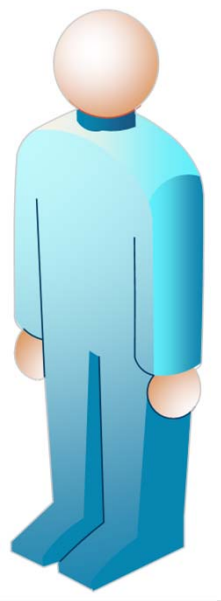
ECA Finance Training

Online course

Our objectives

- Gain core and in-depth understanding of export credit agency (ECA) finance
- Learn about products and policies of different ECAs
- Discuss the industry with a group of peers and experts
- Tailor the discussion to your needs, whether you are a lender, a borrower, an exporter, an ECA, or a consultant
- Address your specific questions, concerns, and circumstances



Take notes
Ask questions
Challenge us

Glossary

Term	Definition
CIRR	Commercial interest reference rates
Cover	Insurance or guarantee extended by an ECA to a commercial bank
ECA	Export Credit Agency
EPC	Engineering, procurement, and construction contractor
IMF	International Monetary Fund
MoF	Ministry of Finance
O&M	Operations and maintenance contractor
OECD	Organisation for Economic Co-operation and Development
PPA	Power purchase agreement
PSOR	Primary source of repayment
SME	Small or medium enterprise
SPV	Special purpose vehicle

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MODULE 1

Introduction to ECAs

1 What is an ECA?

Export credit agencies (ECAs) finance the export of goods and services from their countries

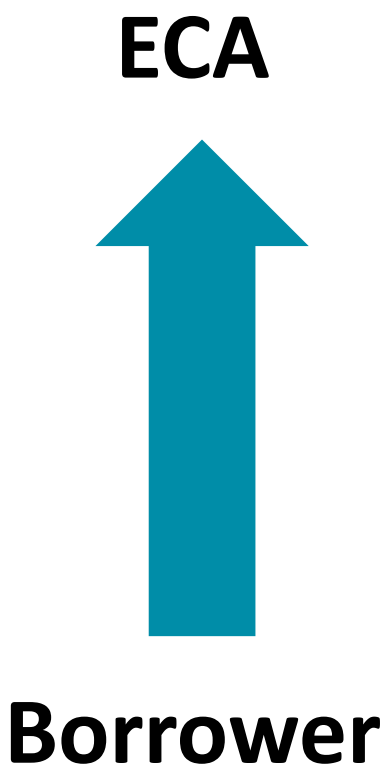
1 Objectives for today

- What are ECAs?
- What do they do and why?
- How is ECA financing different from commercial financing?
- What is the OECD arrangement on export credits?
- How does the arrangement limit what ECAs can do?

1 What is an ECA?

- Government (or government-sponsored) institution that offers financing tied to exports
- Provides financing when commercial banks are unable or unwilling due to market conditions
- Goods and services are eligible for financing
- Amount of financing supported is a combination of eligible costs
- ECAs assume political and commercial risks
- ECAs have strict rules

1 ECA finance is a tremendous credit enhancement



The credit enhancement provided by the ECA makes financing:

- Possible
- Longer tenor
- Lower cost

1 Case study: Aircraft financing

- Foreign airline wants to order Airbus aircraft to meet growing market

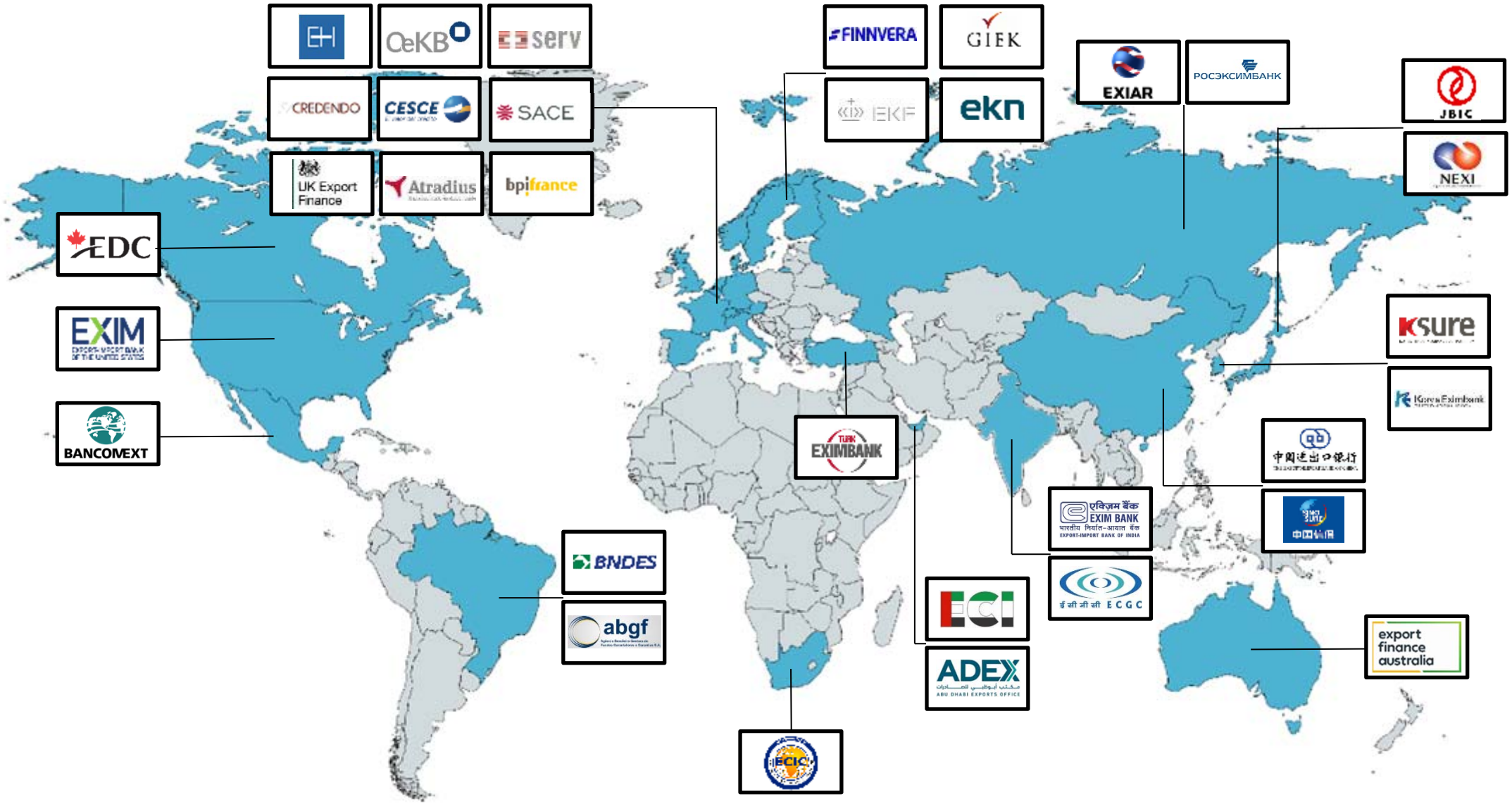
- Without ECAs
  - Best commercial financing is 7-year loan at 10% interest
  - At these terms, aircraft purchase is uneconomical
  - Airline doesn't order aircraft, Airbus does not make sale, and lays off employees

- With ECAs
  - UKEF offers 12-year financing at 8% interest rate
  - Aircraft purchase is economically attractive
  - Airline orders aircraft, Airbus employs workers fulfill order

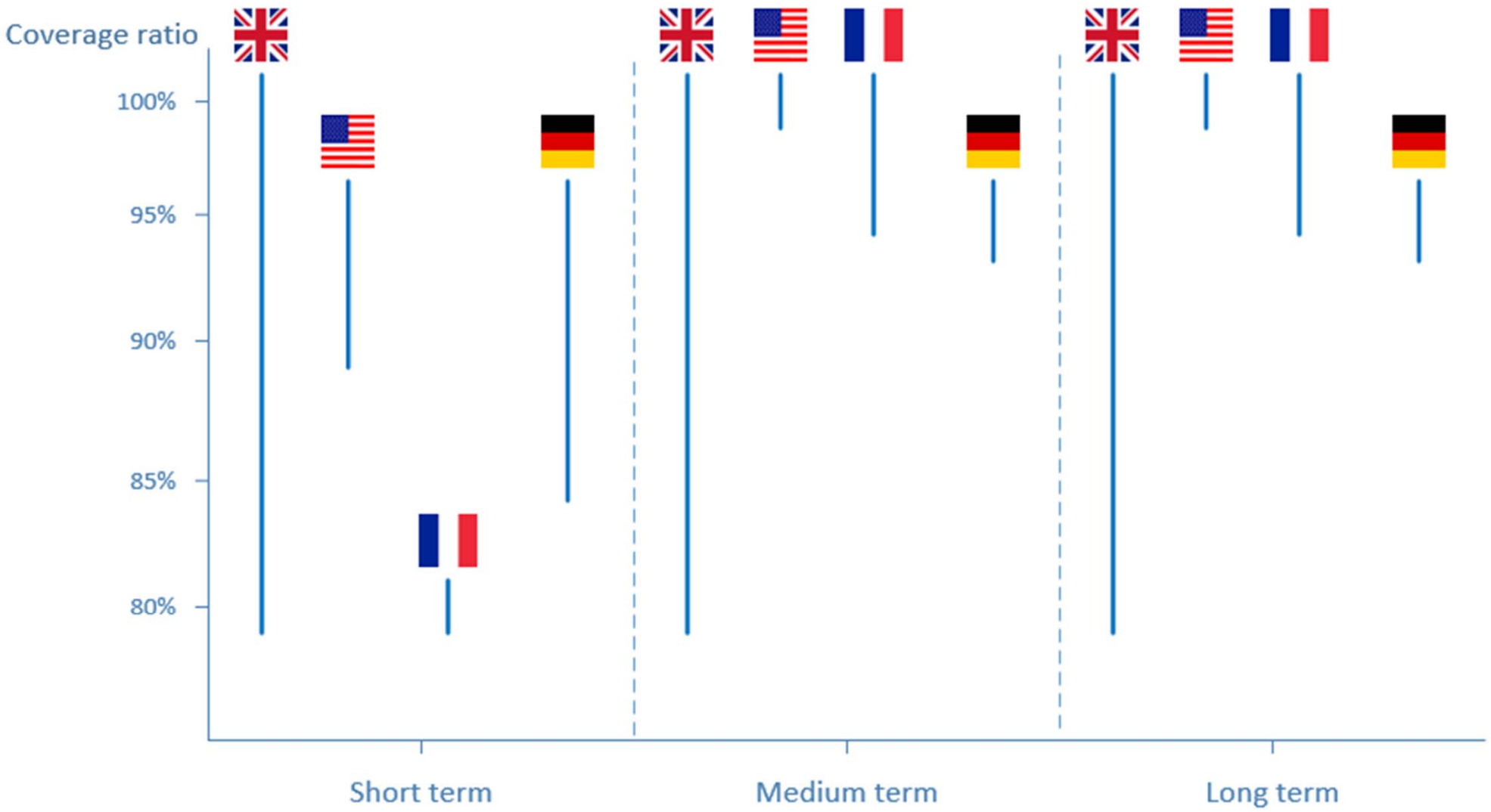
1 ECAs have rules

- ECAs require specific information about the procurement being financed
  - What is being sold?
  - Who sells it?
  - Where is it made?
  - How is it shipped?
  - How is it invoiced?
- Borrowers and exporters each make certifications to prove the export trade
- Suppliers are key to a successful ECA financing
- Borrowers are ultimately responsible for compliance
- Start early to define your ECA obligations
- And live your ECA plan through final disbursement

1 ECAs around the world



1 Wide variety of ECA products, terms, and cover



1 ECAs offer a variety of products

- Buyer credit
  - Buyer is counterparty to the ECA
  - Products: Insurance, guarantees, and direct loans
  - Term: Short, medium, and long
  - Financing modalities: Sovereign, corporate, and project financings

- Supplier credit
  - Exporter is the counterparty to the ECA
  - Products: Insurance of receivables, working capital loans, and performance insurance
  - Term: Short

1 Who offers what?

Guarantee or insurance



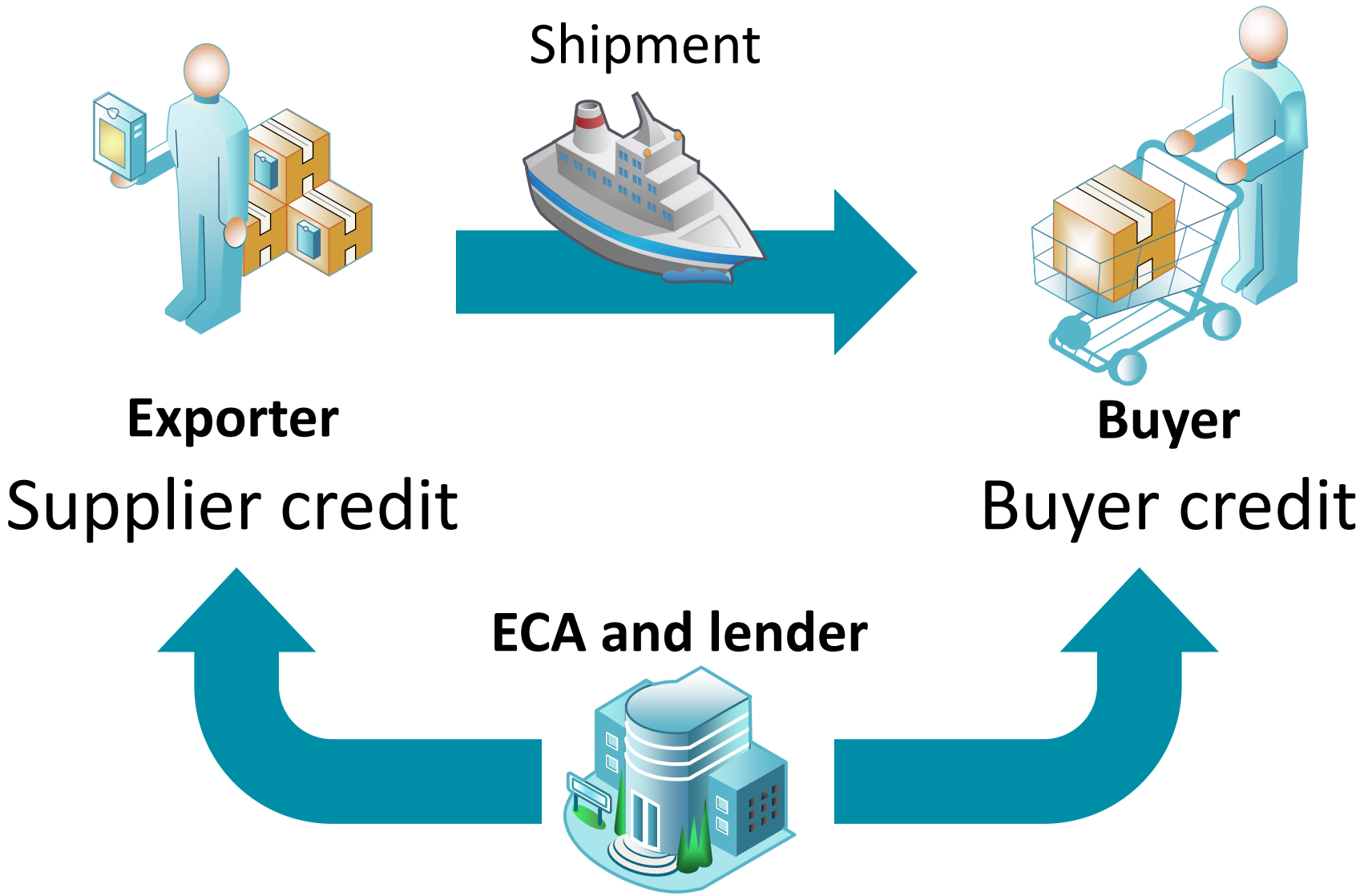
Guarantee and direct loan from the same agency



Insurance and direct loan from two different agencies

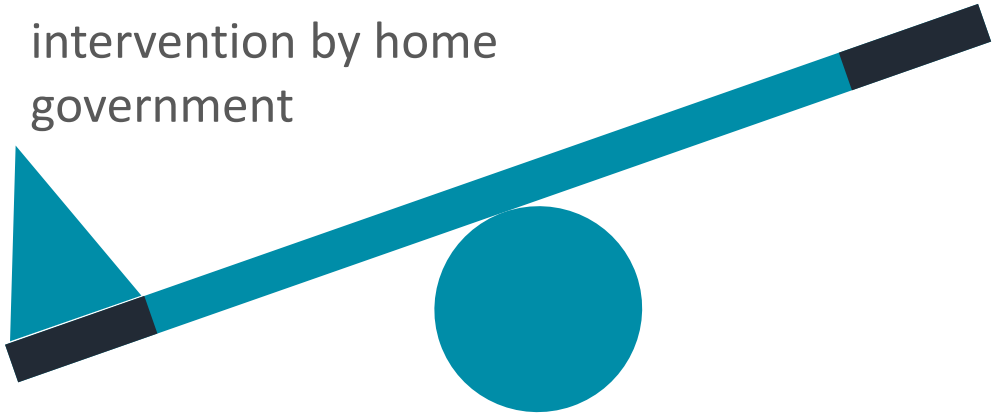


1 ECA main products

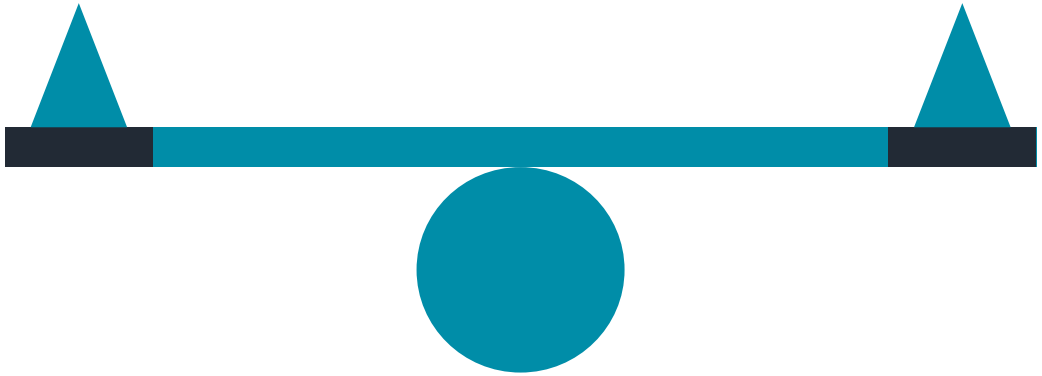


1 The OECD

Uneven competition due to concessional intervention by home government



Aims to establish common rules among members countries to achieve balanced competition



1 The OECD – A level playing field

OECD

1 OECD – The Export Credits Arrangement

- Formed in 1978
- Framework for the orderly use of officially supported export credits
- Encourage competition among exporters based on quality and price of goods and services exported rather than on home country government's concessional financing terms Subset of OECD as of 1978
- Changes made annually; updated October 1, 2017
- http://www.oecd.org/trade/xcred/theexportcreditsarrangementtext.htm

1 OECD policies among major ECAs

Common policies:

- Minimum down payment
- Local cost coverage
- Minimum pricing (CIRR)
- Country limitations
- Repayment tenors
- Environmental compliance
- Value for money

Disparate policies:

