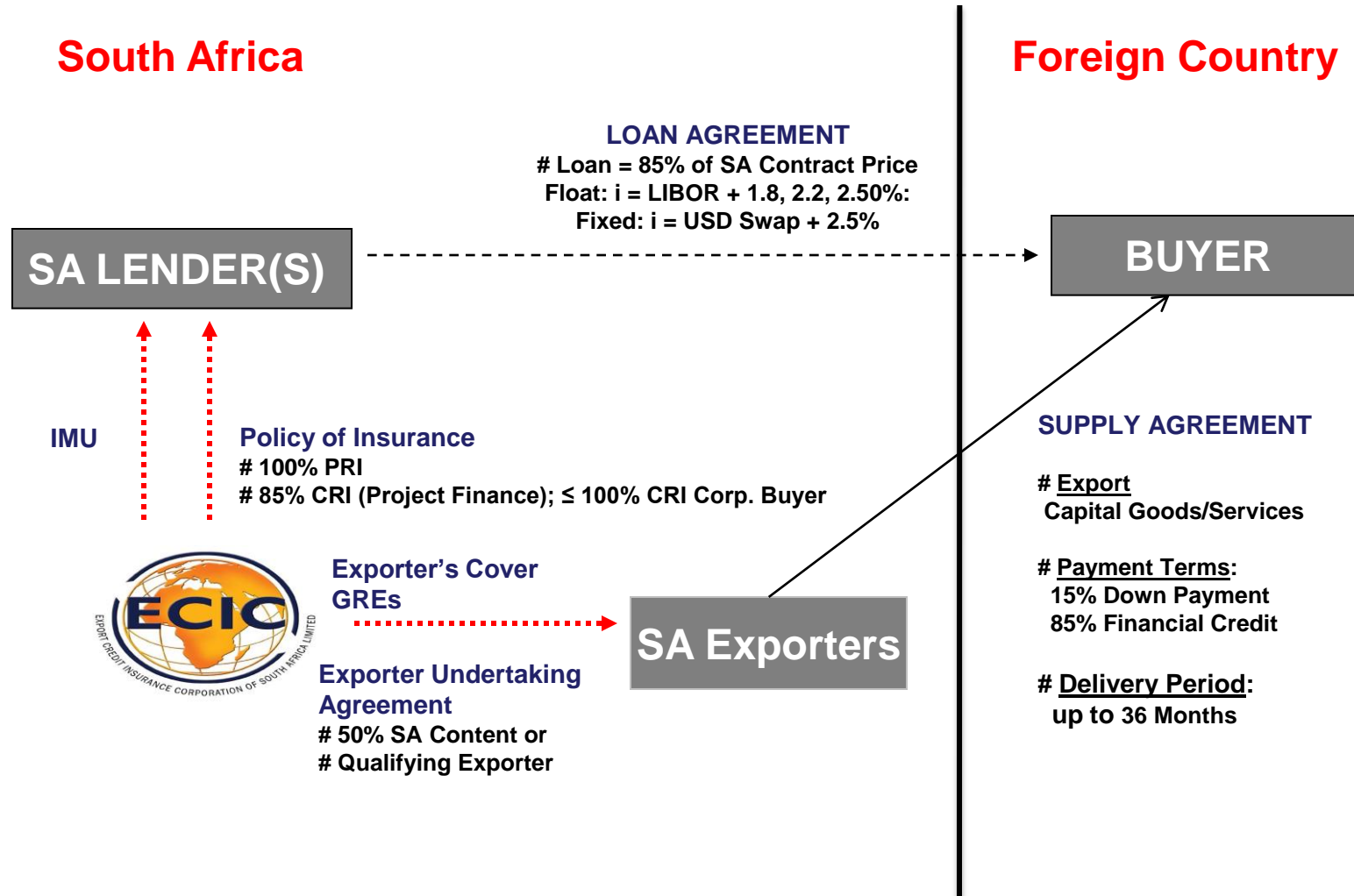
## ❖ Political Risk Events

- Expropriation / Confiscation / Nationalisation
- Transfer Restrictions
- Non-convertibility
- War & Civil Disturbance
- Change of Law
- Sovereign Protracted Default
- Sovereign Breach of Contract
- Terrorism
- Piracy

