



FOR KZN EXPORT WEEK

29 November 2022



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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, as amended:

- Is a 100% State owned insurance company;
- Reports to the Minister of Trade, Industry and Competition (“**the dtic**”); and has authority to conclude insurance contracts on behalf of the government of the Republic of South Africa;
- National Treasury raises a contingent liability for ECIC exposures in excess of its capital;
- Is regulated by the Prudential Authority, operating as part of the South African Reserve Bank (“**SARB**”) and the Financial Sector Conduct Authority (“**FSCA**”);
- Provides cover for South African Rand (“**ZAR**”), and United States dollar (“**USD**”) denominated transactions. Euro (“**EUR**”) denominated transactions are currently covered on a USD-equivalent basis



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ROLE OF THE ECIC

- ECIC is the official export credit agency of South Africa: the Minister of Trade, Industry and Competition may advance funds to ECIC to enable it to meet claims, if there is a shortfall in its balance sheet
- ECIC provides political and commercial risk insurance to facilitate export trade and cross border investments
- ECIC cover unlocks the availability of finance for the Buyers of South African exporters' goods and related services
- ECIC does not provide direct lending and therefore works in close collaboration with lending institutions – commercial banks, DFIs and institutional lenders
- In many cases, the financier is the holder of the ECIC policy of insurance. For supplier credit transactions, the exporter is the holder of the ECIC policy



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THE ECIC: UNDERWRITING PRINCIPLES

- Export credit transactions need to meet the minimum SA content requirements
- A minimum of 15% of the export contract value must be paid to the exporter by the buyer
- Only 85% of the export contract value is eligible for ECIC-backed finance
- Minimum credit repayment period of 2 years – (*minimum tenor not applicable to working capital and bond products*)
- Important criteria is the creditworthiness of the Buyer (Sovereign or Corporate) or the robustness of the cash flows for a Project Finance transaction.
- Eligible investments must be made through a South African-registered entity
- Up to 15-year tenor for investments can be considered
- The ECIC charges a premium for the cover it provides; and for some products, assessment fees will apply



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THE ECIC: UNDERWRITING PRINCIPLES (CONT.)

The premium is based on:

- Country risk rating: where the project is located;
- Tenor of cover: Weighted Average Loan Life;
- Credit rating of the counterparty;
- Scope of cover: e.g. PRI and CRI events;
- Level of cover: e.g. 100% PRI and/or 95% CRI

- Premium is either payable up front; or on an annualized basis; or per draw; and is
- Separate from the interest rate which is paid on the loan.

The lender passes the premium cost to the Buyer (recoups the premium)



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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 comply with the Equator Principles

Sustainable Lending

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



BENEFITS TO THE EXPORTER

- ECIC issues letters of interest to support exporters bidding for international contracts
- ECIC provides insurance to the bank who issues the bid bond or the advance payment guarantee or performance guarantee – up to 90%
- ECIC insures working capital facilities issued to the exporter – linked to an export contract – this was initially directed at boatbuilders and now is extended to other sectors
- In cases where the exporter extends Supplier's Credit to the buyer (2 year repayment tenor or more) – ECIC can cover the exporter directly
- The exporter may discount/cede the ECIC policy to the bank to unlock its balance sheet and improve its working capital position
- The exporter must still receive 15% down payment from the buyer



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BENEFITS TO THE BANK

- Through comprehensive insurance cover - there is risk mitigation (reduction of the net exposure, in the event of loss)
- Under Basel III commercial banks are able to obtain capital relief for the covered exposures.
- These benefits/risk transfer should result in a lower margin that is charged to the borrower
- PRI – 100% and CRI – typically, 95%
- For transactions – USD20m and below: ECIC may provide up to 100% for PRI and CRI



CONTENT REQUIREMENTS

70% South African content required for export credit transactions.

For projects in Africa: minimum 50% South Africa local content and up to 20% from the Host country or any other African country. SA content is measured on loan value supported by ECIC.

For projects outside of Africa, minimum is 70% South African content

SA Content definition:

- Materials less imported components
- Wages & salaries (paid in South Africa)
- Freight costs (paid in South Africa)
- Insurance premiums (paid in South Africa) including the ECIC premium
- Finance charges – upfront fees (excluding post delivery finance charges ie. interest payments of the bank's export credit loan)
- Fees and charges paid for any other services performed in South Africa on the exporters' behalf by a South African resident organization
- Fees and profits accruing to the exporter



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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 (100% for export credit)

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

COMMERCIAL RISK EVENTS (95% private borrowers) (100% public borrowers)

- Insolvency of the foreign borrower;
- Protracted/Payment default by the foreign borrower.



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SECTORS AND COUNTERPARTIES SUPPORTED

ECIC insurance can be harnessed right across the capital **spectrum**, from equity to long-term senior debt, for sovereign, corporate and project finance special purpose borrowers. It can also be used for short-term working capital finance linked to export transactions.