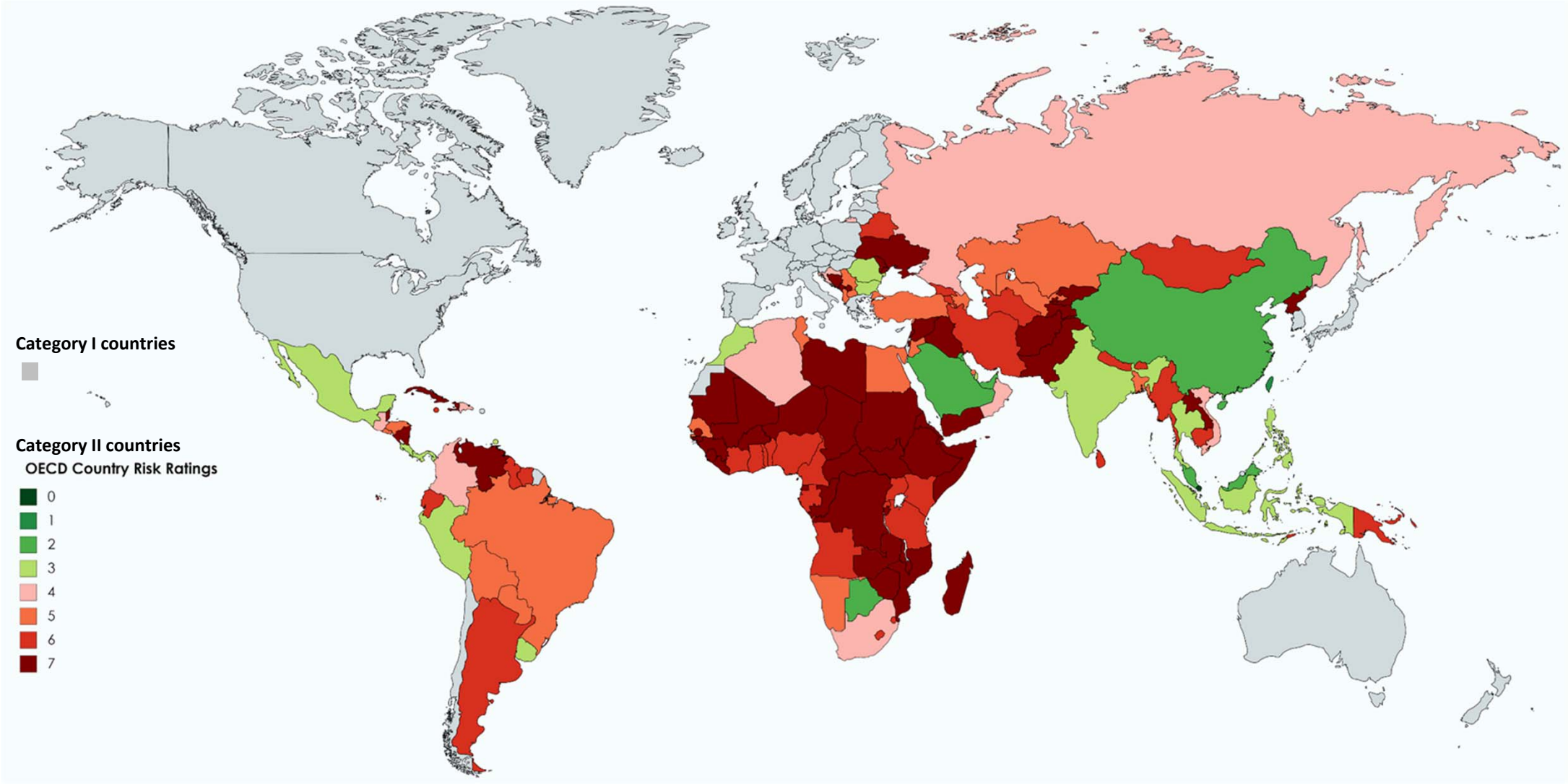
- Eligible foreign content
- Eligibility of past procurement
- Coverage of guarantees and insurance
- Direct loans
- Application requirements
- Disbursement processes
- Specific lending policies

1 The OECD classifies country risk

1 Country risk categories

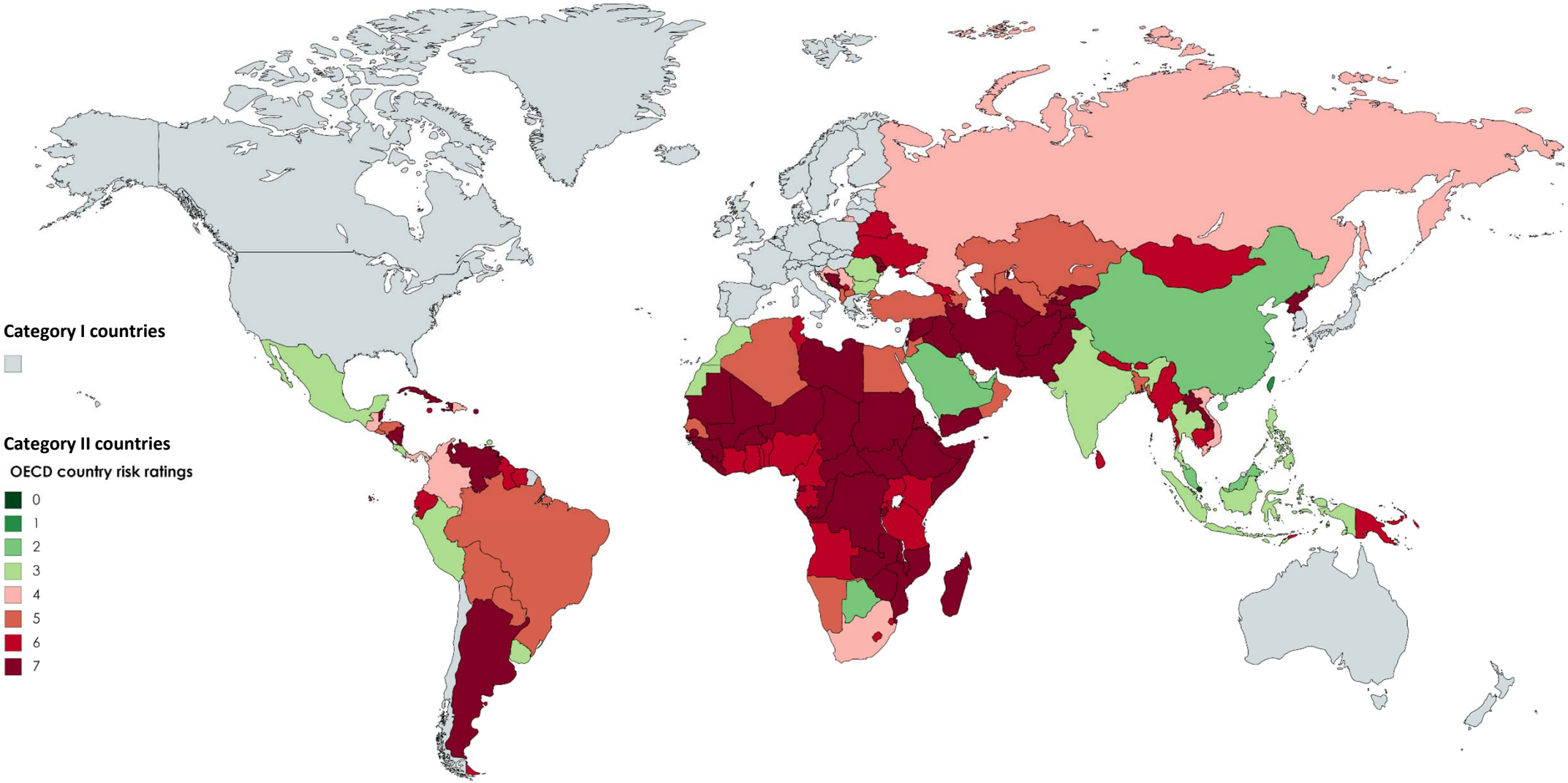
- OECD country risk categories from 0 (lowest risk) to 7 (highest risk)
- Country risk assessments done by OECD at least annually or as events dictate
- Sets minimum exposure rates
- Limits maximum repayment for standard exports
  - High income countries (Categories 0 and 1) up to 5 years (exceptionally up to 8.5 years)
  - All other countries limited to 10 years
  - Non-nuclear power plants up to 12 years
- Concept of additionality – demonstrate ECA is needed for financing to occur

1 OECD country risk categories – 2019



Ratings as of June 28, 2019

1 OECD country risk categories – Latest



Ratings as of January 31, 2020

1 Country risk categories – Sample list

0	Singapore
1	Taiwan
2	China, Hong Kong, Saudi Arabia, United Arab Emirates
3	Bulgaria, India, Indonesia, Mexico, Qatar, Romania
4	Aruba, Colombia, Russia, Serbia ▲, South Africa, Vietnam
5	Albania, Algeria ▼, Bahrain, Egypt, Kazakhstan, Namibia, Oman ▼
6	Argentina, Côte d'Ivoire, Kosovo ▲, Mongolia, Tunisia ▼, Ukraine ▲
7	Afghanistan, Ethiopia, Iran ▼, Pakistan, Venezuela, Turkmenistan ▼

http://www.oecd.org/trade/topics/export-credits/documents/cre-crc-current-english.pdf

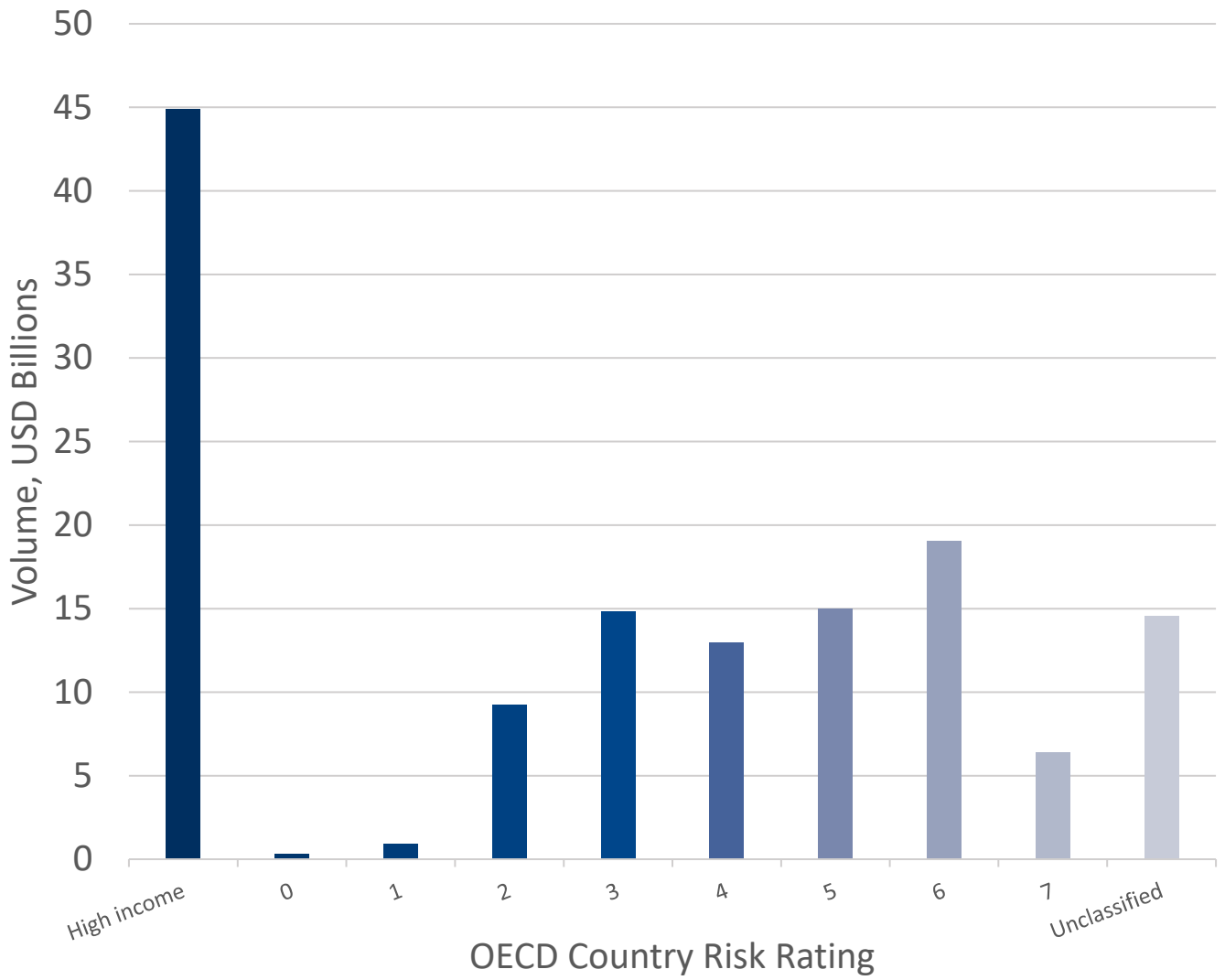
1 ECIC Country Limitation Schedule Non-OECD

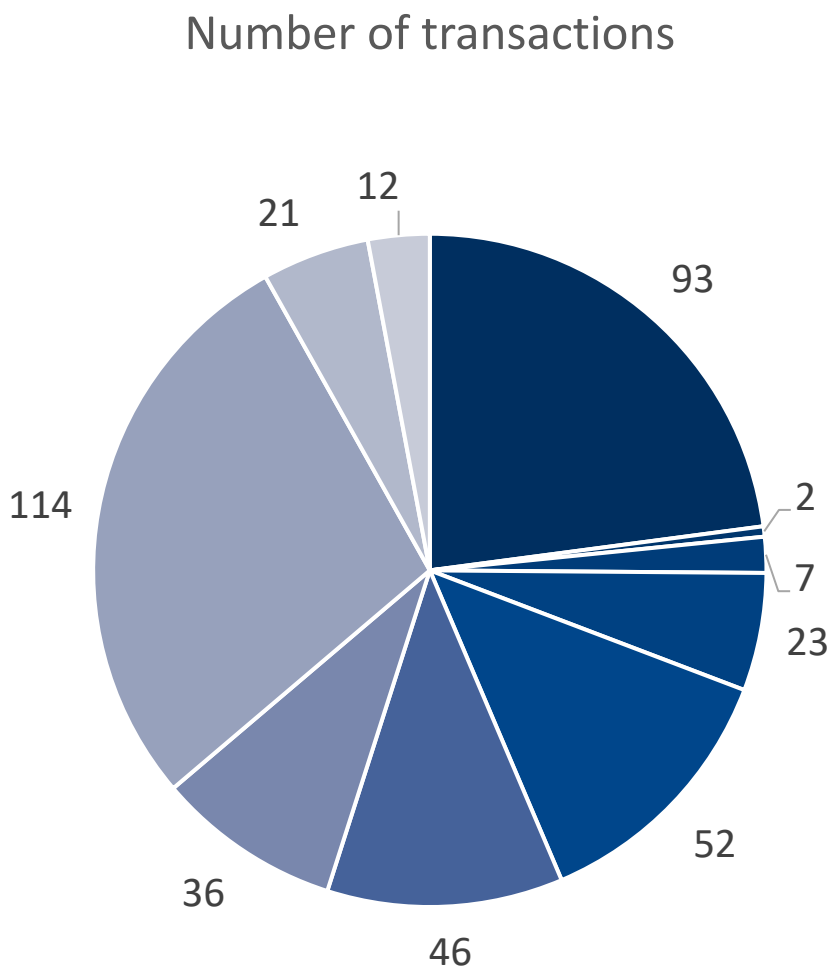
Country Name	OECD Country Risk Rating	ECIC Country Risk Rating
Angola	6	5
Benin	6	5
Botswana	2	2
Burkina Faso	7	6
Cameroon	6	6
Chad	7	7
China (PRC)	2	2
Congo	7	6
Côte d'Ivoire	6	5
Democratic Republic of the Congo	7	6
Equatorial Guinea	7	6
Eritrea	7	6
Eswatini	6	5
Ethiopia	7	6
Gabon	6	4
Ghana	6	4
Indonesia	3	4
Iran	7	5
Kenya	6	5

Country Name	OECD Country Risk Rating	ECIC Country Risk Rating
Lesotho	6	5
Liberia	7	6
Madagascar	7	6
Malawi	7	5
Mali	7	7
Mauritius	3	3
Mozambique	7	5
Namibia	5	3
Nigeria	6	6
Rwanda	6	5
Senegal	5	5
Sierra Leone	7	6
Sudan	7	7
Tanzania	6	5
Turkey	5	5
Uganda	6	6
Zambia	7	5
Zimbabwe	7	7

Ratings as of January 31, 2020

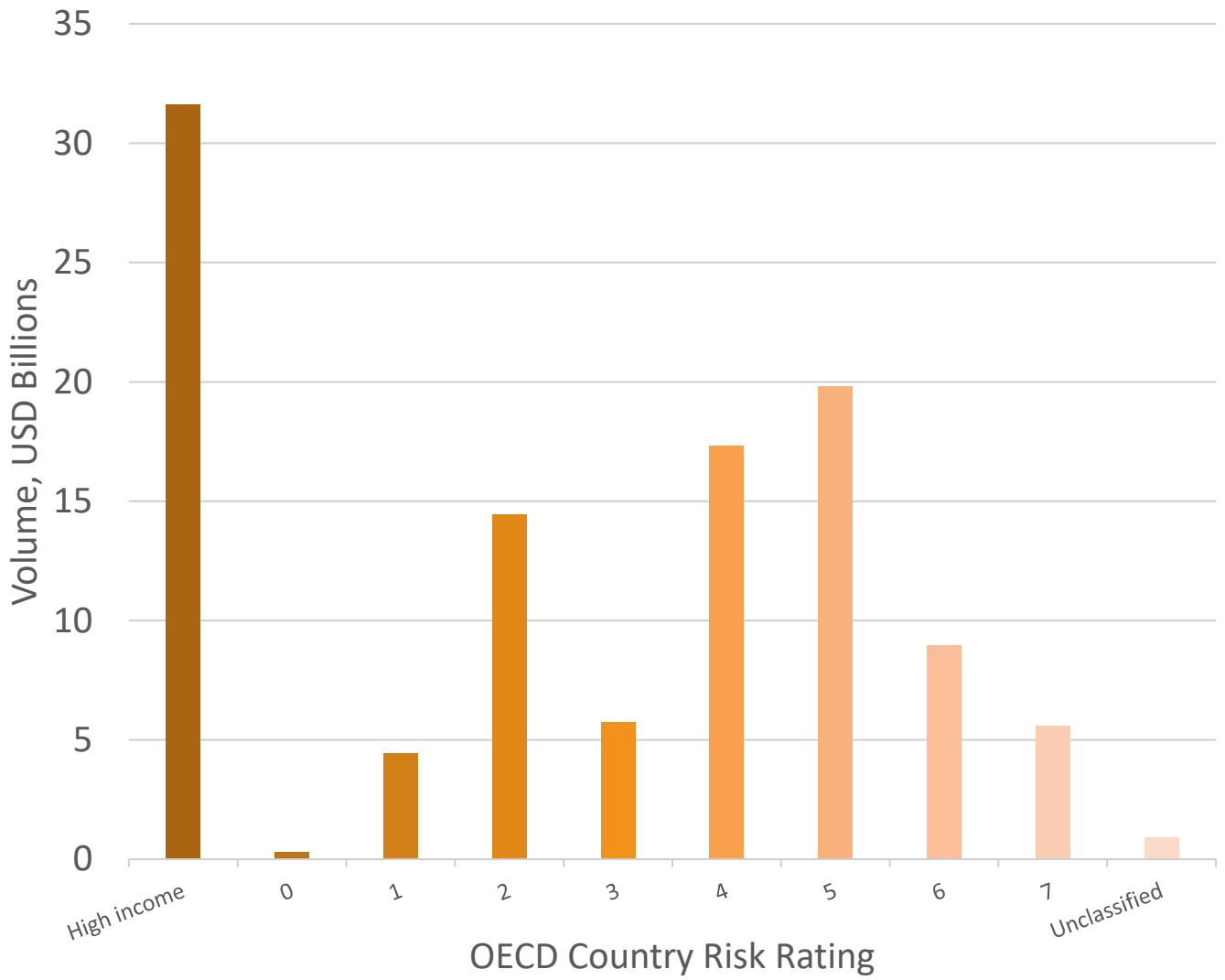
1 ECA financing by country risk ratings: 2018