## ❖ Commercial Risk Events

- Insolvency
- Protracted Default

# ECIC Role & Function



# Business Products

- **Export Credit Insurance**
  - **Financial Credit**
    - Project Finance
    - Corporate Finance (Private & Sovereign)
  - **Suppliers Credit**
    - On Balance Sheet finance of foreign buyer
      - No financial institution involved
      - Potentially involve financial institutions post export event by refinancing exporter against ceding ECIC policy
- **Investment Insurance**
  - Equity Investment
  - Shareholders Loans
  - Commercial Loans
- **Performance Bond Insurance**

**Small Medium Transactions (SMT)**



# Performance Bond Insurance

- **Performance Bond at 10% of SA Contract Price**
- **SA Contract Price - USD10 million**
- **90% cover to Financial Institution providing Performance Bond**
- **Release 90% of Exporter's security requirements**
- **Linked to South African capital goods & services exports**

# Supplier's Credit for Small Medium Transactions (SMT)

## Rationale for the development of the product

- Improve turnaround times for concluding and financing of small & medium transactions
- To cater for transactions ranging from US\$1million to US\$ 20 million more effectively
- To assist small to medium exporters to offer their clients credit that is simple and quick to implement
- To create jobs in SA and to stimulate economic growth
- To improve ECIC competitiveness in the market

# SMT - Underwriting Criteria

## Exposure Level: Less than USD 1 Million

- **Recent favorable trade references**
- **Favorable credit report**
- **Buyer in same line of business for at least two years**
- **No material adverse issues**
- **Management Accounts with positive operating and net profit in the past fiscal year**





# SMT - Underwriting Criteria

## Exposure Level: >USD 1 Million - USD 5 Million

- **Favorable bank report not older than twelve months**
- **Buyer's audited financial statements with notes to the financial statements for the last two fiscal years**
- **Buyer's unaudited financials with notes to the financial statements signed by the directors of the buyer**

# SMT - Underwriting Criteria

## Exposure Level: >USD 5 Million - USD 10 Million

- Buyer's audited financial statements for the last three fiscal years complete with notes to the financial statements and an audit opinion
- Positive operating and net profit in the most recent fiscal year
- Current ratio in the last fiscal year is equal to or greater than 1.25
- Free cash flow/debt service ratio of at least 1.3 in the most recent fiscal year
- ECIC exposure not exceed 40% of tangible net worth of buyer
- Buyer/borrower in same line of business for at least three years

# SMT - Underwriting Criteria

**Exposure Level: >USD 10 Million - USD 20 Million**

- **Positive net cash from operations in the last two fiscal years**
- **Total liabilities/tangible net worth ratio in the last two fiscal years is equal to or less than 2.5**
- **Free cash flow/debt service ratio of at least 1.5 in the last two fiscal years**
- **ECIC exposure not exceed 50% of tangible net worth of buyer**