The ECIC supports transactions across a broad range of sectors, including but not limited to:-

- Mining
- Gas
- Power
- Infrastructure - Ports / Railways / Pipelines/Water etc.
- Hospitality
- Boat-building
- Industrial Plants and equipment
- Telecommunications
- Agri- and agri-processing etc.

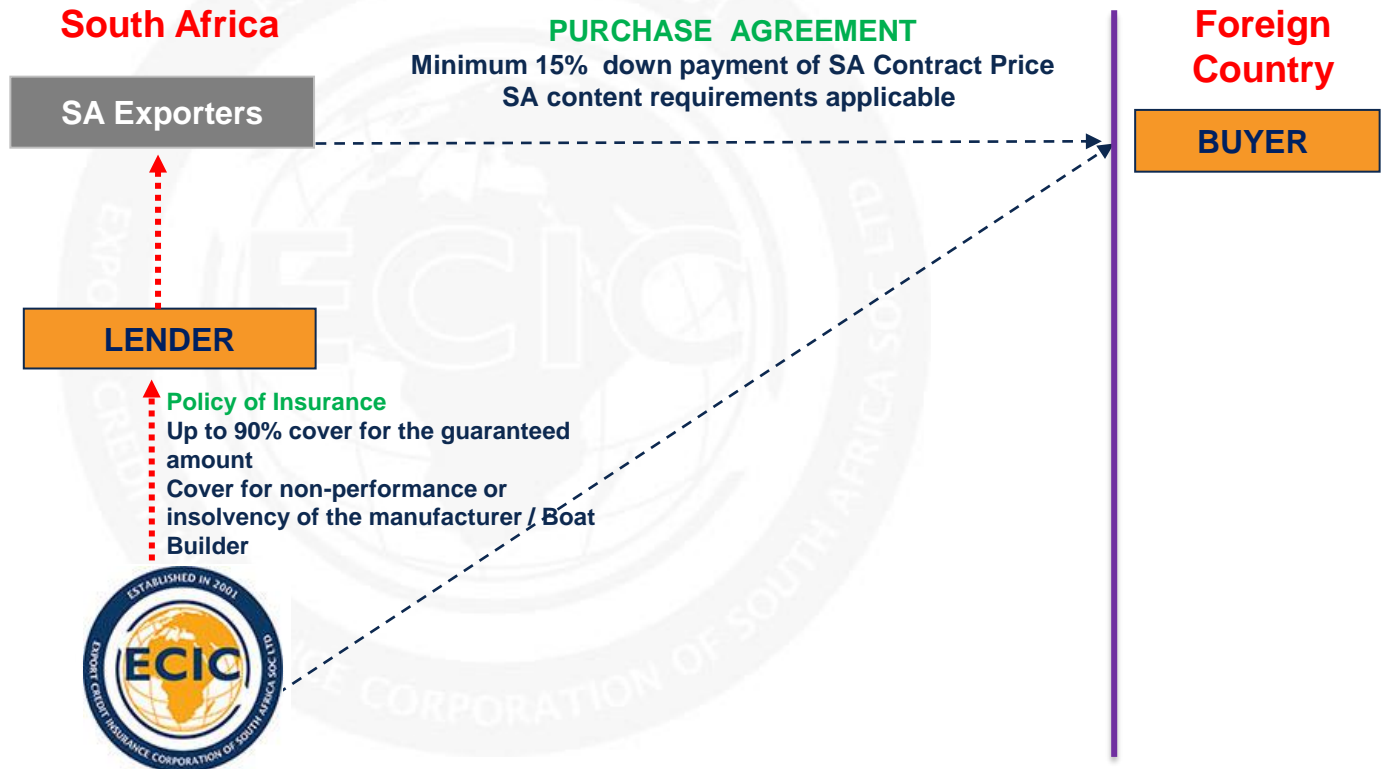


ECIC PRODUCTS (WORKING CAPITAL)

WORKING CAPITAL INSURANCE COVER

- This insurance cover is offered by the ECIC to the financial institution that has provided working capital to the manufacturer to assist with the manufacture of the machinery or equipment linked to an export contract.
- If the application is accompanied by an export credit insurance application, normal ECIC SA content rules will apply to the export credit insurance application

STRUCTURE



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ECIC PRODUCTS (SUPPLIERS CREDIT)

SUPPLIERS CREDIT (Post Delivery)

- Exporter offers credit to foreign buyer
- Cover at 100% PRI and 85% CRI of amount outstanding in terms of the credit agreement (Amount outstanding ≤ up to 95% of contract price).
- Caters for transactions ranging from USD1m - USD20m.
- Maximum tenor 5 years
- ECIC policy can be ceded to a lender

STRUCTURE

South Africa



Cover for credit default by the Buyer

Exporter's Cover

- # up to 95% CRI
- # 100% PRI

Required Content

- # 70% Content (50% SA Content and 20% African Content for Projects in Africa)