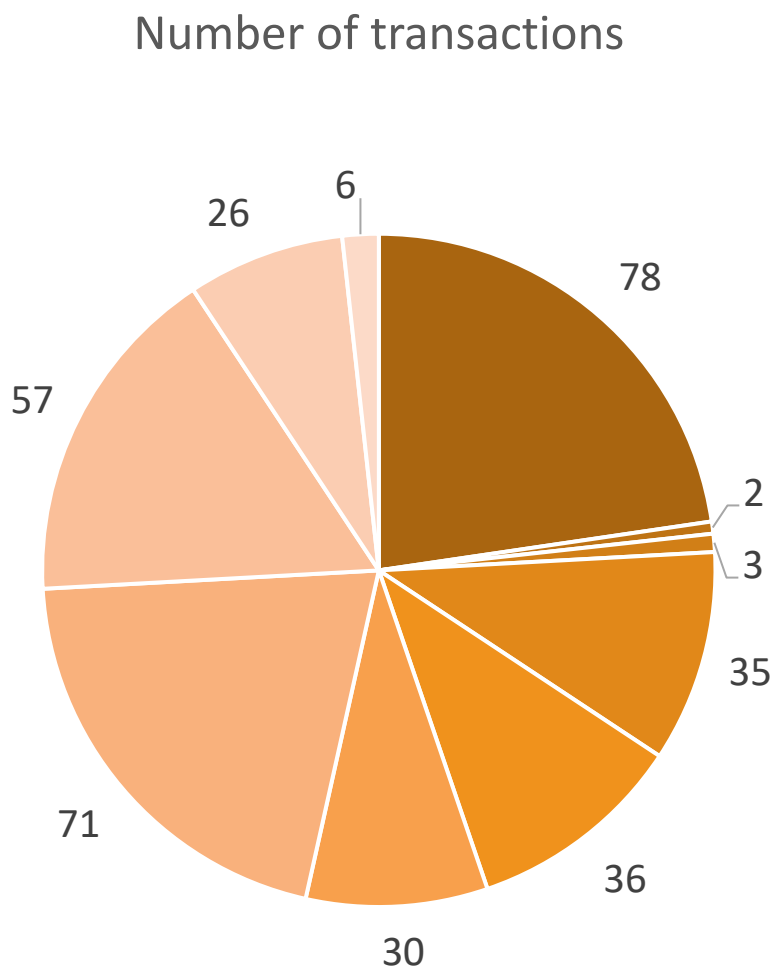




ECA long-term transactions.
Source: TXF Media

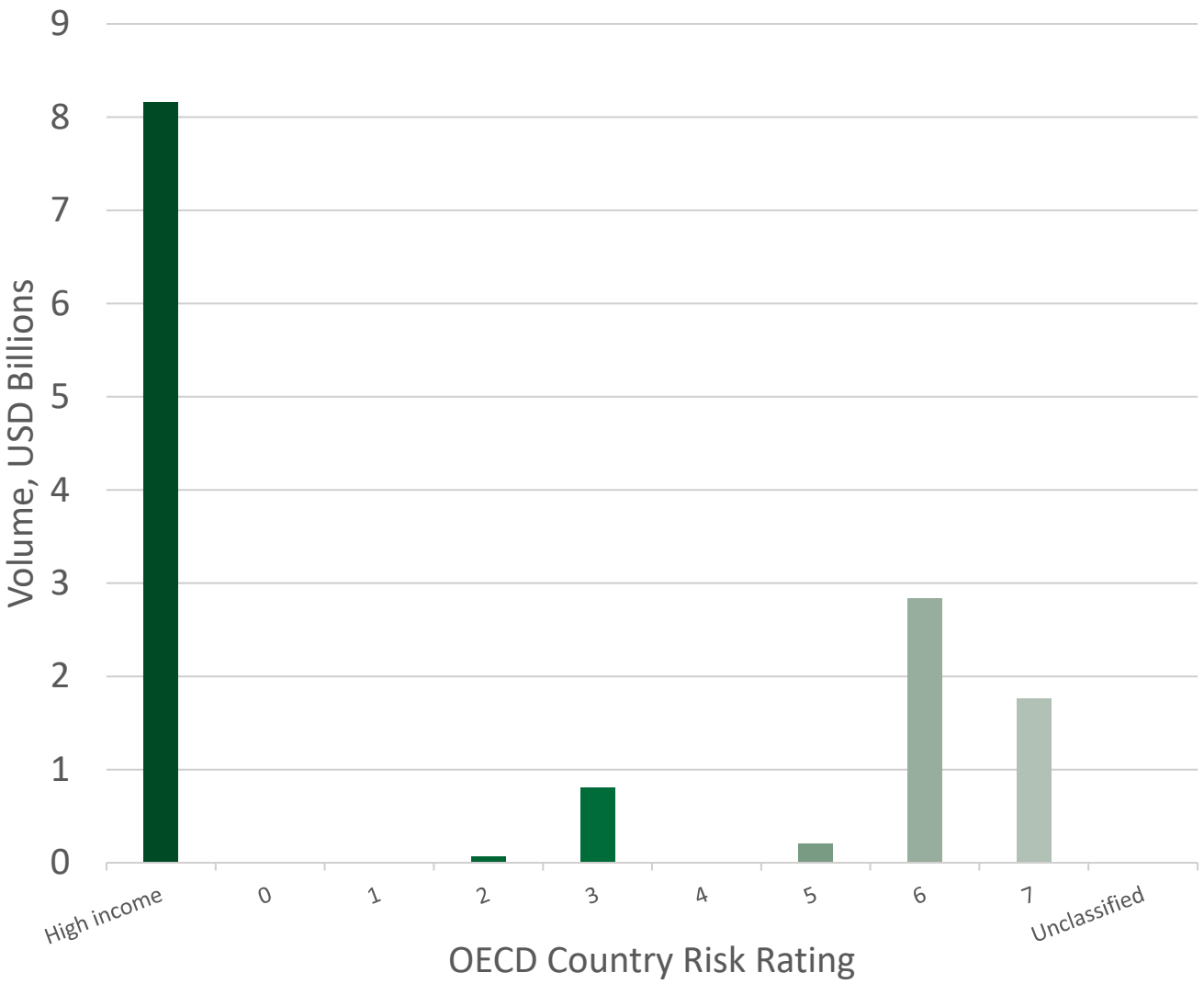
1 ECA financing by country risk ratings: 2019

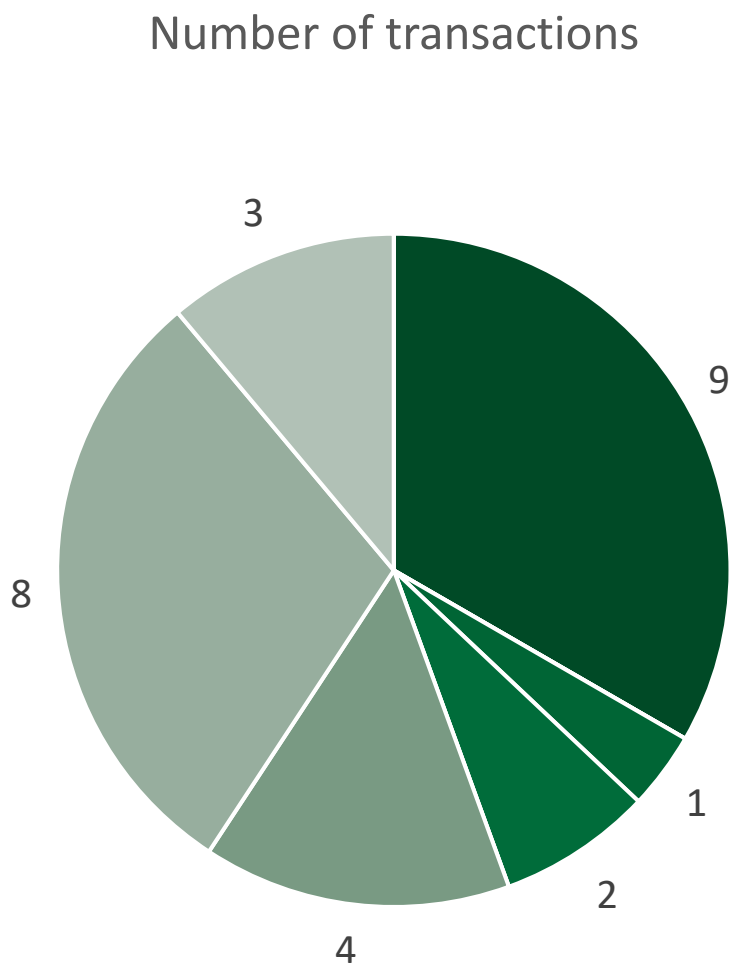




ECA long-term transactions.
Source: TXF Media

1 ECA financing by country risk ratings: Q1 2020





ECA long-term transactions.
Source: TXF Media

1 Other risk considerations

- Risk premium paid by the borrower is directly related to the credit risk rating of the buyer's country
  - Higher risk = higher risk premium
- Country risk mitigation techniques:
  - Offshore future flow structure with offshore escrow account
  - Local currency financing
- Buyer credit risk enhancements:
  - Assignment of contract receivables
  - Asset-based securities
  - Fixed asset security
  - Escrow account

1 Special issues – Where ECAs are open

- Where ECAs are open varies from ECA to ECA, and is one of the first issues that must be understood when arranging a financing
- Some of the usual suspects are closed to most ECAs; including, for example, North Korea, Syria, and Venezuela
- Beyond this, there is some variability – for example, currently a few large ECAs are open to Russia, including GIEK, UKEF, Hungary Eximbank, and the Chinese ECAs
- ECA's typically show where they are open on their websites (Bpifrance, NEXI):

LISTE EN VIGUEUR AU 1er MARS 2019

- Afghanistan
- Antigua et Barbuda
- Corée du Nord
- Érythrée
- Nicaragua
- Somalie
- Sud Soudan
- Syrie
- Venezuela
- Yémen
- Zimbabwe

Code	Name	Category	Export Credit Insurance (2yrs or more)	Buyer's Credit Insurance (2yrs or more)	Overseas Untied Loan Insurance	Overseas Investment Insurance			Remarks
						non redemption type (Equity)	compound type (Equity and dividend)	redemption type (dividend)	
401	Colombia	E	○	○	○	○	○	○	
402	Venezuela	H	○	○	○	○	○	○	
403	Guyana	F	○※1	○※1	○※1	○	○	○※1	※1. Risk mitigation measures
404	Suriname	G	○※1	○※1	○※1	○	○	○※1	※1. Risk mitigation measures
405	French Guiana	A	○	○	○	○	○	○	
406	Ecuador	G	×	○※1	×	○	○	○	※1. Buyer's Credit Insurance (2 yrs or more) is open for cover by acquiring the government guarantee.
407	Peru	D	○	○	○	○	○	○	
408	Bolivia	F	○※1	○※1	○※1	○	○	○※1	※1. Public sector:Risk mitigation measures Private sector:Transactions acquiring foreign currency
409	Chile	C	○	○	○	○	○	○	
410	Brazil	D	○	○	○	○	○	○	
411	Paraguay	F	○	○	○	○	○	○	
412	Uruguay	D	○	○	○	○	○	○	
413	Argentina	H	×／○※1	×／○※1	×／○※1	○	○	×／○※1	※1. Public sector:Off cover Private sector:Open for cover

1 Country Limitation Schedule

- The first stop to determine availability of credit extension
  - OECD members adhere to the same standards
  - By tenor
  - By country risk
  - By counterparty (public and private-sector buyers)
- Non-OECD agencies not bound by CLS
  - Exceptional tenors and low cost
  - Large trade volumes supported
  - Different ratings (ECIC within Africa)
  - This is the uneven playing field

1 EXIM Country Limitation Schedule

Country Limitation Schedule	Organized in three dimensions: 1. Country where the risk lies 2. Sector (public sector where > 50% government-owned or private sector) 3. Term of total exposure (disbursement period and repayment term)
Notes	Indicate specific limitations including public vs. private sector differences, tenor limitations, requires Ministry of Finance guarantee, etc.
Off-cover	“X” indicates agency is closed to routine transactions

1 EXIM Country Limitation Schedule

EXPORT-IMPORT BANK OF THE UNITED STATES
COUNTRY LIMITATION SCHEDULE
Total Term* - Effective December 23, 2019

"X" INDICATES SUPPORT IS NOT AVAILABLE

	PUBLIC SECTOR RISK				PRIVATE SECTOR RISK			
COUNTRY	Up to 1 year	1 to 7 years	Over 7 years		Up to 1 year	1 to 7 years	Over 7 years	NOTE(S)
Afghanistan	X	X	X		X	X	X	10, 13
Albania								1, 3, 4, 5
Algeria								1, 4
Andorra								
Angola						X	X	1, 3, 4, 5, 11b, 13
Anguilla								1
Antigua and Barbuda	X	X	X					4, 6a, 13
Argentina								6b
Armenia								1, 3, 4
Aruba								9
Australia								
Austria								
Azerbaijan								1, 3, 4, 5

EXIM CLS – Notes (excerpt)

3. Prior to accepting an application for a preliminary or final commitment for a public sector transaction, or for any insurance or WCGP coverage for a public sector transaction, EXIM Bank will require an indication of host government support for the application from an appropriate government authority such as the Ministry of Finance or the Central Bank. Contact EXIM Bank for more detailed information on specific markets.

4. EXIM Bank cover/support for private sector transactions is typically limited to transactions with a commercial bank as obligor or guarantor. EXIM Bank will consider transactions without a bank undertaking on a case-by-case basis. Regarding the latter, EXIM Bank may consider corporate entities that are able to provide detailed financial information sufficient to enable EXIM Bank to reach a credit conclusion. Such information should include financial statements audited by an affiliate of an international accounting firm and prepared in accordance with International Financial Reporting Standards (IFRS), and the statements should reflect historical material bank borrowings. As conditions pursuant to which we may consider non-bank transactions vary in markets subject to this note, please contact the Credit Policy Division for further information.

   Under the Short-Term Multi-Buyer Insurance Program, a commercial bank obligor or guarantor is not required for transactions qualified under Discretionary Credit Limit Authority, in accordance with policy requirements. Under Special Buyer Credit Limit applications and Short-Term Single Buyer policies (ESS, FB, FV) requirement of the commercial bank obligor or guarantor will be evaluated on a case-by-case basis.

   Coverage under the WCGP for private sector transactions requires that the transaction be supported by an irrevocable Letter of Credit. Exceptions may be made for private sector transactions that are insured for comprehensive political and commercial risk.

12b. As a result of existing conditions in this market, EXIM Bank is currently not processing applications in the private sector. Coverage under the WCGP for private sector transactions is currently not available.

13. Where the CLS indicates support is not available, EXIM Bank can still consider financing arrangements that eliminate or externalize country risks. Potentially acceptable transactions include structured transactions that earn revenues offshore in a country with no CLS restrictions and are held in a bank or trust account acceptable to EXIM Bank; third-party support from creditworthy entities in countries with no CLS restriction; and asset-backed lease and financing structures involving equipment such as aircraft.

    In addition, coverage under the WCGP may be available for a transaction that is supported by an irrevocable Letter of Credit issued by a bank, and/or due from a Buyer, located in a country where EXIM Bank is open without restrictions for short-term transactions.

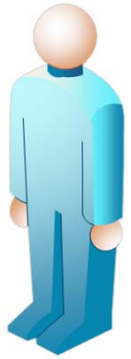
1 The down payment

Exported value	Local content
Total value of goods and services exported to the buyer's country	Total value of goods and services produced in the buyer's country

Supply contract

- Buyer must make a "down payment" of at least 15% of the exported value at or before the "starting point of credit"
- The ECA will not cover more than:
  - 85% the exported value
  - Local cost up to 30% of the exported value

Much more on this later



1 Repayment

- Maximum repayment:
  - Category I countries: 8.5 years
  - Category II countries: 10 years
  - Non-nuclear power plants: 12 years
- Typical repayment:
  - Principal paid in equal installments
  - Principal and interest payments at least every 6 months
  - Grace period of 6 months
- In extraordinary (justified) circumstances:
  - Principal payments in any 6-month cannot exceed 25% of total
  - Principal and interest payments at least every 12 months
  - At least 2% of total principal paid 1 year after the starting point of credit
- Maximum weighted average life sovereign buyers:
  - Category I countries: 4.5 years
  - Category II countries: 5.25 years
- Maximum weighted average life non-sovereign buyers:
  - Category I countries: 5 years
  - Category II countries: 6 years
- Non-nuclear power plants: 6.25 years

1 Commercial Interest Reference Rates (CIRR)

- Official minimum lending rates for OECD ECAs
- Calculated monthly and based on each ECA's home country government bonds
- Usually published before the 15th of each month
- Rate closely corresponds to rate of first-class borrower in that country
- For EXIM, CIRR is set using U.S. Treasury rate for preceding month + 100 bps
- For EU ECAs, CIRR is set using daily spot rate for triple-A EUR government bonds in the previous month
- Guaranteed or insured loan
  - Fixed-interest rate = Base rate = Funding cost + margin
- Direct loan
- Fixed-interest rate = CIRR
  - Non-OECD countries do not abide by CIRR; may offer concessional rates and tenors

1 This period's CIRR

Paris, 6 March 2020

OECD: THE ARRANGEMENT FOR OFFICIALLY SUPPORTED EXPORT CREDITS

Commercial Interest Reference Rates (CIRRs)

Currency of country	Repayment Terms	15/03/2020 14/04/2020	15/02/2020 14/03/2020
Swiss Franc	≤ 5 years	0.12	0.20
	> 5 to ≤ 8.5 years	0.06	0.16
	> 8.5 years	0.09	0.20
UK Pound	≤ 5 years	1.39	1.41
	> 5 to ≤ 8.5 years	1.41	1.46
	> 8.5 years	1.49	1.56
US Dollar	≤ 5 years	2.31	2.52
	> 5 to ≤ 8.5 years	2.32	2.56
	> 8.5 years	2.42	2.67
Euro*	≤ 5 years	0.31	0.38
	> 5 to ≤ 8.5 years	0.35	0.46
	> 8.5 years	0.43	0.57

Different CIRRs apply to certain sectors

Sector Understanding CIRR rates

- Nuclear: http://www.oecd.org/tad/xcred/ccsu-nsu-en.pdf
- Civil aircraft: http://www.oecd.org/tad/xcred/asu-en.pdf
- Renewables: http://www.oecd.org/tad/xcred/ccsu-nsu-en.pdf

Paris, 6 March 2020

RENEWABLE ENERGY, CLIMATE CHANGE MITIGATION AND ADAPTATION, AND WATER PROJECTS

NUCLEAR POWER PLANTS

Prevailing Minimum Commercial Interest Reference Rates (CIRRs)

Currency of country	Repayment Terms	Specific Large Projects [1] 15/03/2020 to 14/04/2020	All Other Projects [2] 15/03/2020 to 14/04/2020	Specific Large Projects [1] 15/02/2020 to 14/03/2020	All Other Projects [2] 15/02/2020 to 14/03/2020
US Dollar	< 11 years	CIRR according to article 20 of the Arrangement			
	≥ 11 to ≤ 12 years	2.42	2.42	2.67	2.67
	> 12 to ≤ 13 years	2.65	2.62	2.90	2.87
	> 13 to ≤ 14 years	2.68	2.65	2.93	2.90
	> 14 to ≤ 15 years	2.68	2.65	2.93	2.90
	> 15 to ≤ 16 years	2.75	2.68	3.01	2.93
	> 16 to ≤ 17 years	2.80	2.68	3.06	2.93
	> 17 to ≤ 18 years	2.80	2.70	3.06	2.96

1 Exercise: CIRR

- With an ECA direct loan, prevailing CIRR rate is used to fix the all-in rate at time of first disbursement
- Assume borrower has prepared its initial disbursement request for its 12-year, USD 100 million direct loan
- Existing all-in rate with this month's CIRR is 2.58%
- Next CIRR adjustment will be in 10 business days (on the 15th of the month)
- Expected all-in rate next month is 2.28%

- With the upcoming CIRR rate change, should the borrower quickly submit disbursement to lock-in CIRR or, prepare its disbursement request and wait until the CIRR reset before submitting the disbursement request to the ECA?