# Administered Business Products

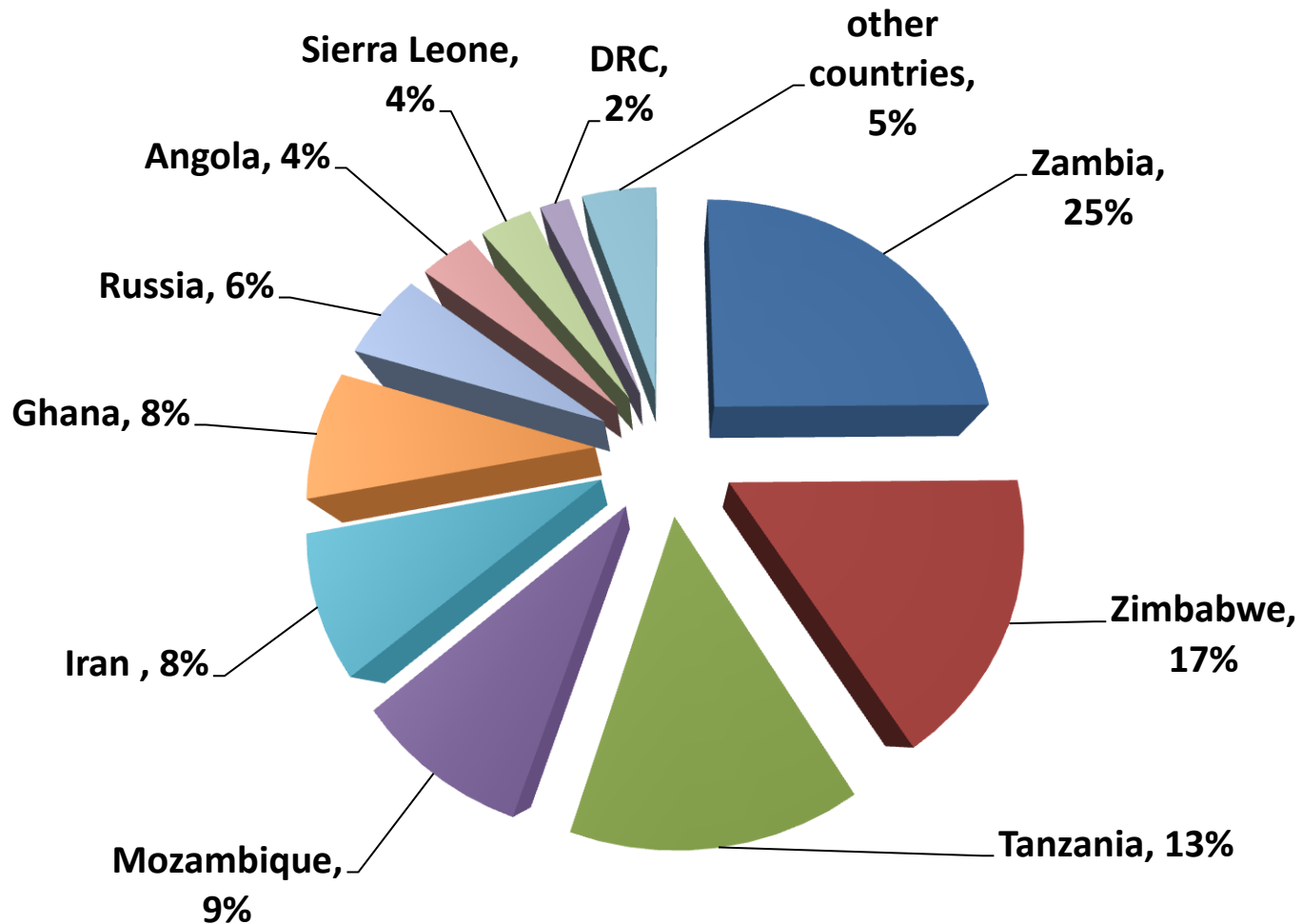
- **Guaranteed Rates of Exchange (GRE's) to exporters on behalf of the South African Reserve Bank (forward cover)**
- **Interest Make-up Scheme on behalf of the National Treasury through the Department of Trade & Industry**

# Guaranteed Rates of Exchange

- **Objective – to mitigate foreign exchange risks**
- **Financial institutions - borrow and lend USD - natural hedge to mitigate foreign exchange risk**
- **South African contractors face exchange risks in so far as their expenses are Rand denominated**
- **To cater for this risk, South African contractors allowed to elect which portion of the export contract they would like to receive in Rand**
- **GRE - obtained from the SARB - issued to the contractor to eliminate the impact of currency fluctuations in their pricing during the tendering & delivery phase of the project**
- **Convert @ ruling spot rate on date of draw down - SARB makes good any losses - profits are paid to the SARB**