SA EXPORTER(S)

Foreign Country

BUYER

EXPORT CONTRACT

Export
Capital Goods/Services

Payment Terms:
15% Down Payment
85% Financial Credit

Delivery Period:
36 Months (Max)



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ECIC PRODUCTS (SMALL AND MEDIUM TRANSACTIONS)

SMALL MEDIUM TRANSACTIONS PROGRAM

Funding parameters & Advantages

- This is a **corporate loan facility** (financial statement analysis) for export contracts with a value of US\$20m or less.
- The repayment tenor is 5yrs or less (door to door)
- ECIC provides 100% Political Risk Insurance cover and 100% Commercial Risk Insurance Cover.
- Quicker approval process than typical for the ECIC, e.g. for project finance
- Simpler documentation with favourable terms eg. (shorter waiting periods)
- Less security required

BORROWER EVALUATION CRITERIA

Exposure Level: Less than USD 1 Million

- Two favourable trade references of similar amounts for the past two years from the date of application;
- A favourable credit report; Buyer/borrower in same line of business for at least two years;
- No material adverse issues; and
- Management Accounts with positive operating and net profit in the past fiscal year

Exposure Level: > USD 1 Million - USD 5 Million

- Two favourable trade references of similar amounts for the past 3 years as from date of application;
- A favorable bank report not older than 12 months;
- A favourable credit report;
- Buyer's/borrower's audited financial statements with notes to the financial statements for the last two fiscal years;
- No material adverse issues;
- Buyer/borrower in same line of business for at least 2 years; and
- Positive operating and net profit in the past fiscal year.

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

Exposure Level: USD 10 Million - USD 20 Million Criteria

- 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 does not exceed 50% of tangible net worth at the end of the preceding fiscal year; and
- Buyer/borrower in same line of business for at least three years.

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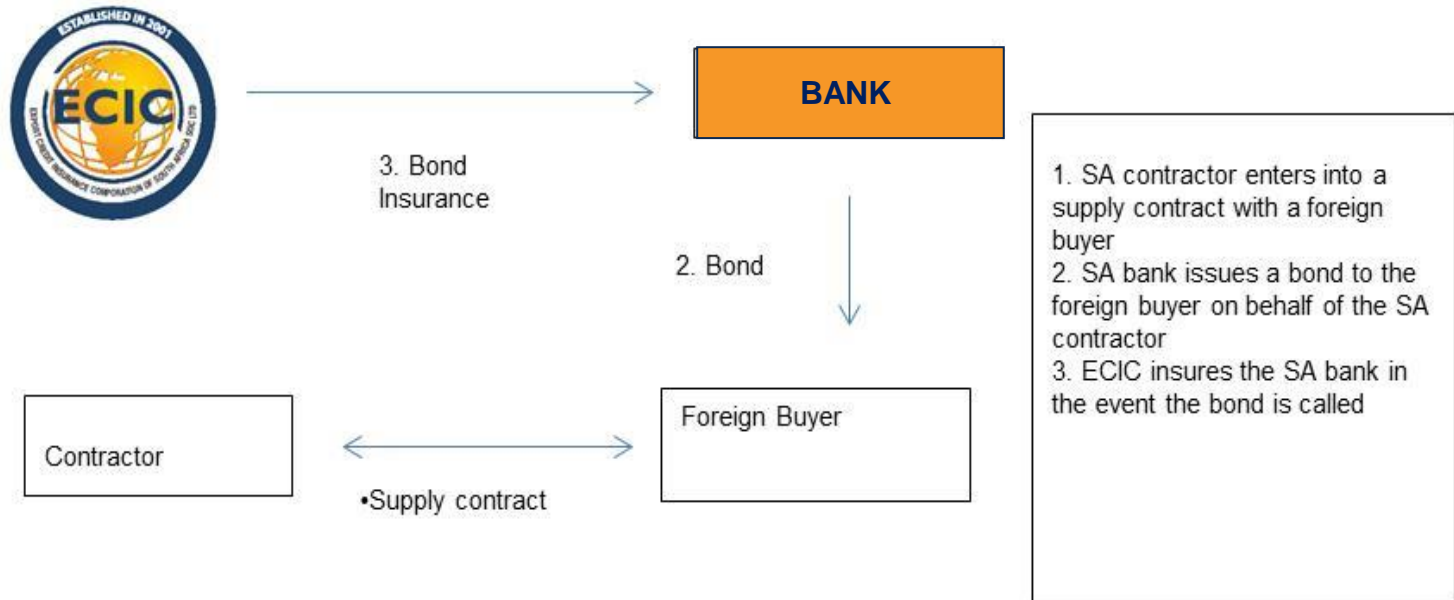


ECIC PRODUCTS (BOND INSURANCE)