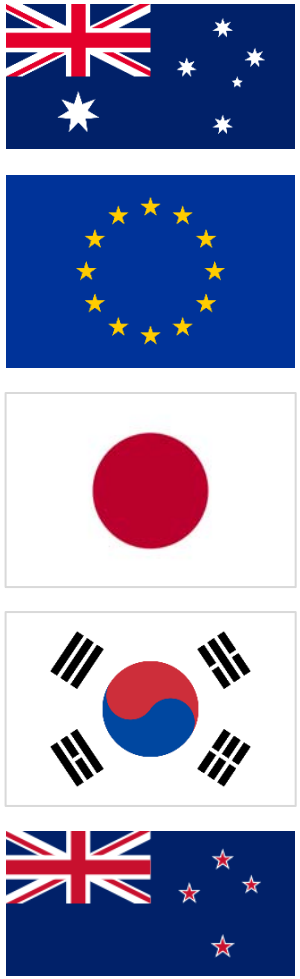
1 Starting point of credit

- Repayment to start no more than six months from a specified date
- Impacts cash flow; include in financial model
- OECD and applied by other ECAs as well
- Tied to one of the events in the chart below

Type of goods	Starting point of credit
• Individual capital good	• When shipment occurs
• Multiple shipments of capital goods that can operate independently	• Midpoint in time of the shipment of goods
• For complete facilities when contractor has no commissioning responsibility	• When construction complete
• For project where the contractor or supplier is responsible for commissioning	• Final authorization may be later than the starting point date

1 Sector understanding: Ships

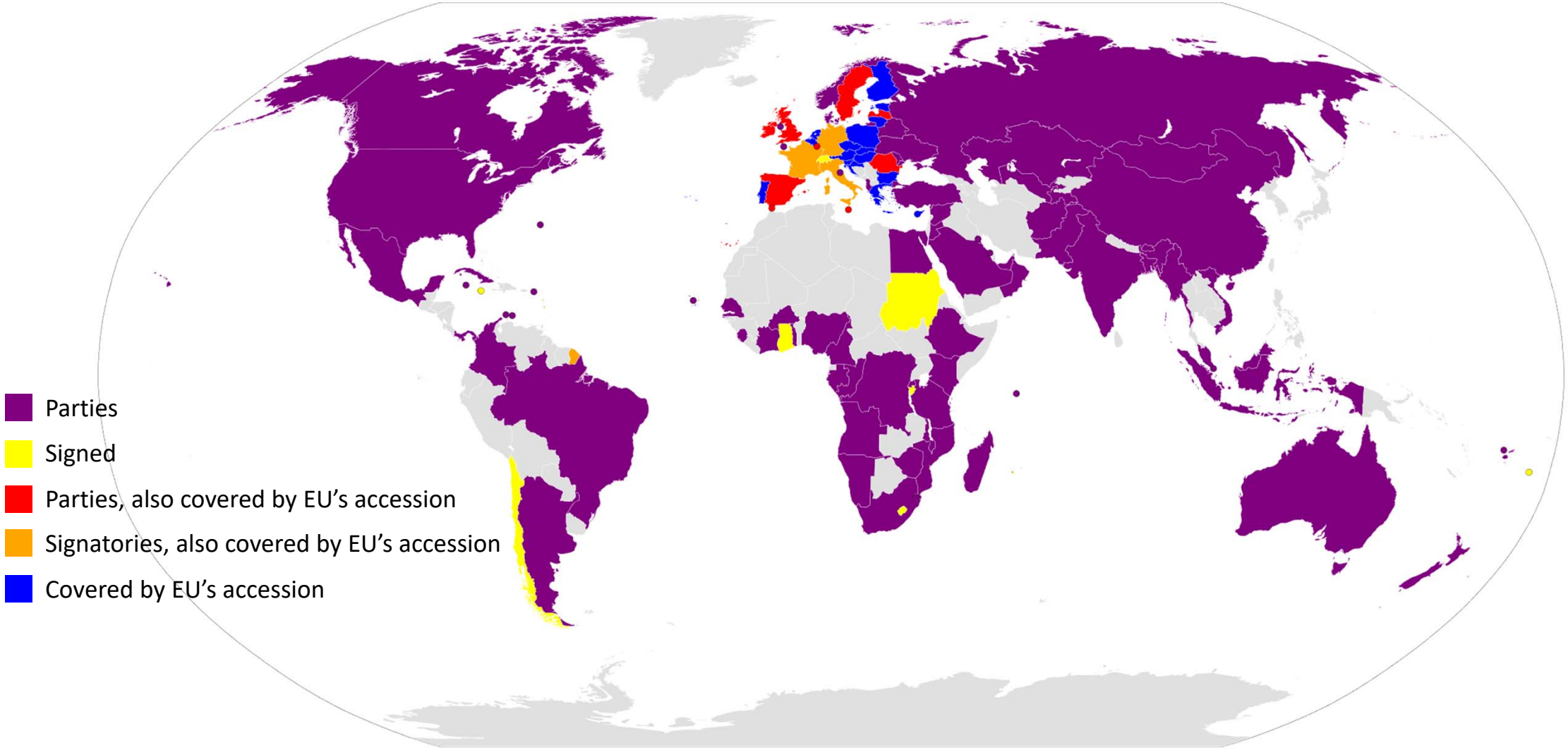
- Applies to large ships and ship conversions (excludes military, floating docks, mobile offshore units, hovercrafts)
- Maximum repayment tenor of 12 years
- Minimum cash payment of 20% contract price by delivery
- In lease transactions, equal payments of principal and interest combined (mortgage-style payments) are possible



1 Sector understanding: Aircraft financing

- The OECD's Aircraft Sector Understanding (ASU) establishes ECA financing terms and maximum maturity
- Amendments to the ASU in 2011 brought ECA aircraft financing more in line with commercial financing
  - Higher fees are charged for riskier credit profiles
  - Credits rated investment-grade are limited to 80% of the supply contract (instead of 85%)
  - Structural enhancements to incentivize airlines to lower fees paid to ECAs
- The Cape Town treaty provides legal remedies for default in financing agreements, including
  - Repossession of mobile equipment (the plane)
  - The effect of a particular state's bankruptcy laws (location of plane)

Aircraft financing: Cape Town Treaty



1 Sector understanding: Nuclear power plants

- Applies to:
  - New nuclear power plants and their components
  - Large modernizations of nuclear power plants
  - Supply of nuclear fuel and enrichment
  - Provision of spent fuel management
- Maximum repayment:
  - 18 years for new plants, their components, and large modernization of plants
  - Four years for initial fuel load; two years for subsequent fuel loads
  - Two years for spent fuel disposal
  - Five years for enrichment and spent fuel management
- Mortgage-style payments are possible
- Exceptions are possible; weighted average life cannot exceed nine years

1 Sector understanding: Renewable

- Applies to:
  - Renewable energy plants and their components
  - Climate change mitigation and adaptation projects and their components
  - Water projects (clean and wastewater)
- Maximum repayment:
  - 18 years for most large projects
  - 15 years for large fossil fuel substitution and energy efficiency projects
- Mortgage-style payments are possible
- Exceptions are possible; weighted average life cannot exceed 60% of the maximum repayment tenor
- For small renewable energy projects, local cost support can be up to 45% of exported value

1 Sector understanding: Rail

- Applies to:
  - Rail, trolleybus, and cable car projects
  - Track, control systems, electrification, overhead wires and cables, pylons, rolling stock, and related work
- Maximum repayment:
  - Category I countries: 12 years (other conditions apply), maximum weighted average loan life not more than 6.25 years
  - Category II countries: 14 years, maximum weighted average loan life not more than 7.25 years
- Repayment terms shall not exceed useful life

1 Sector understanding: Coal

- Applies to:
  - New coal power plants without carbon capture and storage and their components
  - Modernization or supply of equipment to existing coal power plants
- Eligibility depends on plant size and criticality
- Maximum repayment tenor between 10 and 12 years depending on plant size and criticality
- Limits on co-located units
- Weighted average life of the repayment period shall not exceed 50% of the repayment period plus three months

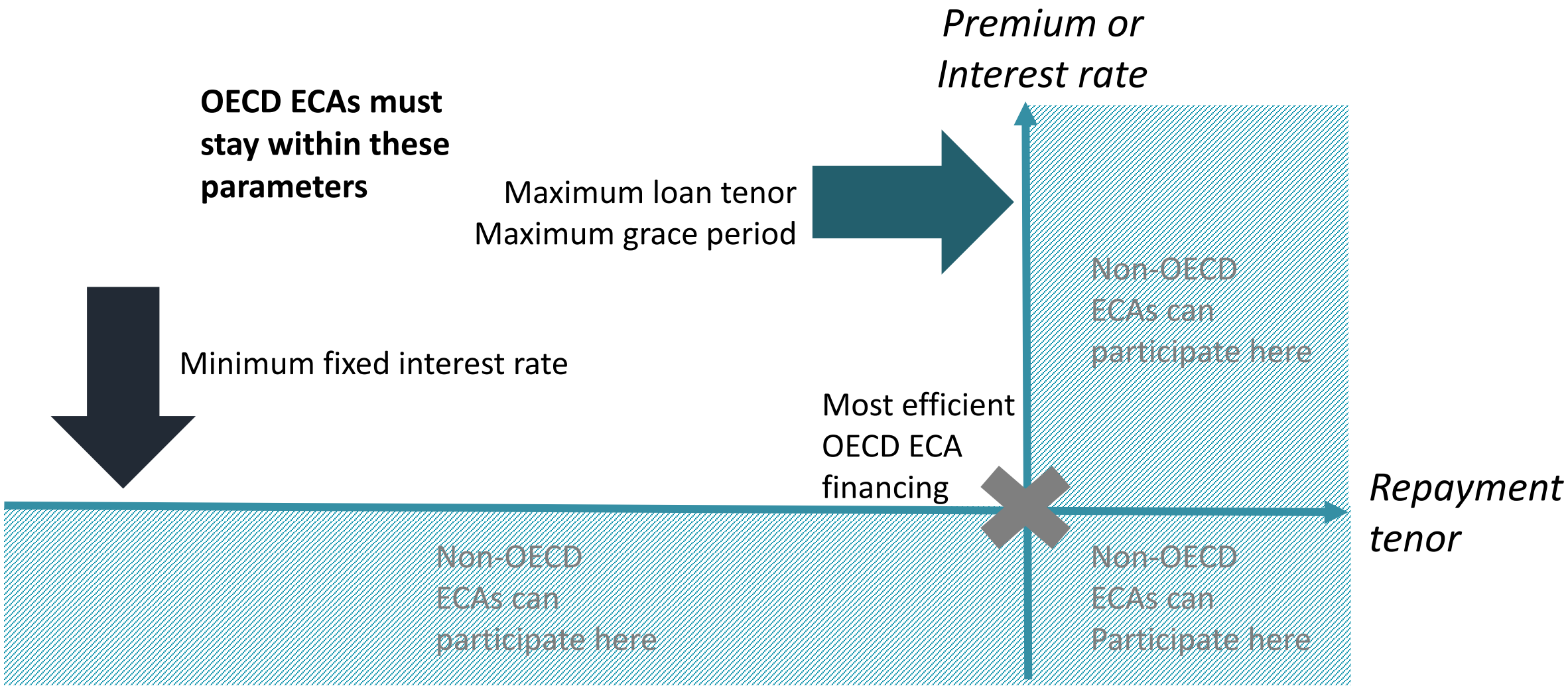
MODULE 2

The ECA market and supplier credits

2 Tied aid

- Difference between export credits and tied aid:
  - Export credits: Open competition and the free play of market forces
  - Tied aid: Concessional resources to entities with limited access to market financing
- Definition of concessional financing
- Tied aid only to countries with GNI per capita less than the upper limit for lower middle-income countries as per the World Bank
- Eligible projects:
  - Project is financially non-viable
  - Unlikely that the project can be financed on market or arrangement terms
- Minimum concessionality level:
  - Less than 35% if beneficiary country is a Least Developed Country
  - Less than 50% for everyone else
  - There are exceptions

2 The OECD sets limits for ECA transactions

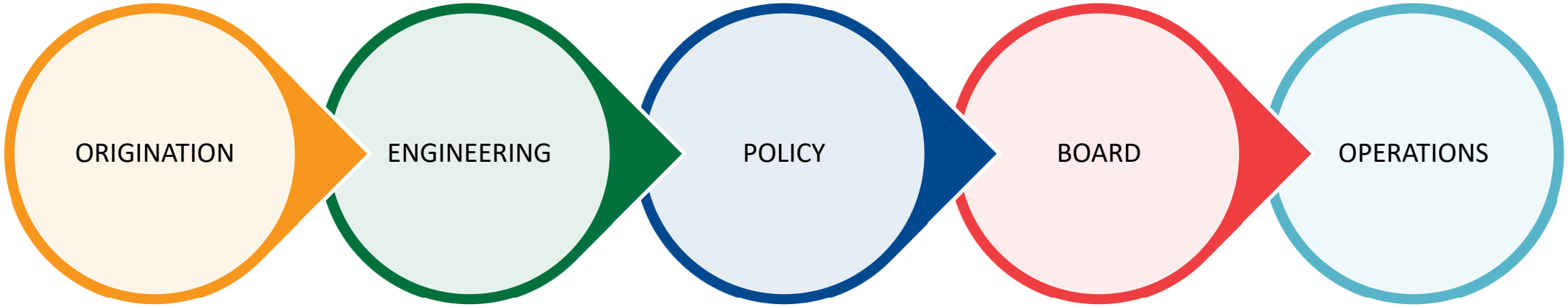


2 The Berne Union

- Leading international union of export credit agencies and private credit insurers
- Founded 1934 by European private and public export credit insurers
- 84 companies from 73 countries, representing 90% of global population
- Purpose:
  - Information exchange, sharing of expertise, and facilitation of cross-border trade
- In 2017, Berne Union members:
  - Supported more than 14 percent of international trade
  - Provided ST USD 2.1 trillion in new business
  - Provided MLT USD 179 billion
  - Paid USD 48 billion in claims since 2008

Image attributed to Berne Union and TXF

2 How are ECAs organized



- Financial structuring
- Credit standards
- Manages approval process
- Legal structure

- Technical feasibility
- Environmental impact
- Eligibility of content

- Comply with policies
- KYC
- OECD
- Sanctions

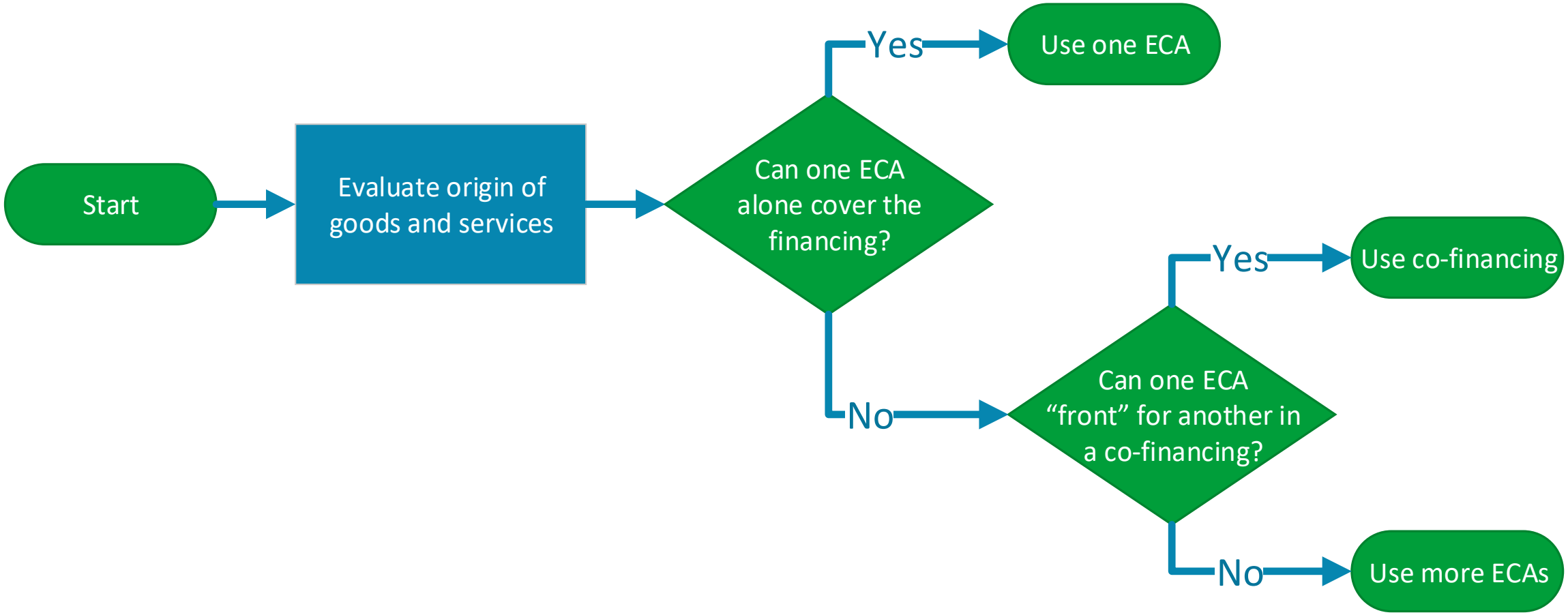
- Approval

- Manage portfolio
- Disbursement review
- Credit agreement compliance
- Workouts

2 Co-financing among ECAs

- Where exported goods and services are from two (or more) countries, the borrower may have the option to obtain a single ECA financing package
- Lead ECA is from the country with the most eligible content
- Transactions have one set of:
  - Documents
  - Terms and conditions
  - Disbursement procedures
- Follower ECA agrees to cover its portion of eligible exports
- Benefits—cut down on transaction costs and processing times

2 Working with multiple ECAs



2 Working with multiple ECAs

- In some cases co-financing arrangements are not possible:
  - There may not be a co-financing arrangement
  - There may not be enough content eligibility
- Be aware:
  - Evaluate content eligibility for each ECA early and accurately
  - Financial closing may take longer with multiple ECAs
  - Develop intercreditor agreement parameters early
  - Disbursement process will likely be more complicated and onerous
  - One invoice may only be disbursed against one ECA tranche

2 Co-financing arrangements

SERV
7 agreements

EXIM
16 agreements

UKEF
28 agreements

NEXI
32 agreements

2 EXIM bilateral co-financing arrangements

ECA name	Country
ASHR'A	Israel
Atradius	The Netherlands
Bpifrance	France
CESCE	Spain
Export Development Canada (EDC)	Canada
Export Finance Australia	Australia
EGAP	Czech Republic
UK Export Finance (UKEF)	United Kingdom
EKF	Denmark
Euler Hermes	Germany
JBIC	Japan
NEXI	Japan
SACE	Italy
SERV	Switzerland
Turk Eximbank	Turkey

- Turk Eximbank must be the lead ECA in co-financings
- In addition to these ECAs, EXIM will also consider co-financing transactions without a formal bilateral agreement on a case-by-case basis
  - GIEK (Norway)
  - H-EXIM (Hungary)
  - Credendo (Belgium)