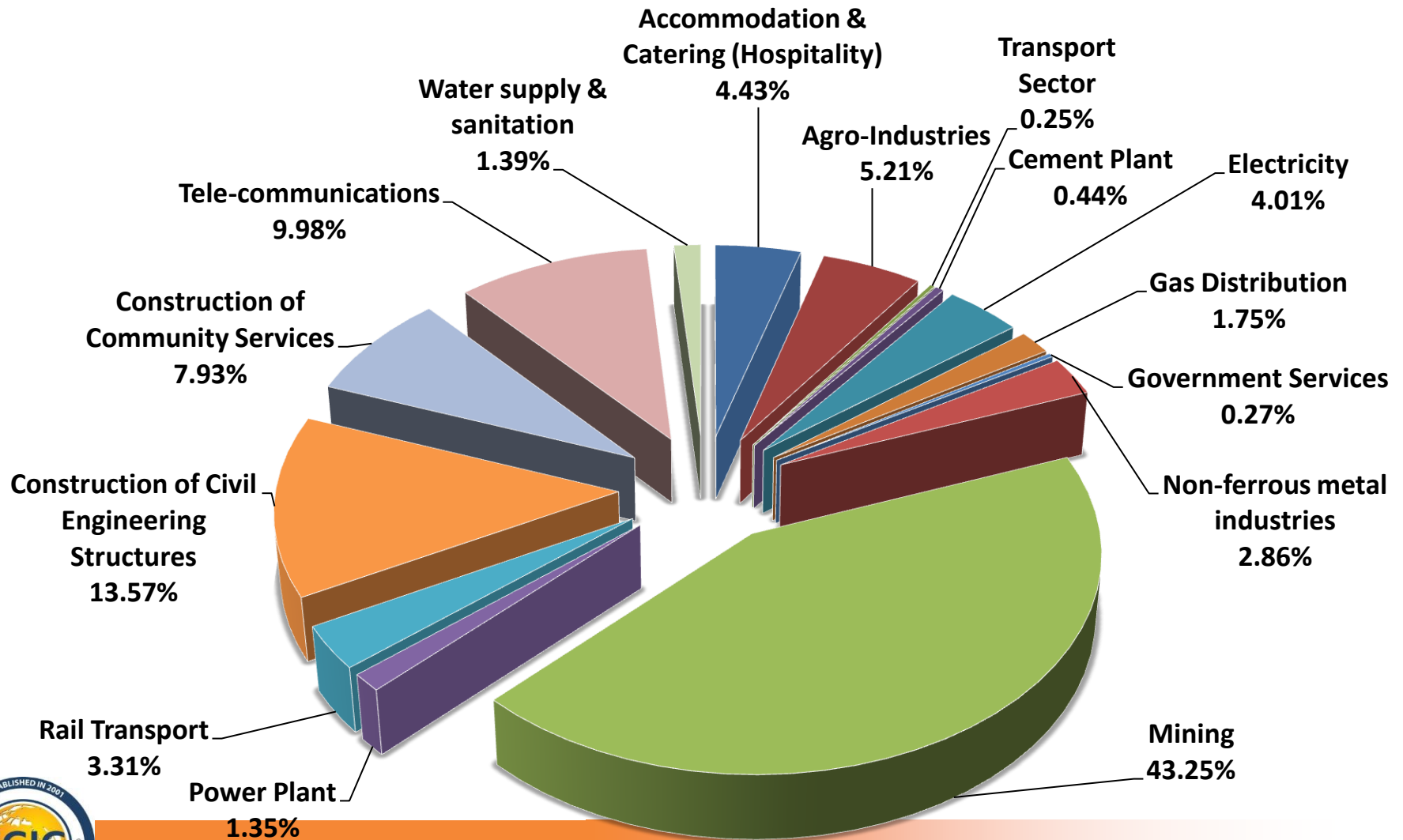
# Country Exposure (\$ 1,87 billion)