BOND INSURANCE Requirements

- There is no restriction on the credit term; the term of the bond should be linked to the underlying export contract.
- If the application is accompanied by an export credit insurance application, normal ECIC SA content rules will apply to the export credit insurance application
- If the contractor and their bank decide not to take out an export credit insurance policy, then no 50% SA content required on the bond

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ECIC PRODUCTS (BUYERS CREDIT)

BUYERS CREDIT

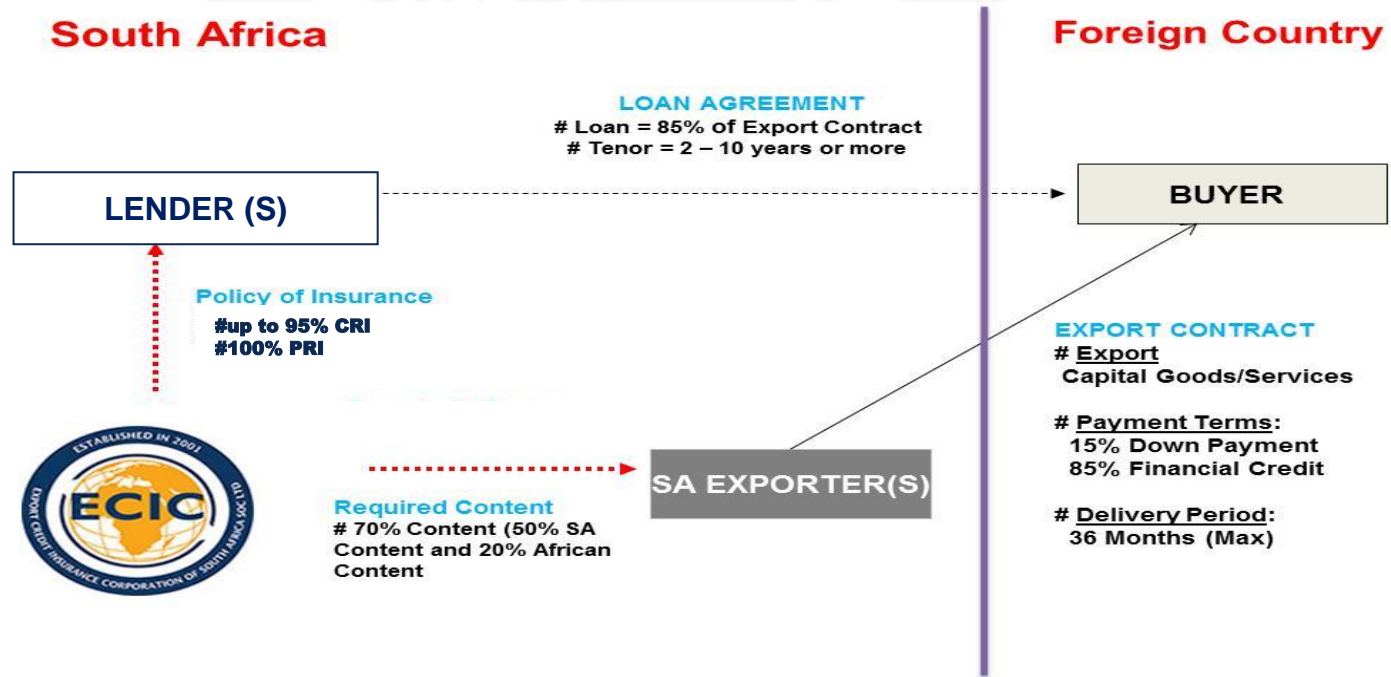
Financial Credit

- South African Financial institution becomes involved as a lender
- Proceeds of loan paid to exporter
- Foreign buyer (corporate or sovereign) undertakes to repay loan
- Cover up to 100% PRI and up to 95% CRI of the loan

Project Finance structure

- Export credit loan repaid from cash flows generated by the project that have been financed.
- Cover up to 100% PRI and 95% CRI of the loan. (Loan shall not exceed 85% of South African contract price).

STRUCTURE



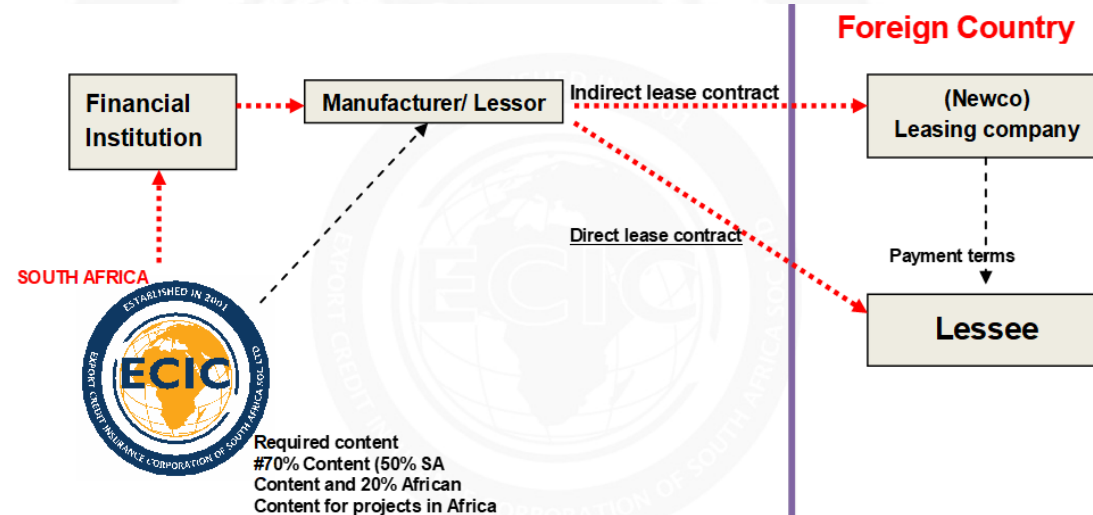
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ECIC PRODUCTS: (LEASE AND RETURN OF EQUIPMENT)