2 ECA global metrics: 2018–Q1 2020

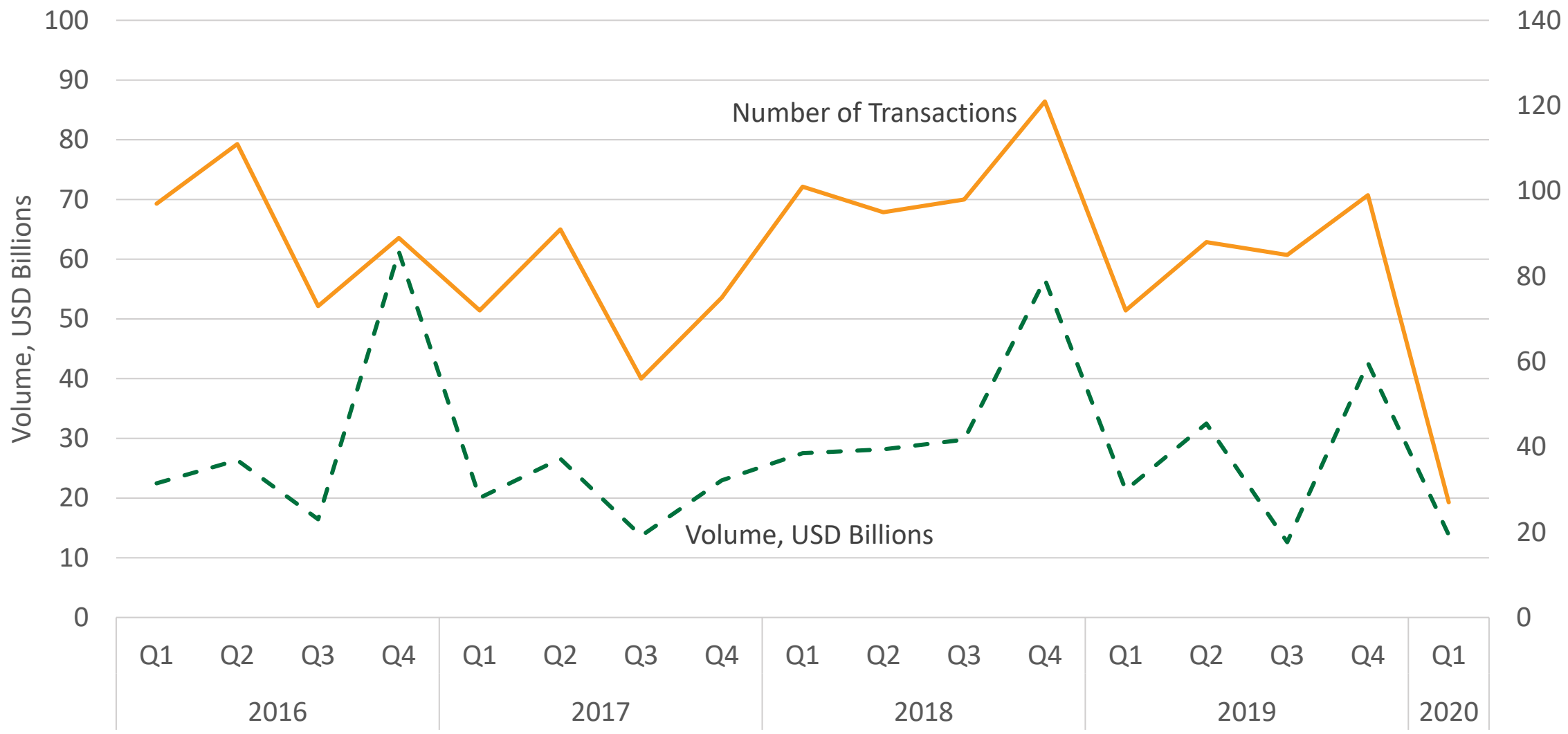
Q1 2020 coverage	27 deals	USD 13.8 billion (total financed amount)
Top sector financed	Metals and mining	USD 5.4 billion
Top region financed	Europe	USD 5.4 billion

2019 coverage	344 deals	USD 109.0 billion (total financed amount)
Top sector financed	Oil and gas	USD 36.8 billion
Top region financed	Asia Pacific and Australia	USD 28.8 billion

2018 coverage	415 deals	USD 142.1 billion (total financed amount)
Top sector financed	Power	USD 33.24 billion
Top region financed	Europe	USD 42.8 billion

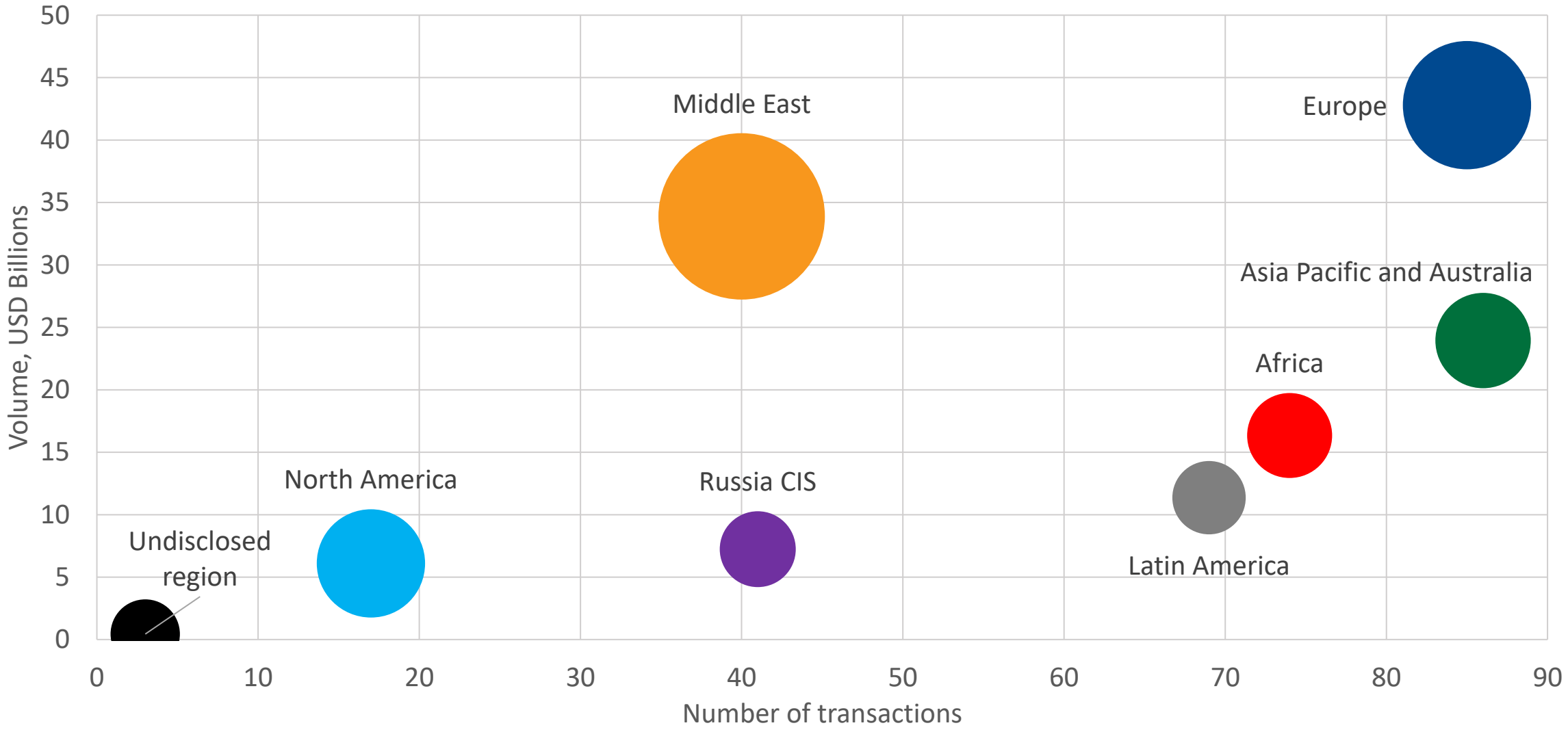
ECA long-term transactions.
Source: TXF Media

2 General overview by quarter: 2016–Q1 2020



ECA long-term transactions.
Source: TXF Media

2 ECA financing by region: 2018 global



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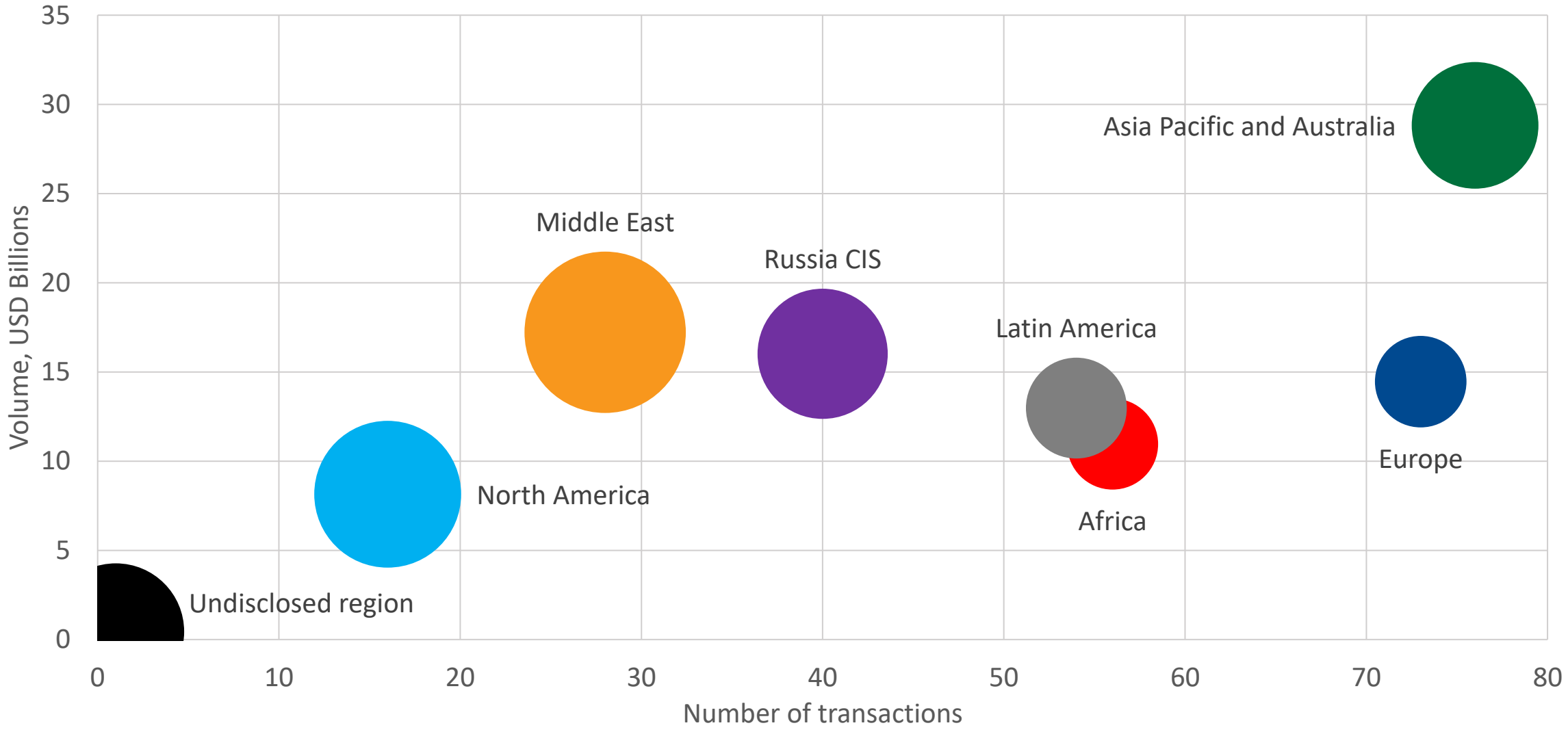
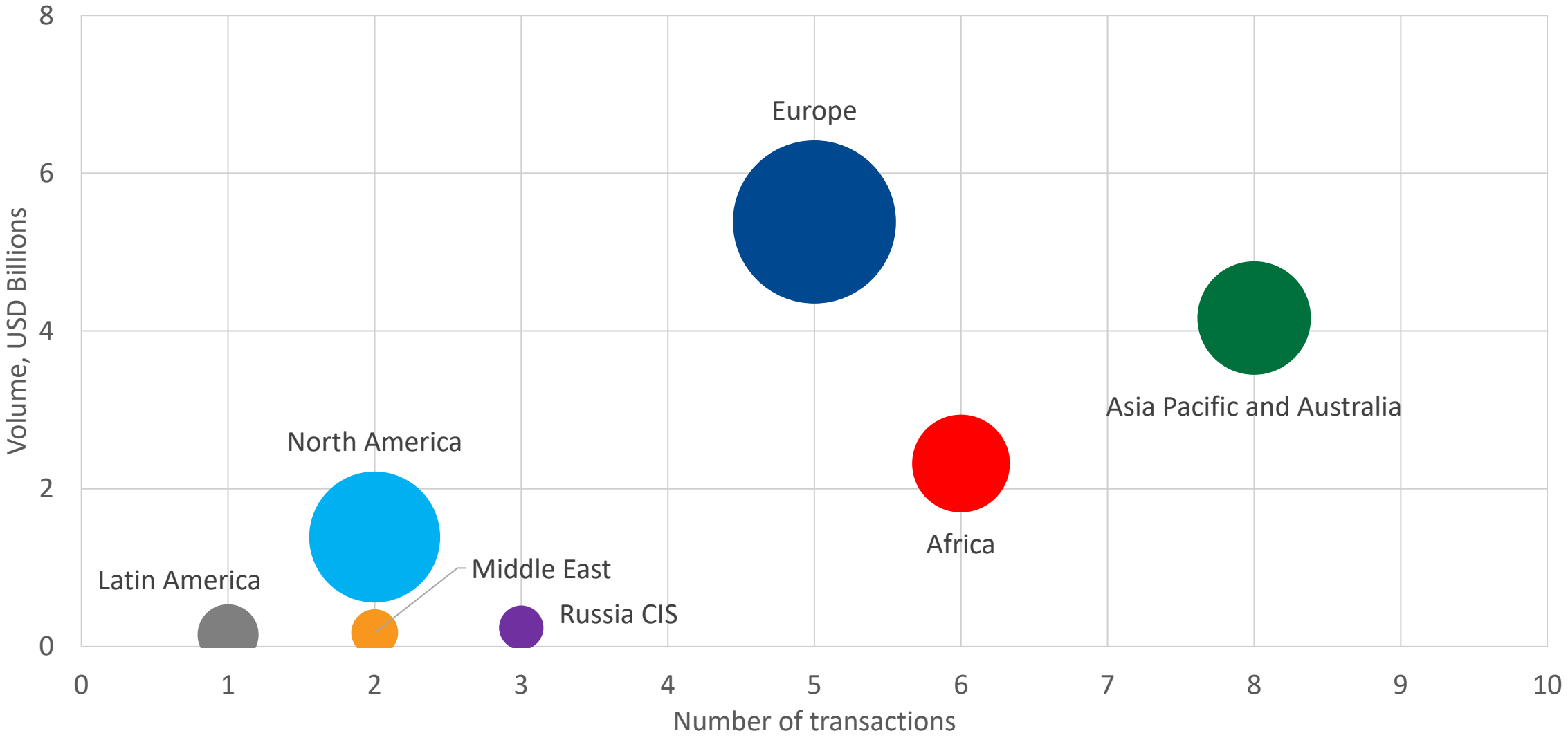


ECA long-term transactions.
Source: TXF Media

2 ECA financing by region: Q1 2020 global



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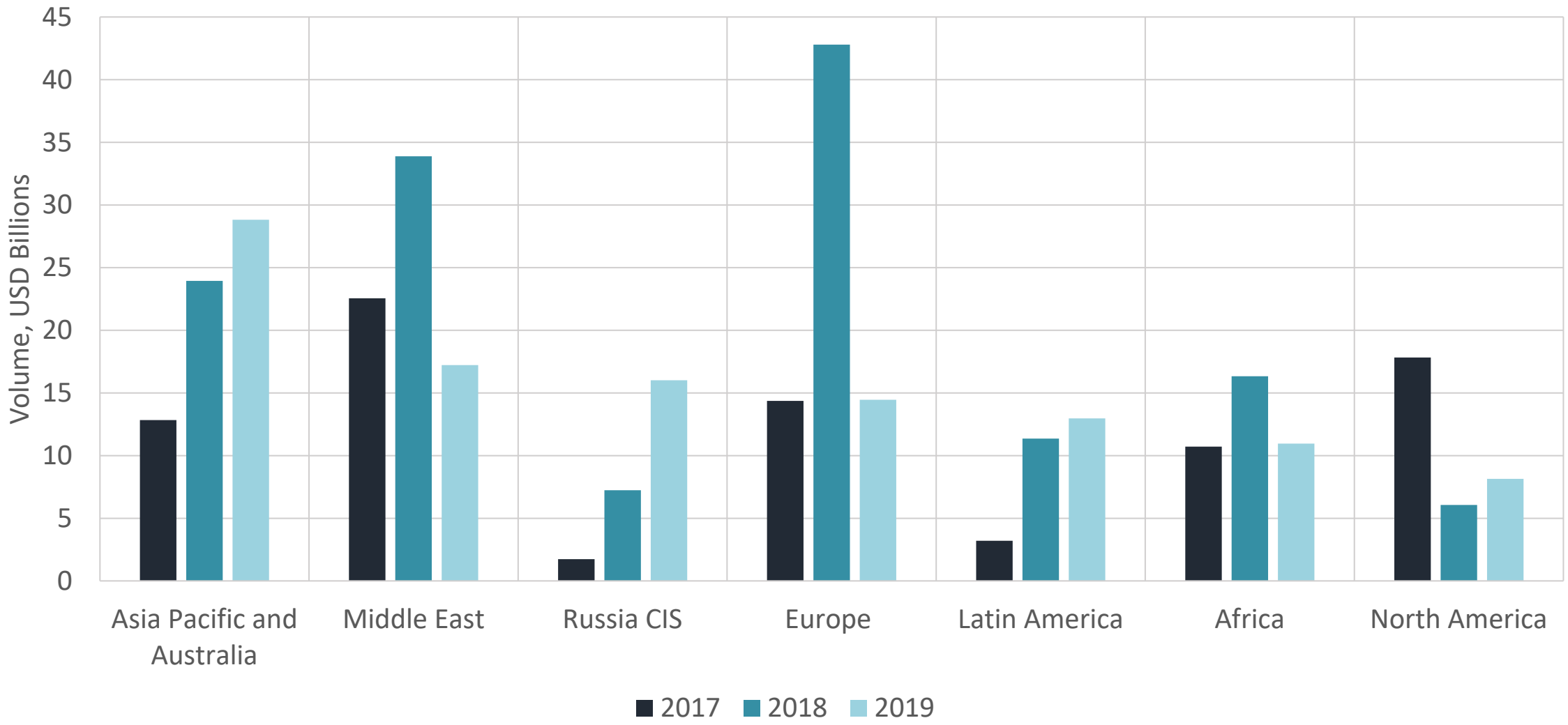
2 ECA financing by region: 2017–2019