31 March 2014



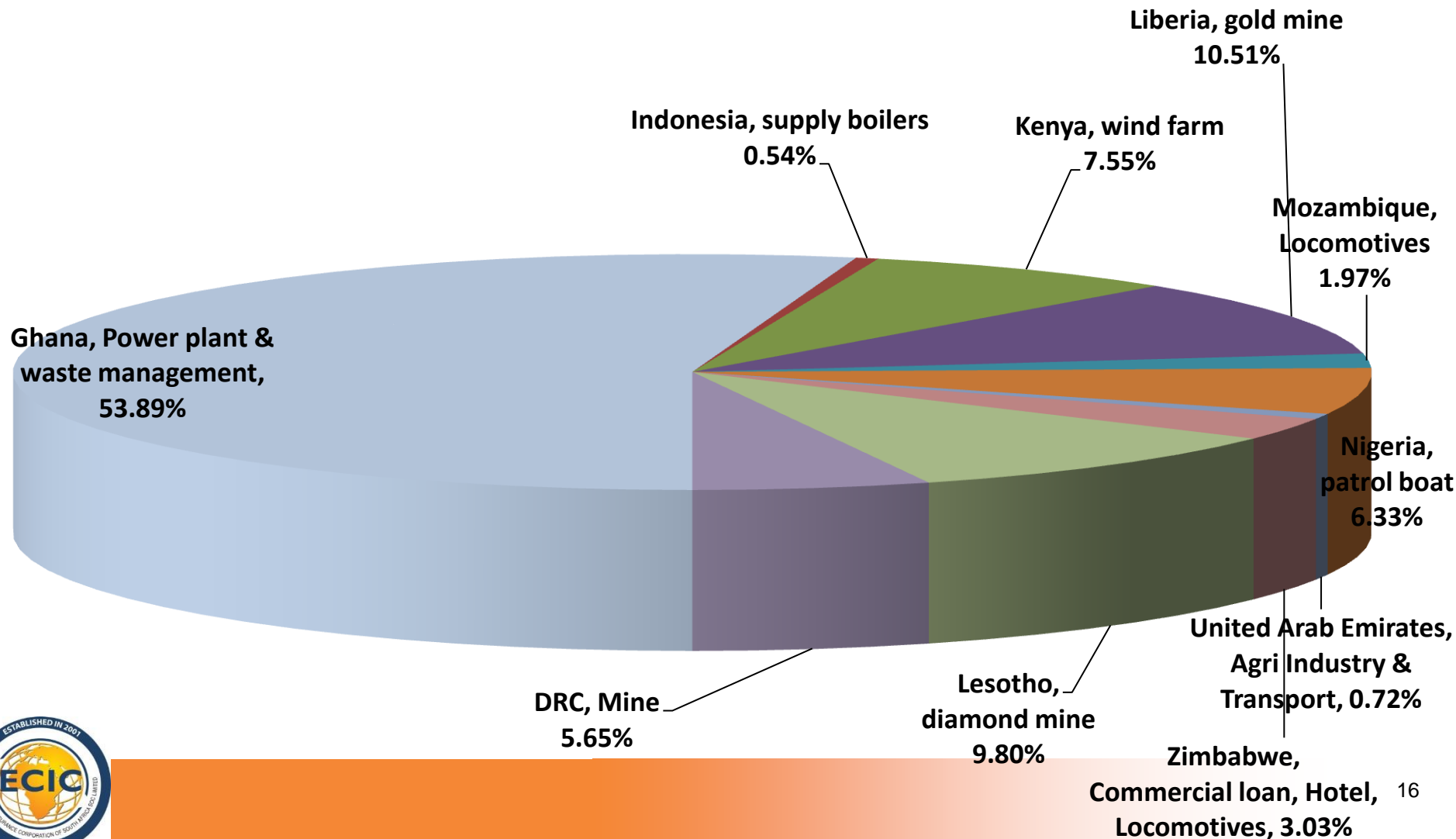
# EXPOSURE - ECONOMIC SECTOR ANALYSIS

31 MARCH 2014



# Quotations – Economic Sector Analysis (\$ 837 million)

31 March 2014

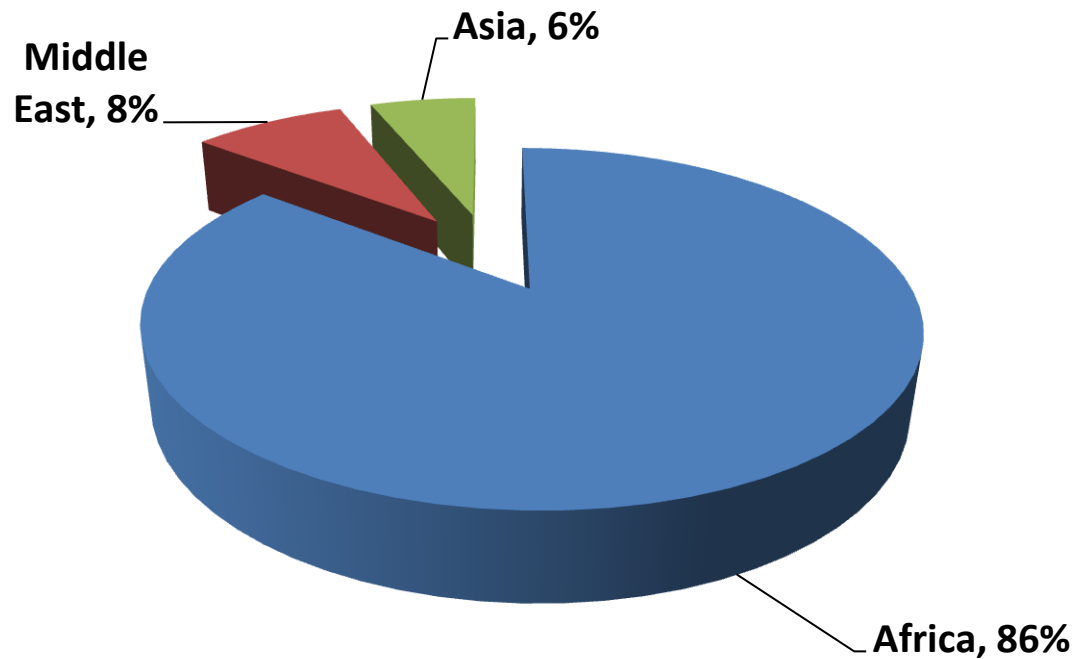




# Exposure by Continent

31 March 2014

## Country exposure



# Sustainable Development Policies

## Anti-Bribery

- ❖ Not to support export contract and investments secured through bribery
- ❖ Not to support export contracts and investments from debarred entities
- ❖ Verification of Debarment Lists

## Environment and Social Impact

- ❖ Not to support projects with high ESI (Category A and B Projects) that are not compliant with international standards
- ❖ Environment & human rights
- ❖ Promote compliance with IFC Performance Standards, World Bank Safe Guard Policies, EU Standards, Equator Principles

## Sustainable Lending

Not to support sovereign lending that will severely burden the recipient country's economy

# SA Local Content Policy

- **Exporter to be tax resident in SA as defined in terms of Income Tax Act no 58 of 1962**
- **Exporter must have entered into export contract with foreign buyer**
- **Exporter must have financial & technical means**

**70% SA content required on all export credit contracts**

**Relaxation towards % applies to projects in Africa:**

**50% SA local content and 20% from any African country**

# Local Content

- **Materials less imported component**
- **Wages & salaries (paid in SA)**
- **Freight costs (paid in SA)**
- **Insurance premiums (policy issued & paid in SA)**
- **Finance charges (excluding post delivery)**
- **Fees & charges & profits**

# Support Criteria

- **Export Credit**

- Project Finance**

- ❖ **Country Risk Assessment**
    - ❖ **Sponsor Support – Completion Guarantees**
    - ❖ **Bankable Feasibility Study**
    - ❖ **Environmental Impact Assessment Study including Human Rights**
    - ❖ **Environmental Management Plans**
    - ❖ **Resource Verification (Mining Project)**