Lease and Return of Equipment insurance

- The Manufacturer/ Lessor enters into a leasing contract with a lessee
- The Manufacturer / lessor is covered by ECIC
- Cover is up to 100% (PRI) and up to 95% CRI of the contractual rentals,
- When the equipment are financed by a FI, ECIC can cover directly the FI
- The leasing company can be a Newco (even registered in other jurisdiction)

Structure



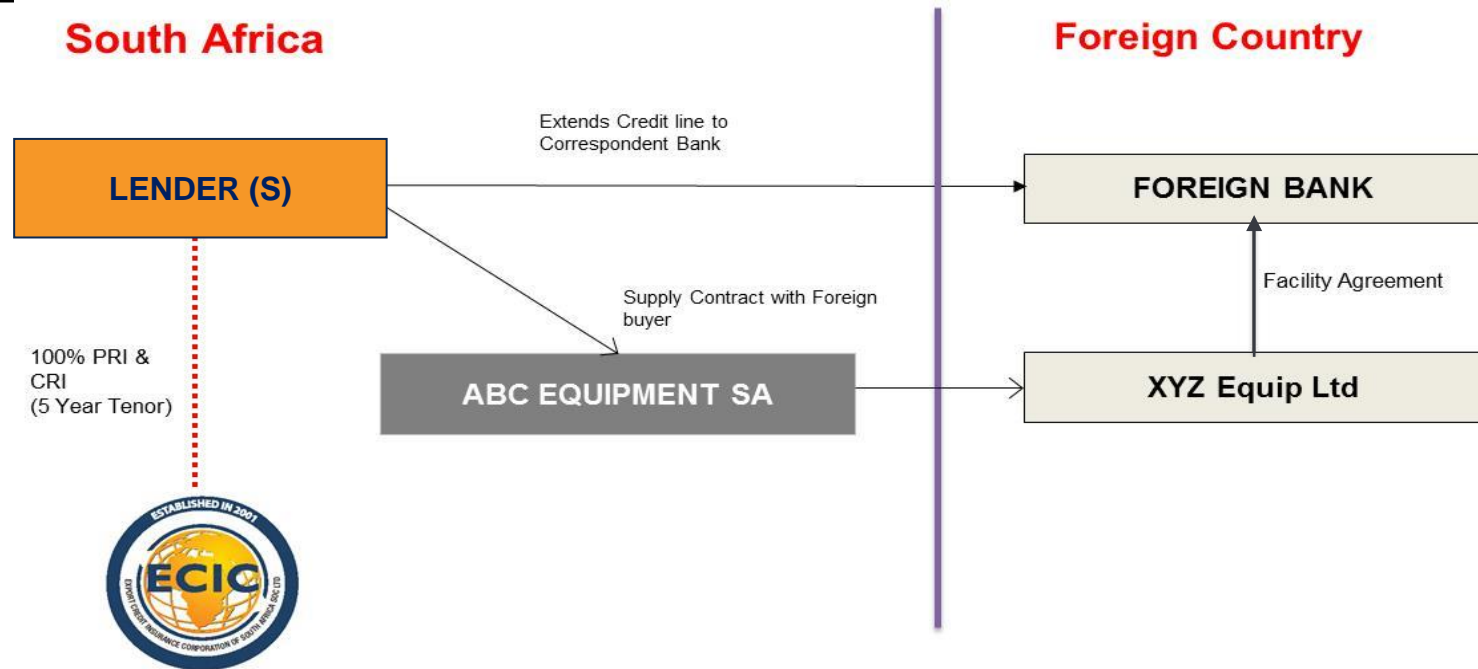
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ECIC PRODUCTS: (CREDIT LINE)