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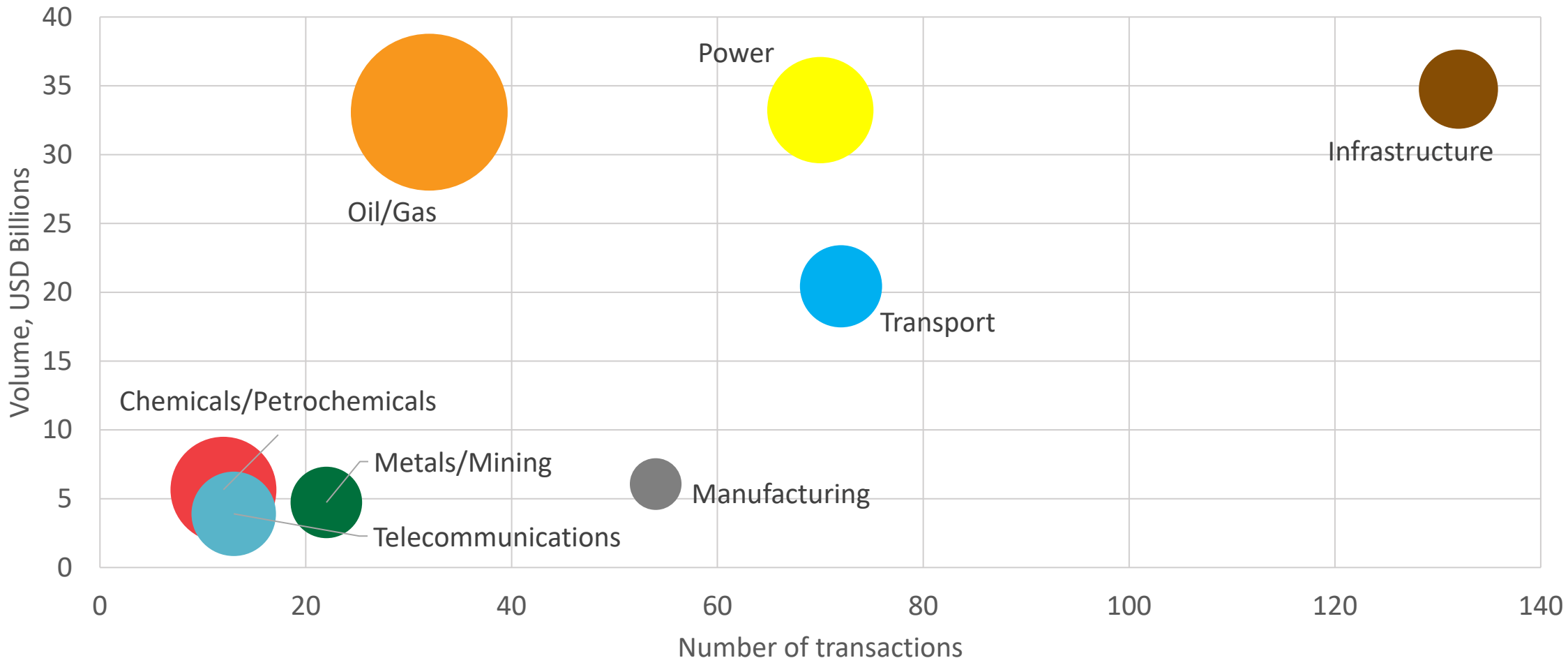
Source: TXF Media

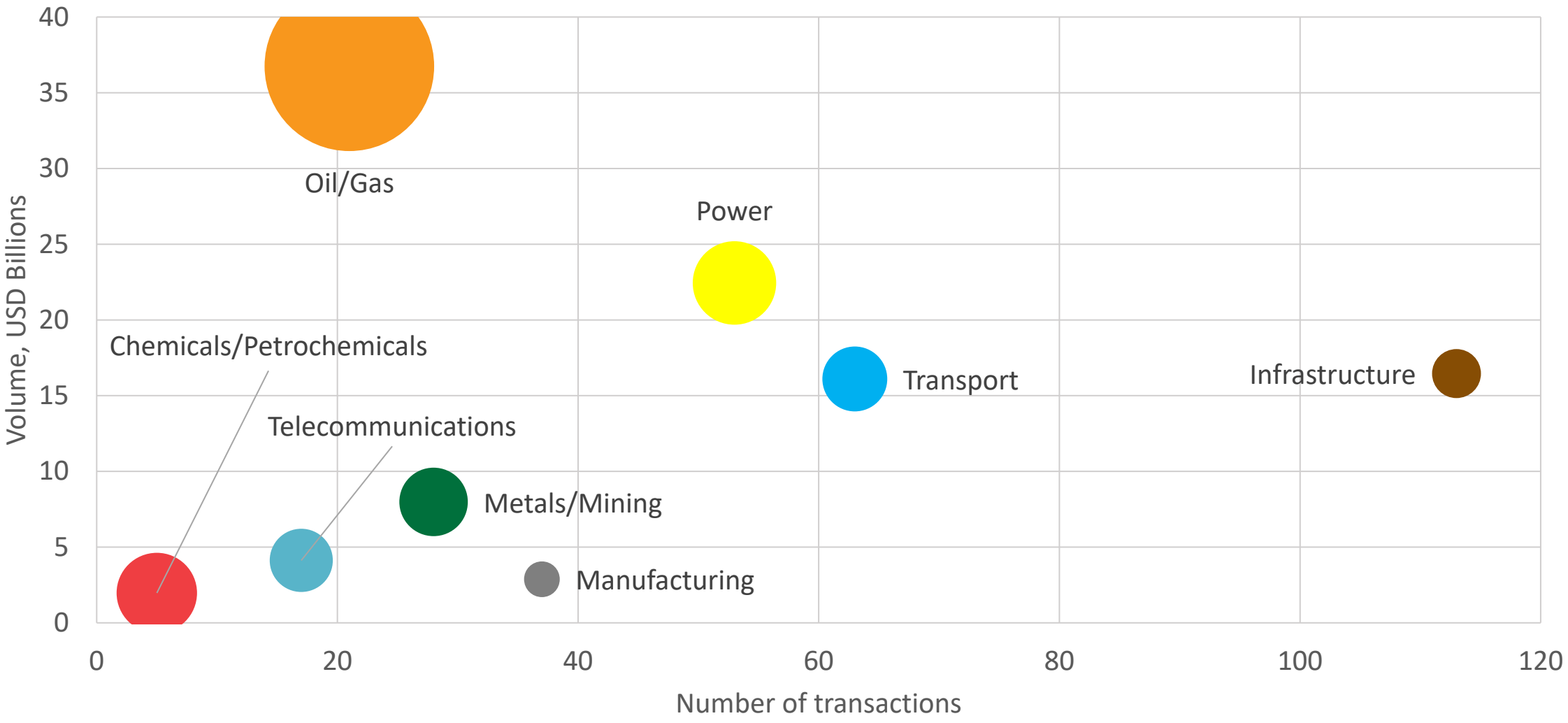
2 ECA financing by sector: 2018 global



Note: Infrastructure includes the following: Airport, Capital equipment, Central government building, Court/prison, Defense, Education, Emergency services, Canal, Healthcare facility, Housing & regeneration, Leisure/stadia, Local government buildings, Metro/underground, Port, Rail, Road, Services, Bridge, Infrastructure, Waste & water, Real estate, as well as Government, Financial Services, Engineering, State financing, Development Bank, Trading Company, Conglomerate, Retail & leisure, Hotels, Education, Security, Inspection & certification, and Media.

ECA long-term transactions.
Source: TXF Media

2 ECA financing by sector: 2019 global



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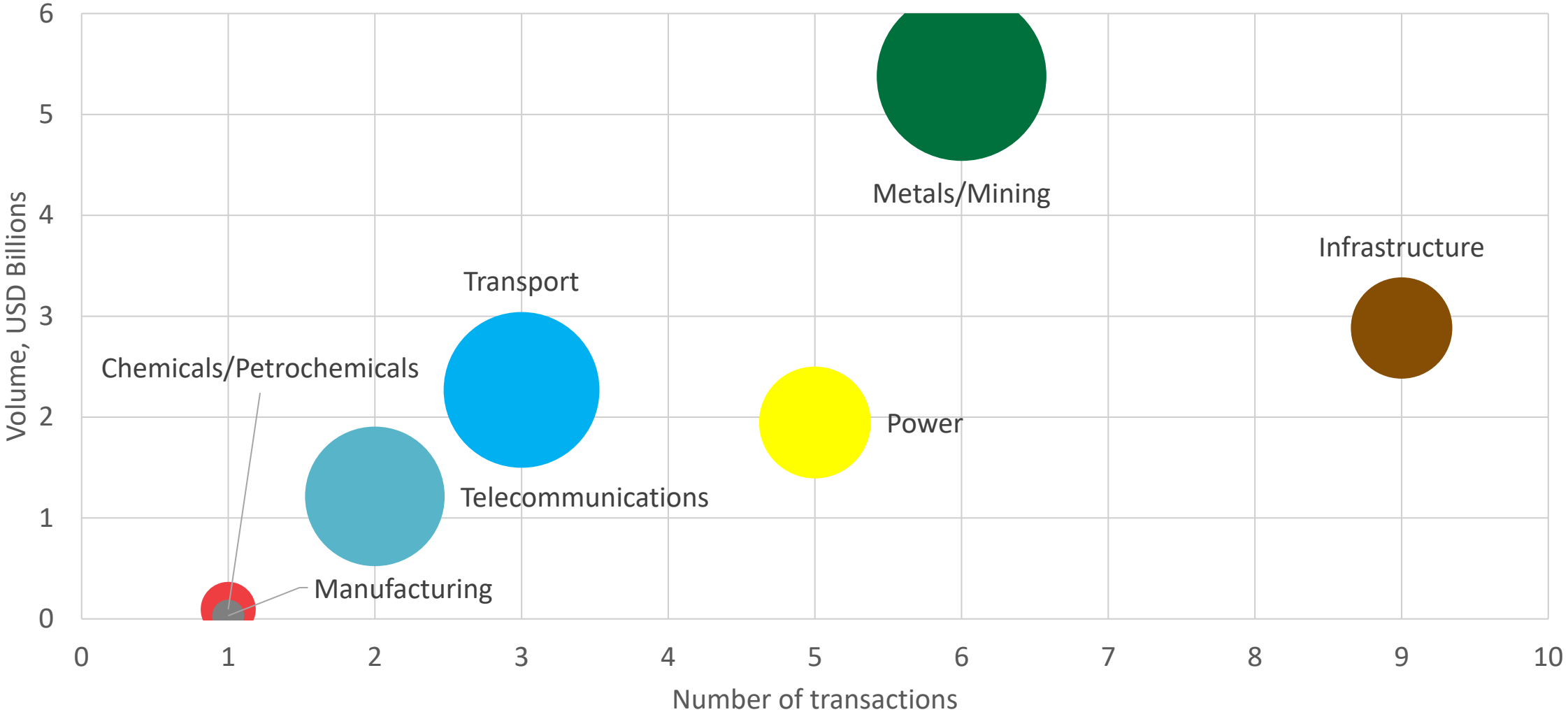
2 ECA financing by sector: Q1 2020 global



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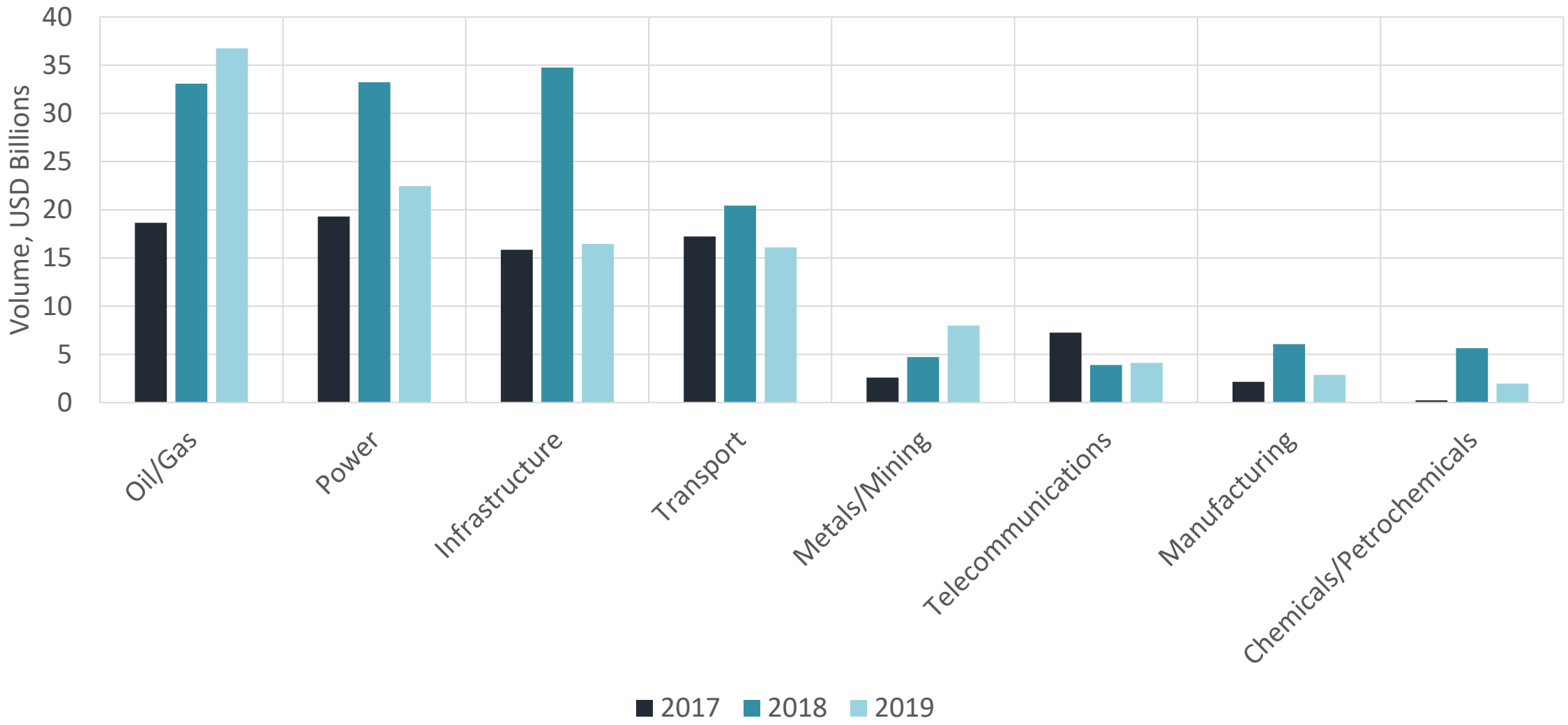
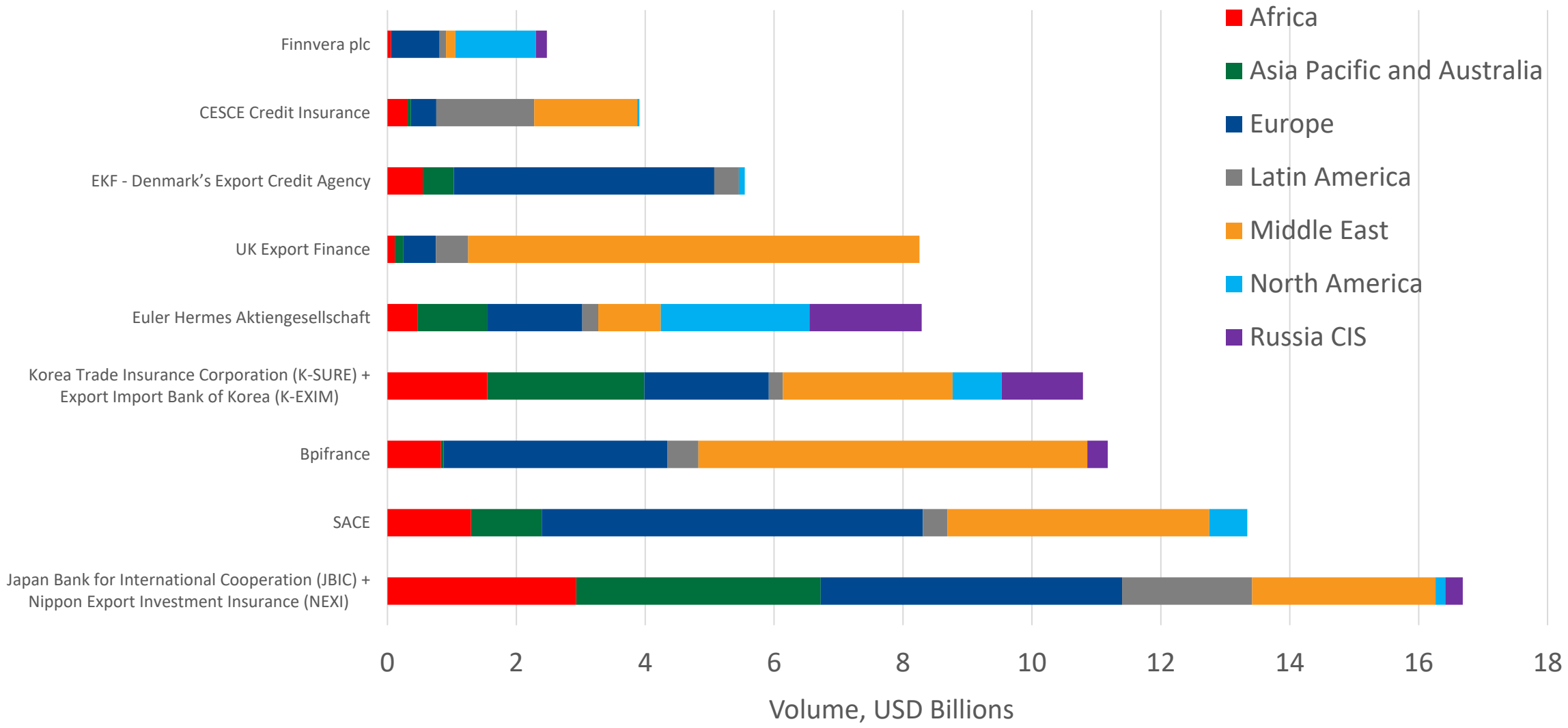


ECA long-term transactions.
Source: TXF Media

2 Top OECD ECAs by region: 2018 global



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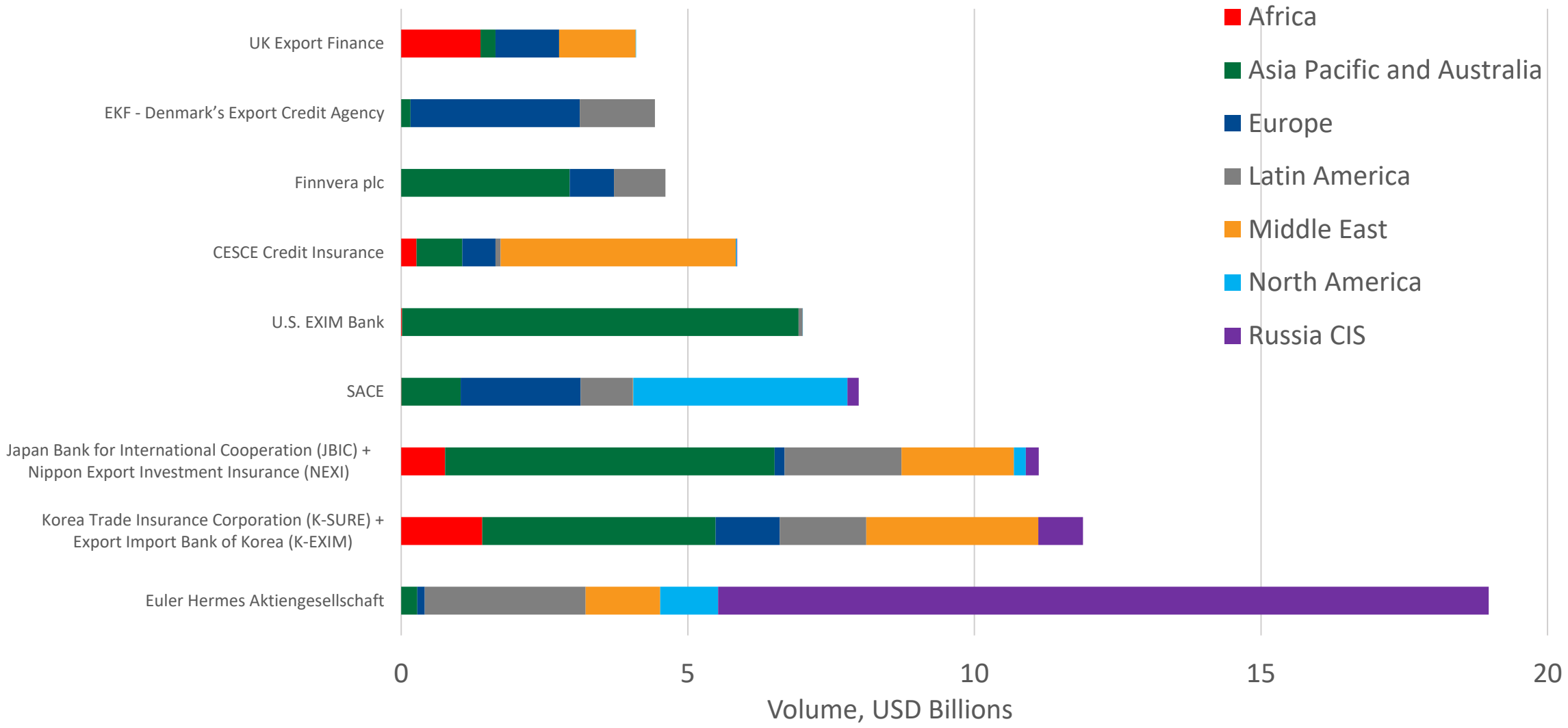