    - ❖ **Infrastructure to and from the project**
    - ❖ **Raw Material supply to project**
    - ❖ **Off-takes from the project**
    - ❖ **Properly Structured Payment Mechanisms**
    - ❖ **Financial and Technical Viability**
    - ❖ **Technology Application (proven vs new)**
    - ❖ **Reputable South African Exporters (Performance Bonds)**
    - ❖ **Corporate Guarantees**

# Support Criteria (continue)

- **Investments**

- ❖ **New Investment**
- ❖ **Investment into an existing company or to be formed company**
- ❖ **At least 26% of paid up share capital with voting rights**
- ❖ **South African Reserve Bank approval**
- ❖ **Host Country Government approval**

- **Commercial Loans**

- ❖ **Provided by a South African registered Financial Services Provider**
- ❖ **Tied to South African Content**
- ❖ **Loan not to exceed South African contract price**

- **Performance Bonds**

- ❖ **Exporter must be registered in terms of Income Tax Act**
- ❖ **Exporter must have Financial & Technical means to execute order**

## Small & Medium Transactions

**Due diligence delineated as per qualifying criteria discussed**



# Claims Management & History

- **Excellent claims payment history**
- **Of all claims against the ECIC since inception, only two claims had issues:**
  - **Project in China where the financial institution did not honour its policy monitoring obligations – ECIC had a right to reject the claim in full, however negotiated a settlement instead**
  - **Investment insurance cover into DRC where claim was lodged due to commercial causes of loss – claim not honoured**

# Target Market

- **Project sponsors – National & International**
- **Buyers of capital goods & services – sovereign / private**
- **Manufacturers/exporters of capital goods**
- **Professional services providers**
- **Business entrepreneurs expanding into other countries**
- **Financial services providers**
- **Investors & Institutional investors**





# THANK YOU

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