CREDIT LINE

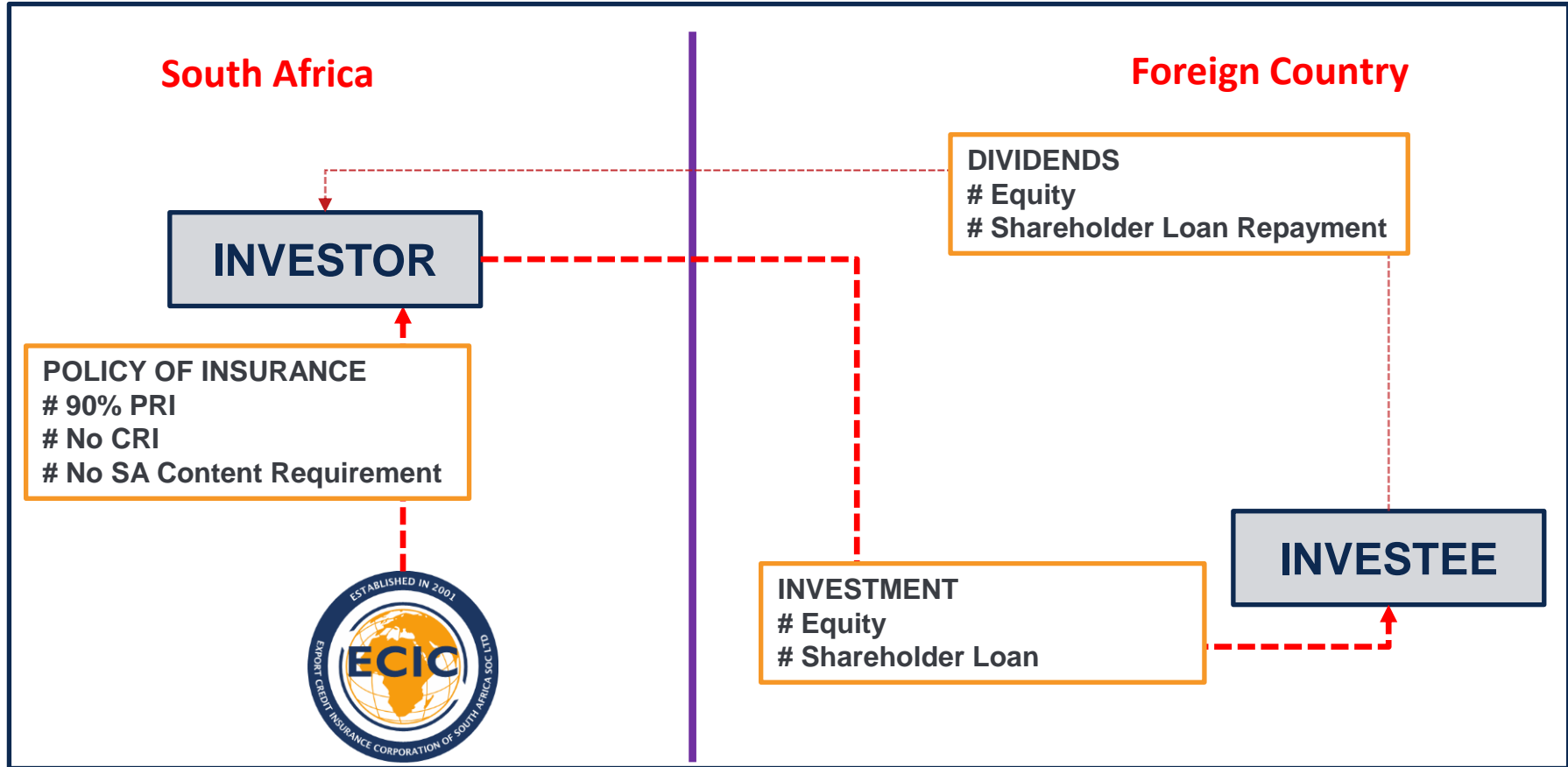
- Financial facility between a SA bank and a foreign financial institution (central bank, commercial bank, merchant bank, building society, savings bank), which in turn, will on-lend to its respective clients;
- 15% down payment
- The payment default is placed on the foreign bank since it is the borrower of record;
- The maximum credit amount is USD20 million;
- The recommended upper limit of the credit period is 5 years;
- Insurance cover: 100% cover for both PRI and CRI;