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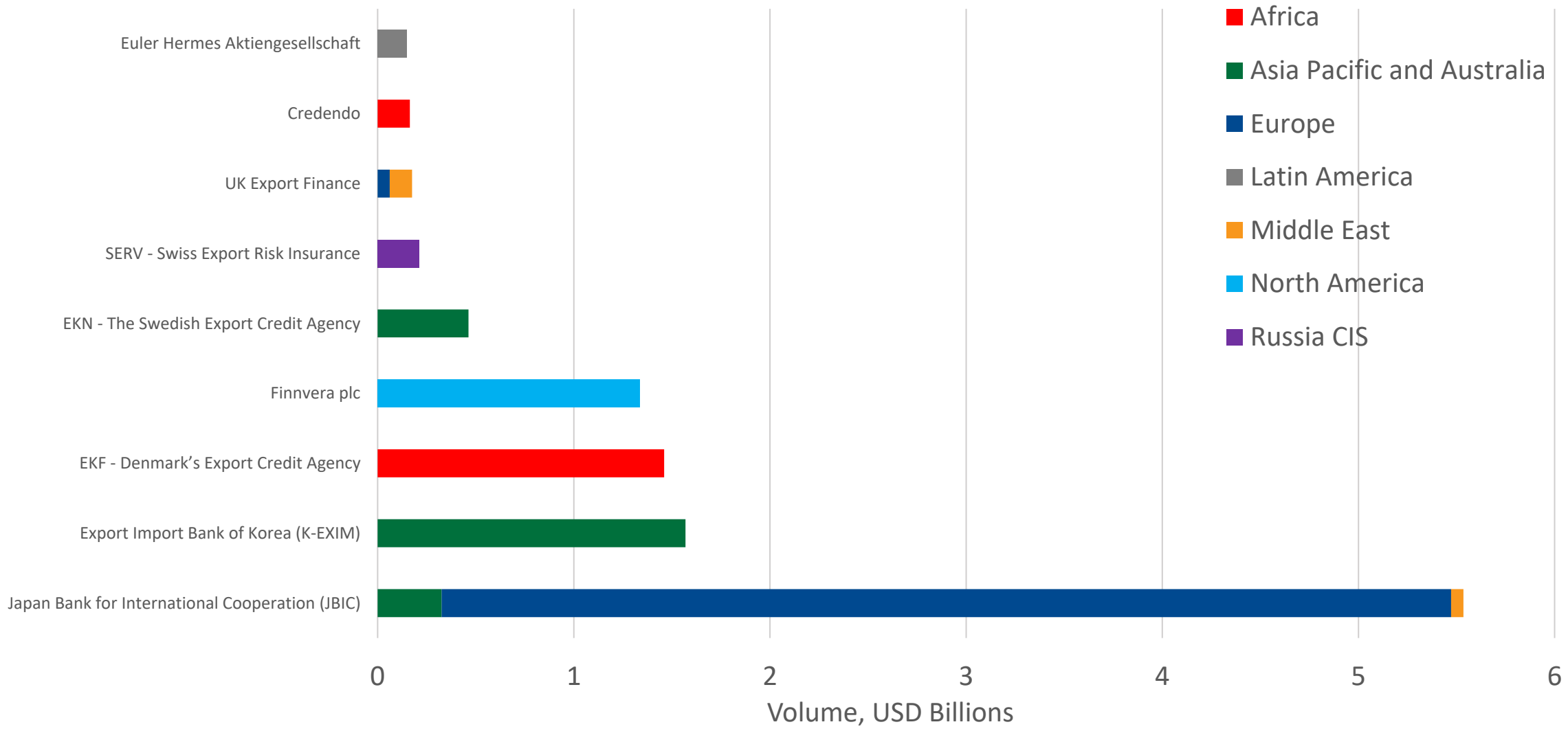

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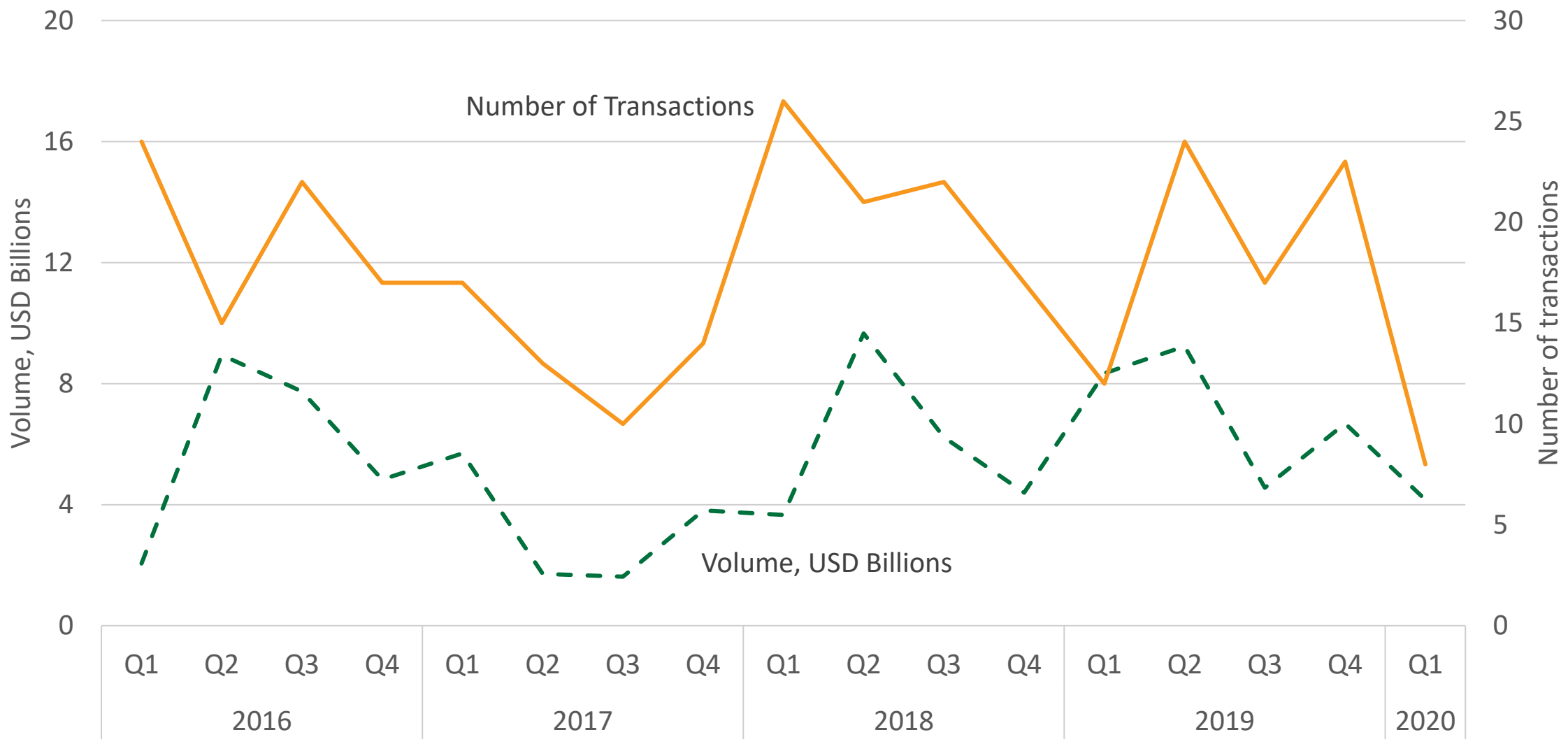
2 APAC overview by quarter: 2016–Q1 2020



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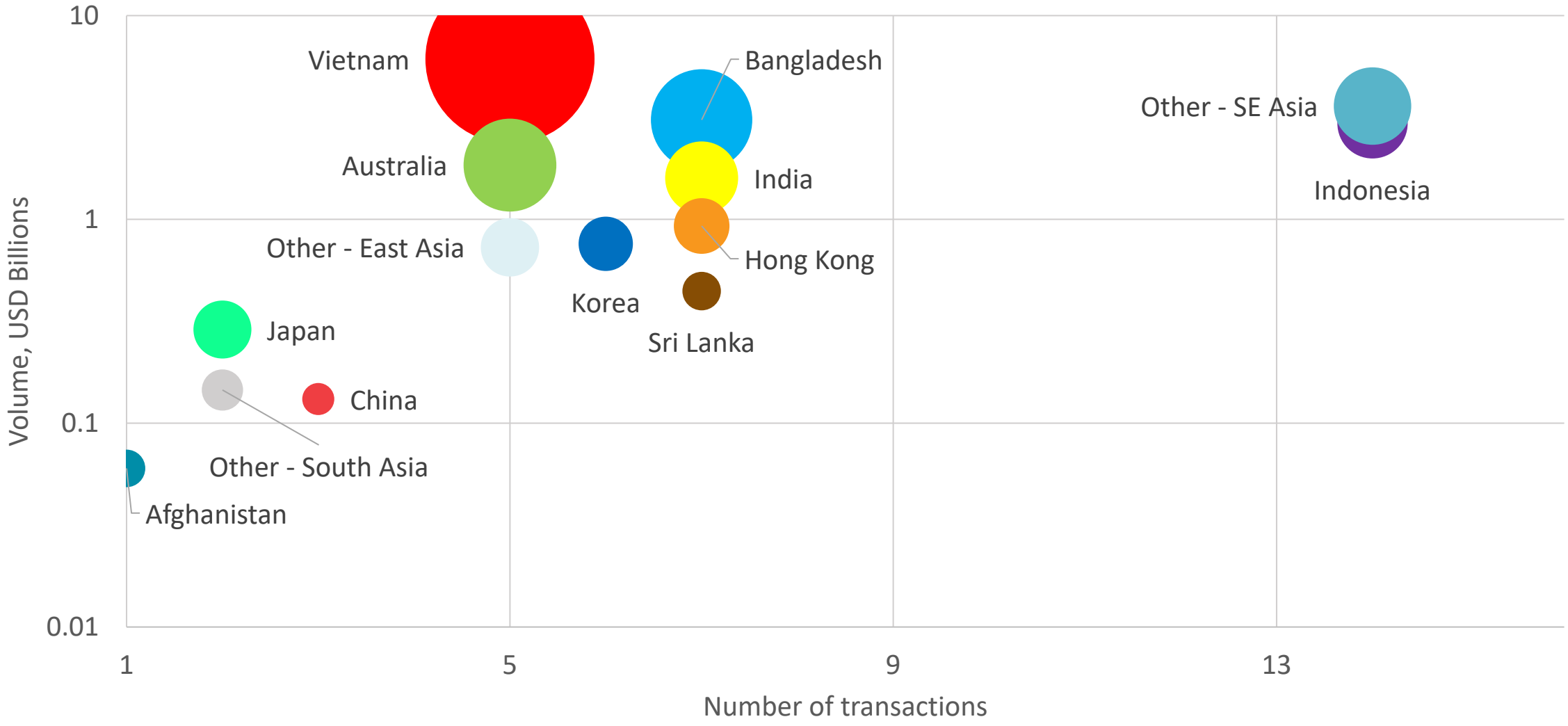
2 ECA financing by country: 2018 APAC



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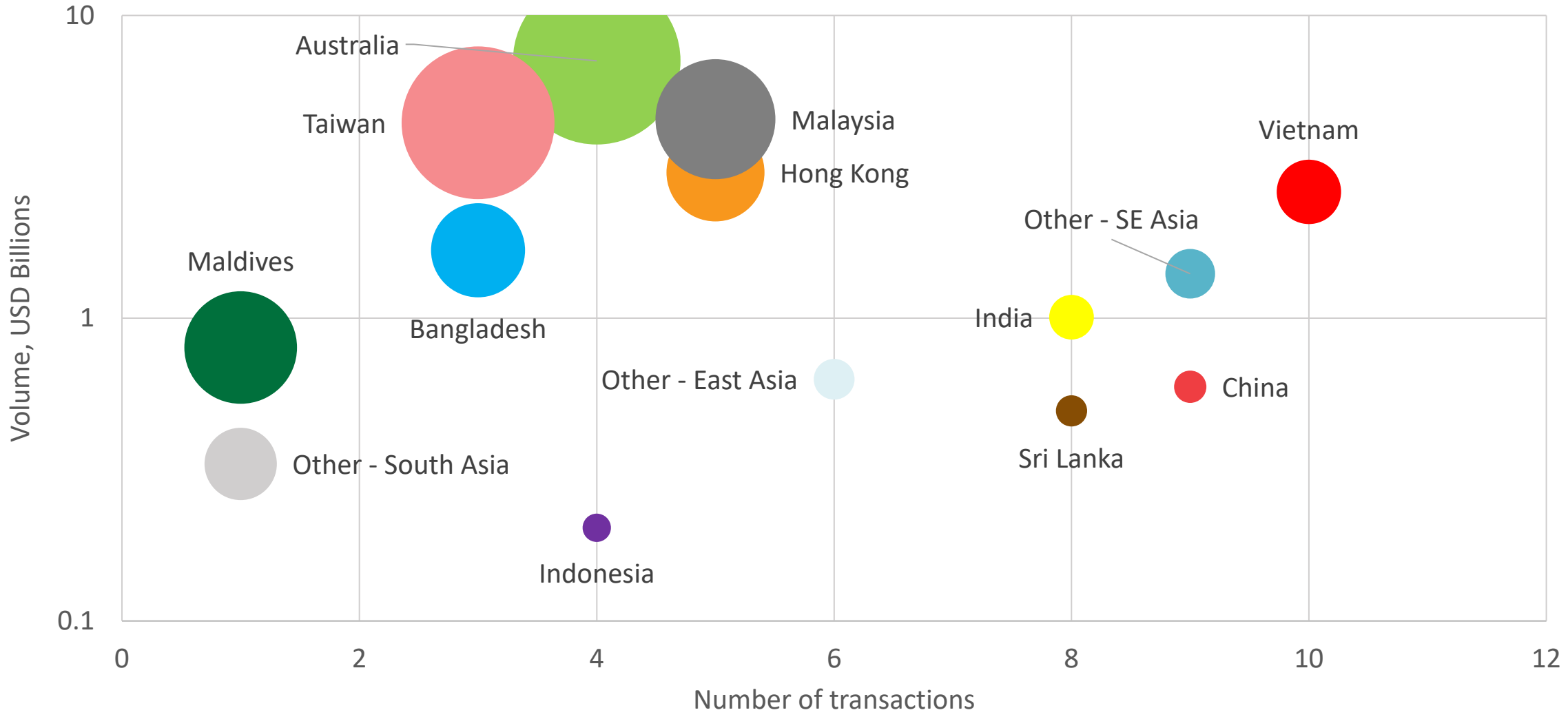

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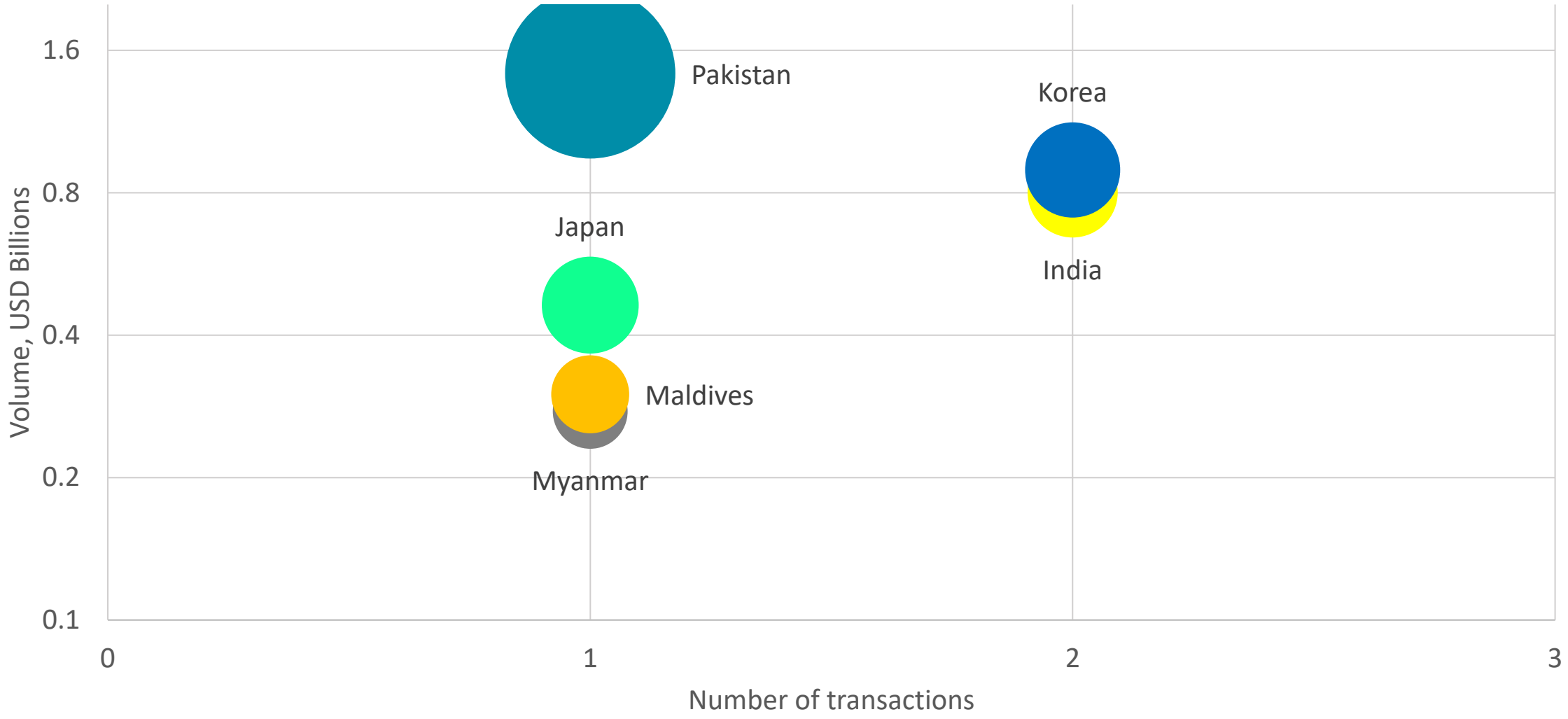