STRUCTURE



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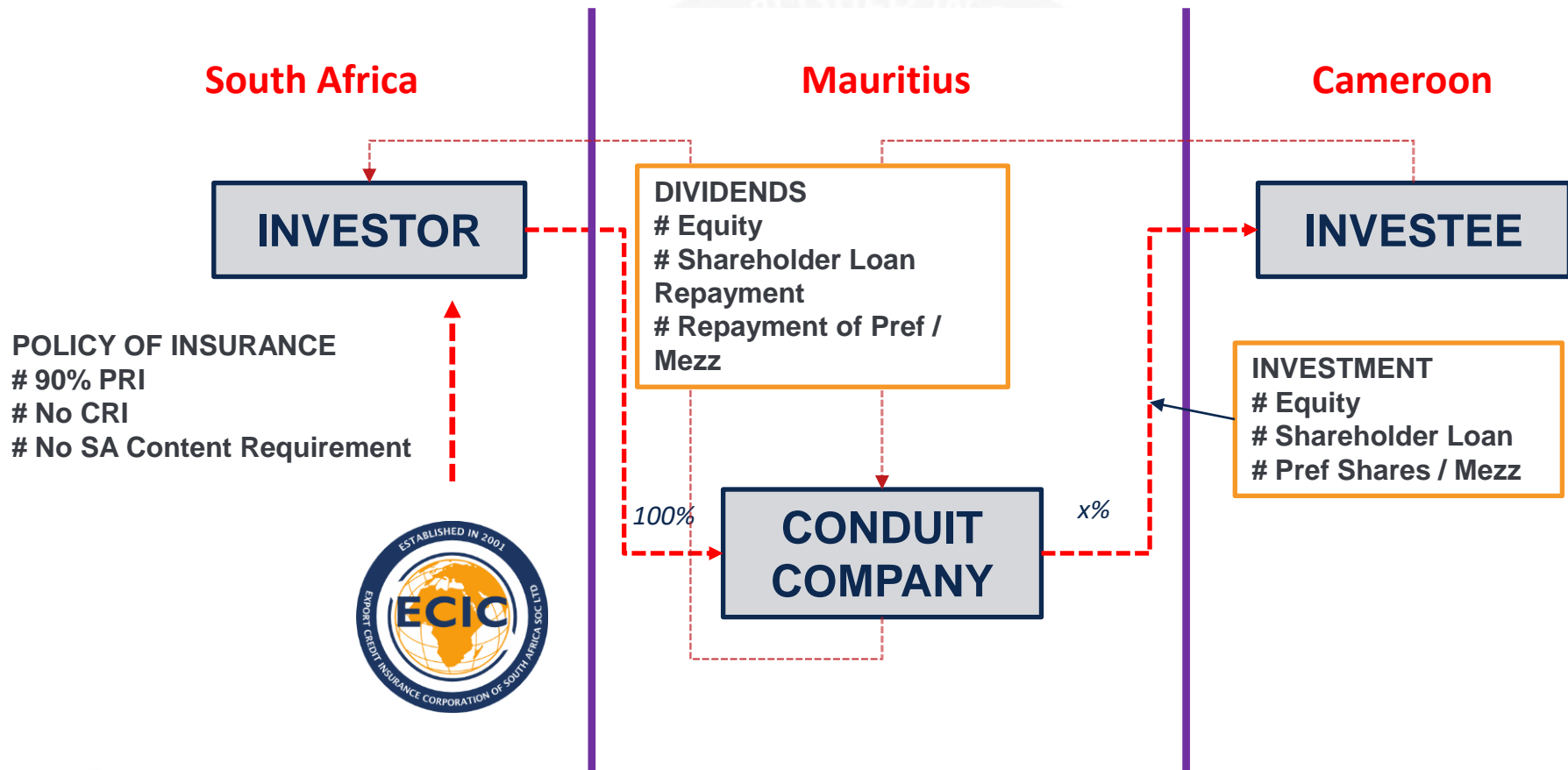
INVESTMENT COVER STRUCTURE



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INVESTMENT COVER STRUCTURE - CONDUIT

ECIC is able to provide insurance cover to South African registered investors who utilise Mauritius, for example, as a conduit to the final investment destination country. Below is an example of Cameroon, which ECIC is able to cover under the structure already implemented by a few clients.



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APPLICATION SUPPORTING DOCUMENTATION

Depending on the nature of the transaction, preliminary information required for assessment may include, but not limited to the following:

Corporate

- Information Memorandum or Business Case
- Company Profile and Ownership Structure
- Board and Management Profiles of the Exporter and Buyer
- 3 years most recent financial statements and cash flow projections, as may be applicable
- Trade References, where applicable

Project Finance

- Information Memorandum
- Details of the Sponsor (Track record in developing similar projects, Equity contribution, Completion arrangements/contingencies)
- Financial Model, Technical, Environmental, Social, Market studies, off-take agreements, etc.
- Project related agreements, concessions, licences, etc.
- Details of the lenders and the term sheet etc.

Investment

- Information Memorandum (including Shareholding structure)
- Due diligence reports (Technical, Legal, Environmental, etc.)
- Method of valuation for the investment, investment philosophy and exit strategy
- Shareholder and Subscription Agreement(s)
- KYC requirements, anti-money laundering and prohibition of financing of terrorism



WAITING PERIODS

The ECIC incorporates waiting periods in the export credit insurance policy during which the lender must attempt to collect outstanding payments making a claim on the ECIC policy of insurance.

Equity Investments & Shareholder Loans:

- Waiting periods – typically 180 days but may go up to 365 days for certain Political Causes of Loss/Insured risk events.

For Corporate and Project finance loans:

- Waiting periods are 180 days for all Political Causes of Loss; except
- Breach of Contract which is 365 days (subject to arbitration)
- Waiting periods are 180 days for all Commercial Causes of Loss.

For Small Medium Transactions (SMTs) – USD20m and below:

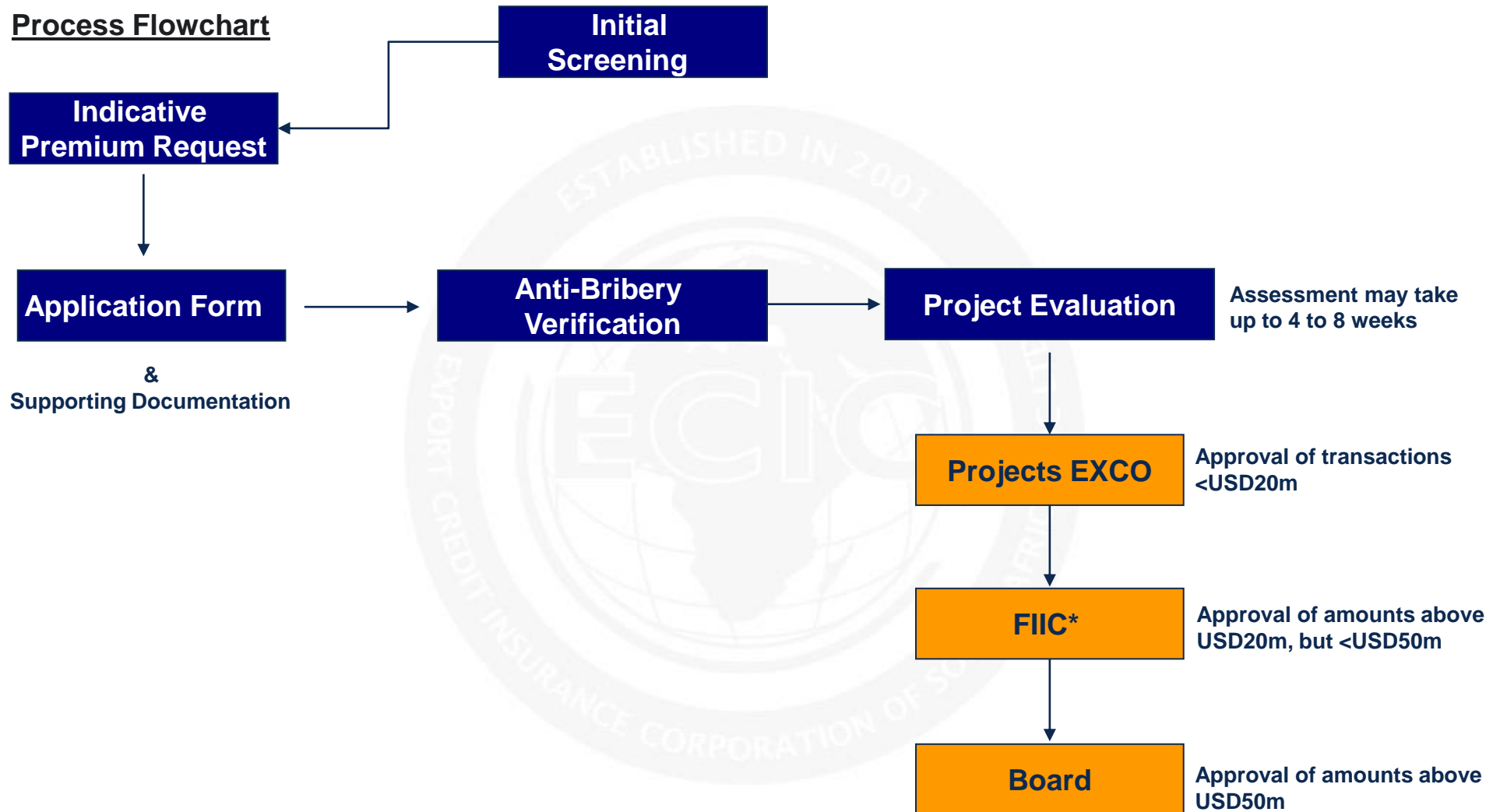
- Waiting periods are shorter – 90 days for all causes of loss.



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APPROVAL PROCESS

Process Flowchart



* Financial Investment and Insurance Committee

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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.
- South Africa has strong political and economic ties on the African continent and with other emerging markets and these have been reinforced through bilateral relations.
- The ECIC has been instrumental in supporting a wide variety of transactions across many sectors of the economy with a successful track record spanning over a 21-year period.
- The ECIC utilises waiting periods to conduct advocacy work during the pre-claim phase in transactions to avert potential claims.
- When all else has failed, ECIC can be counted upon to pay the claim for losses caused by the covered political and commercial risk events.



BUSINESS DEVELOPMENT TEAM CONTACT DETAILS



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