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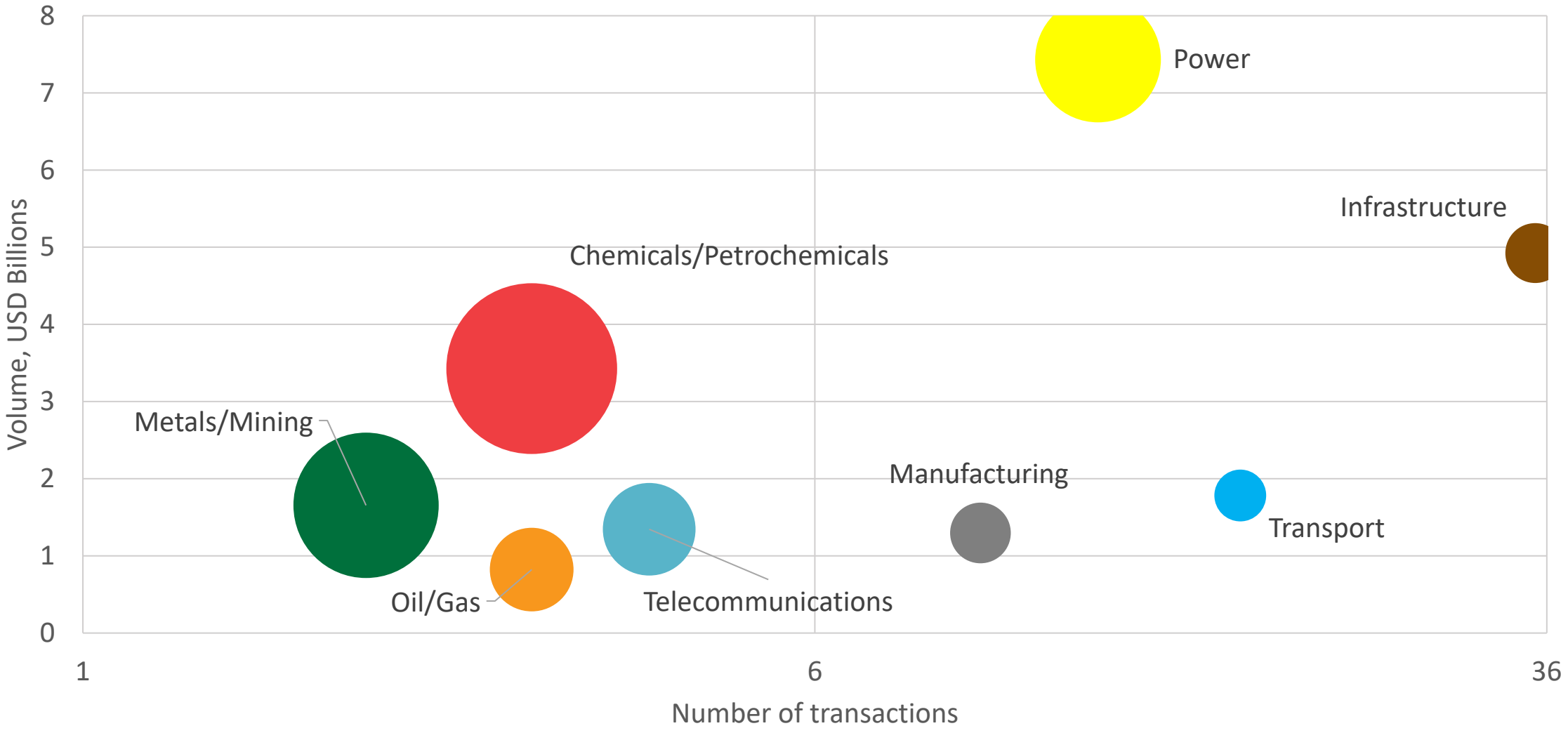
2 ECA financing by sector: 2018 APAC



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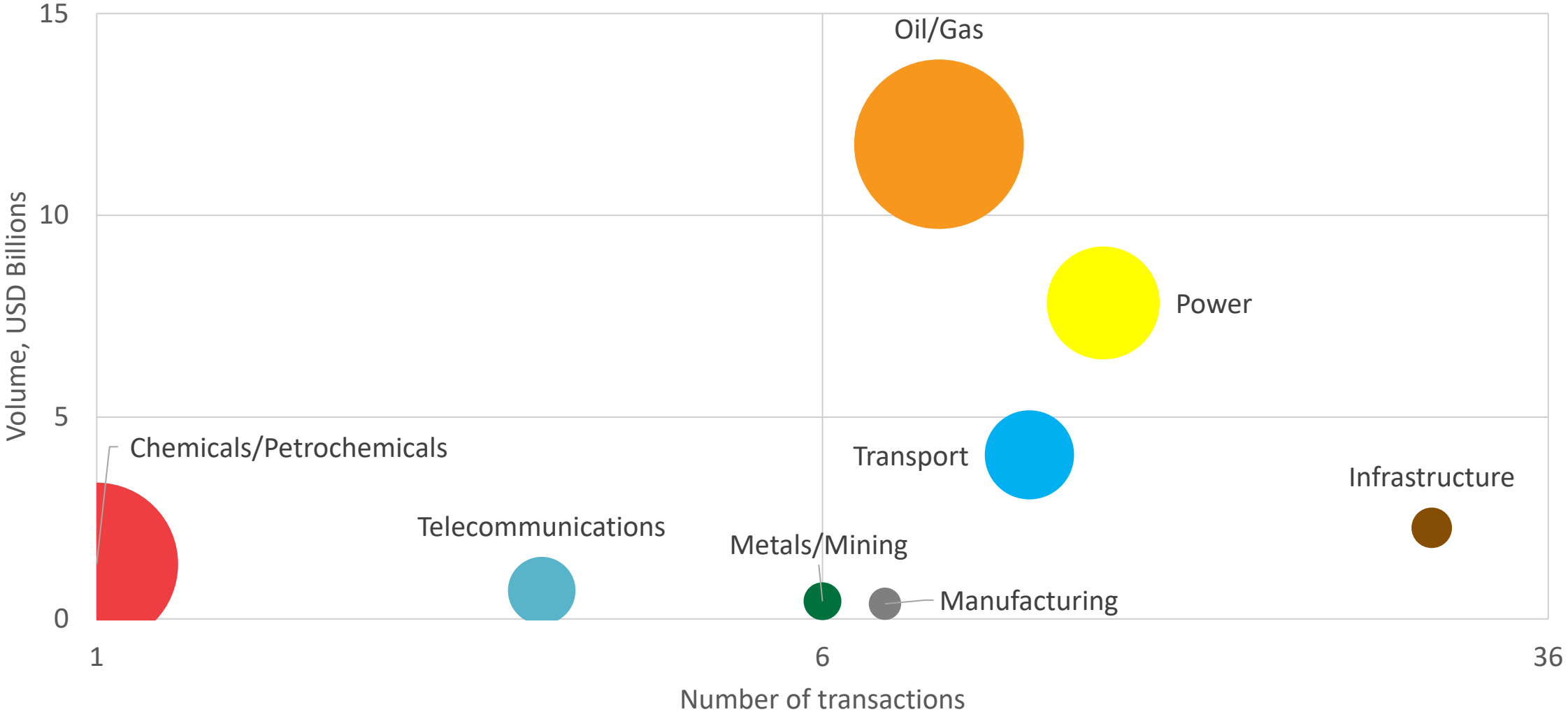

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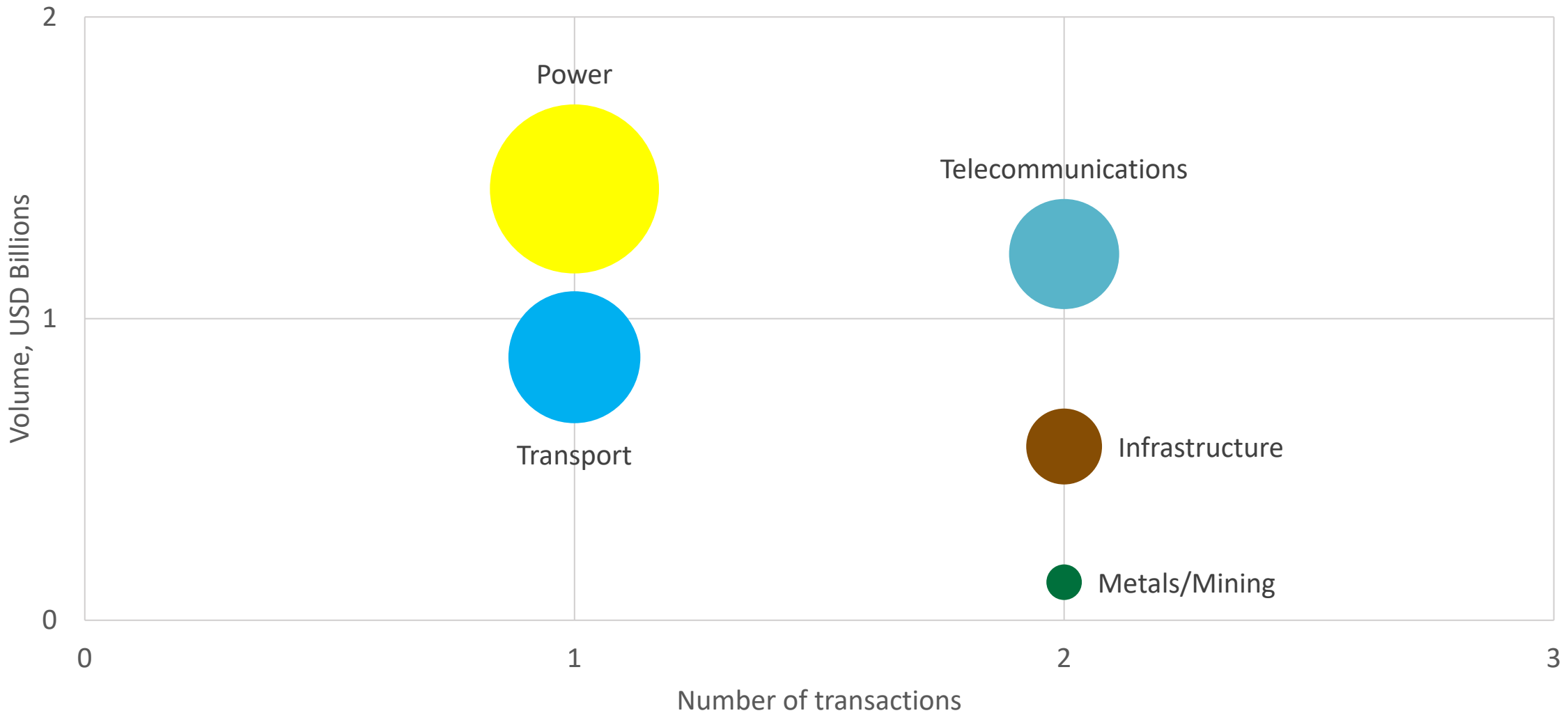

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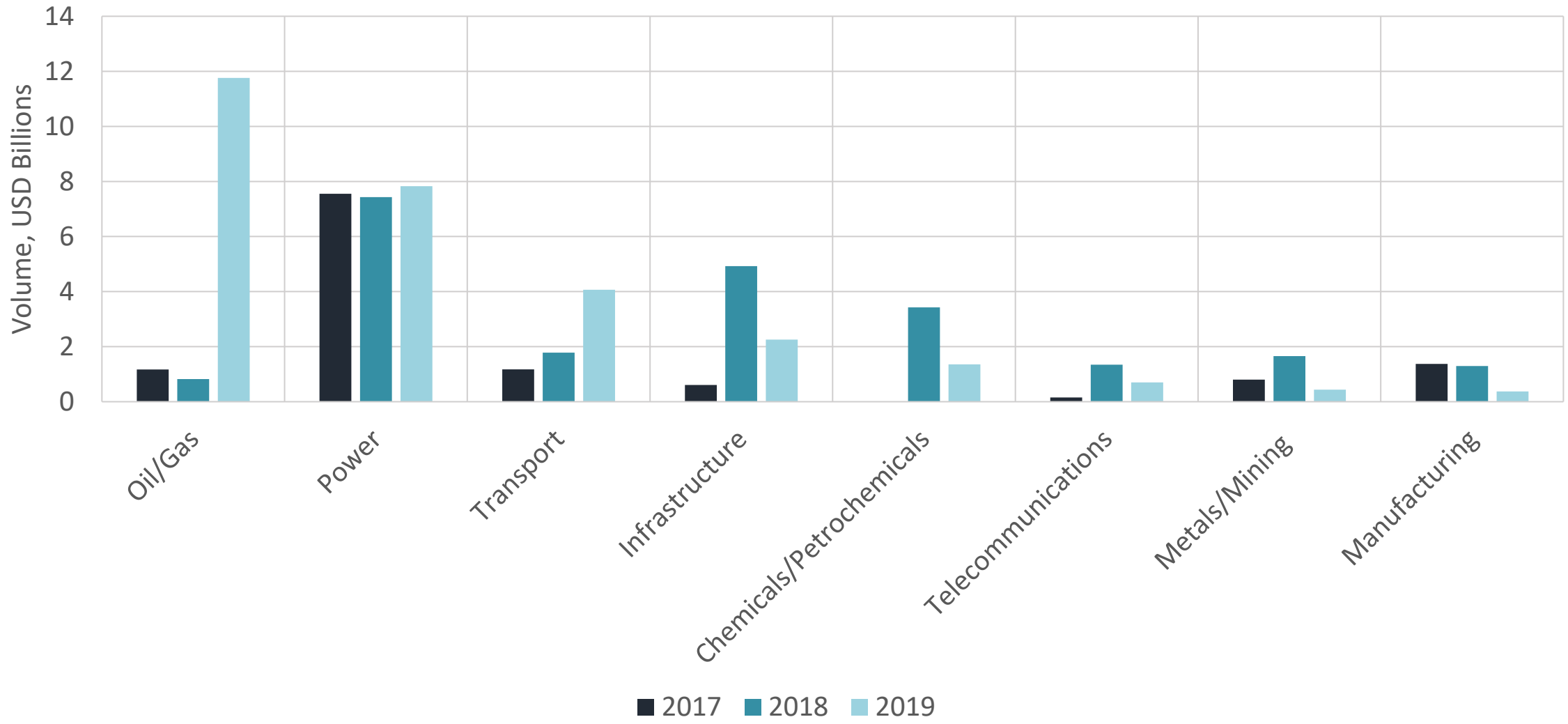

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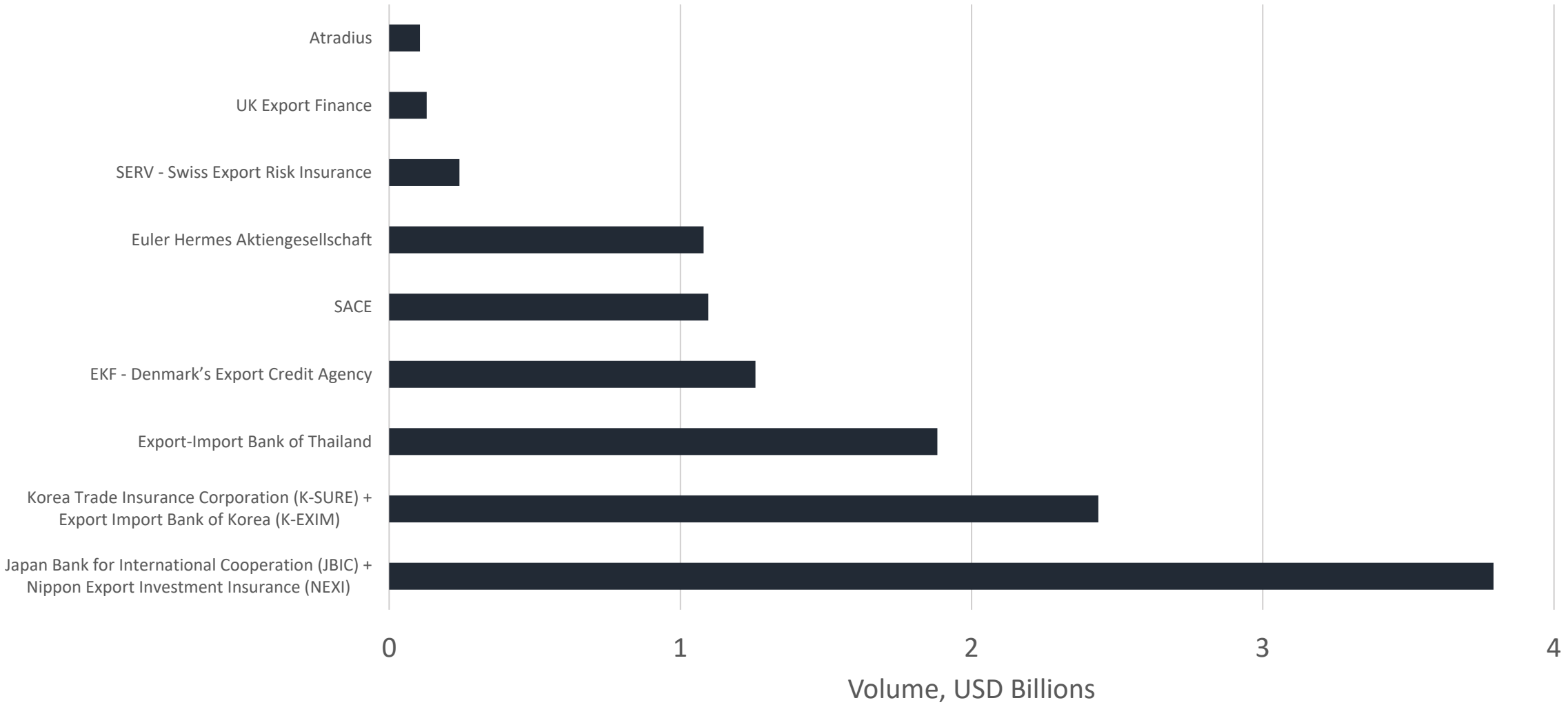
2 Top OECD ECAs by volume: 2018 APAC



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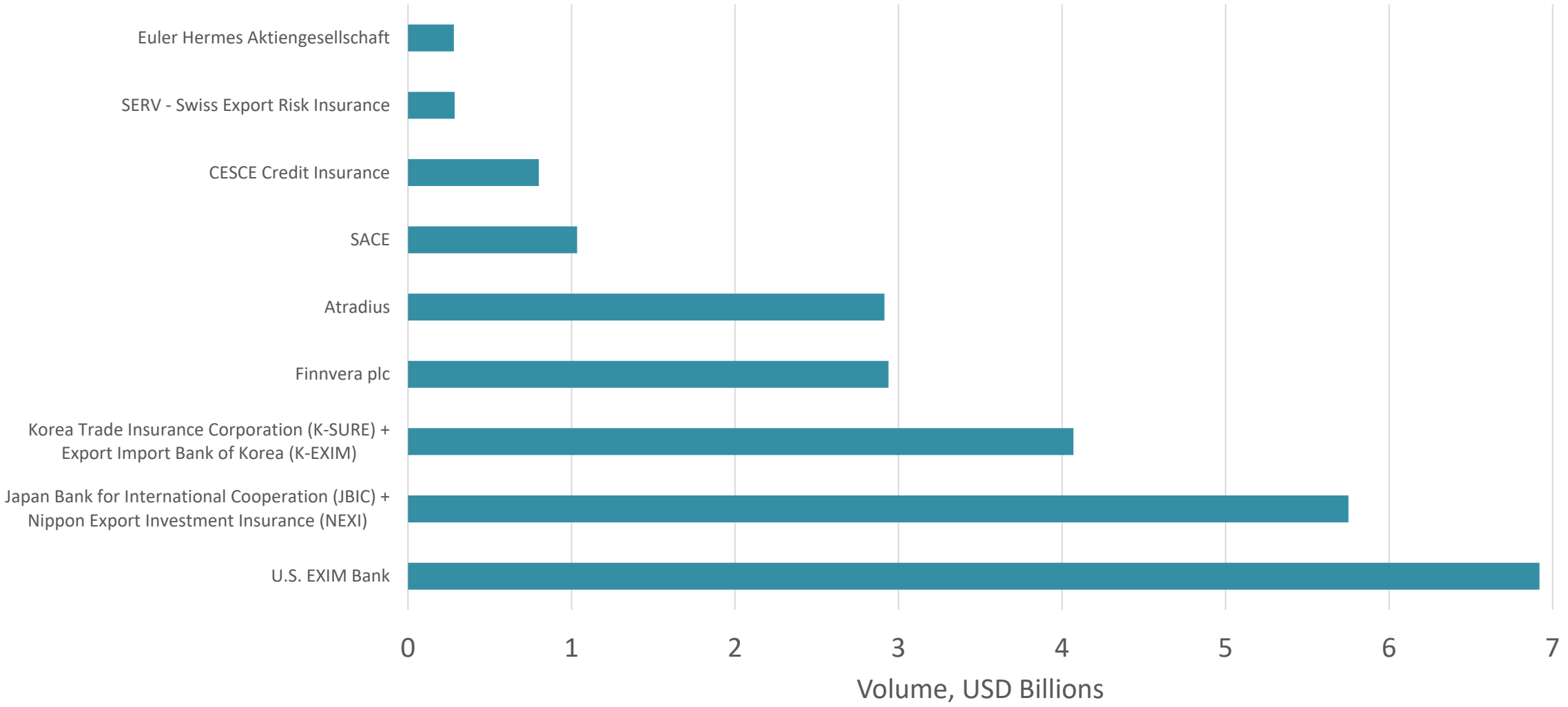

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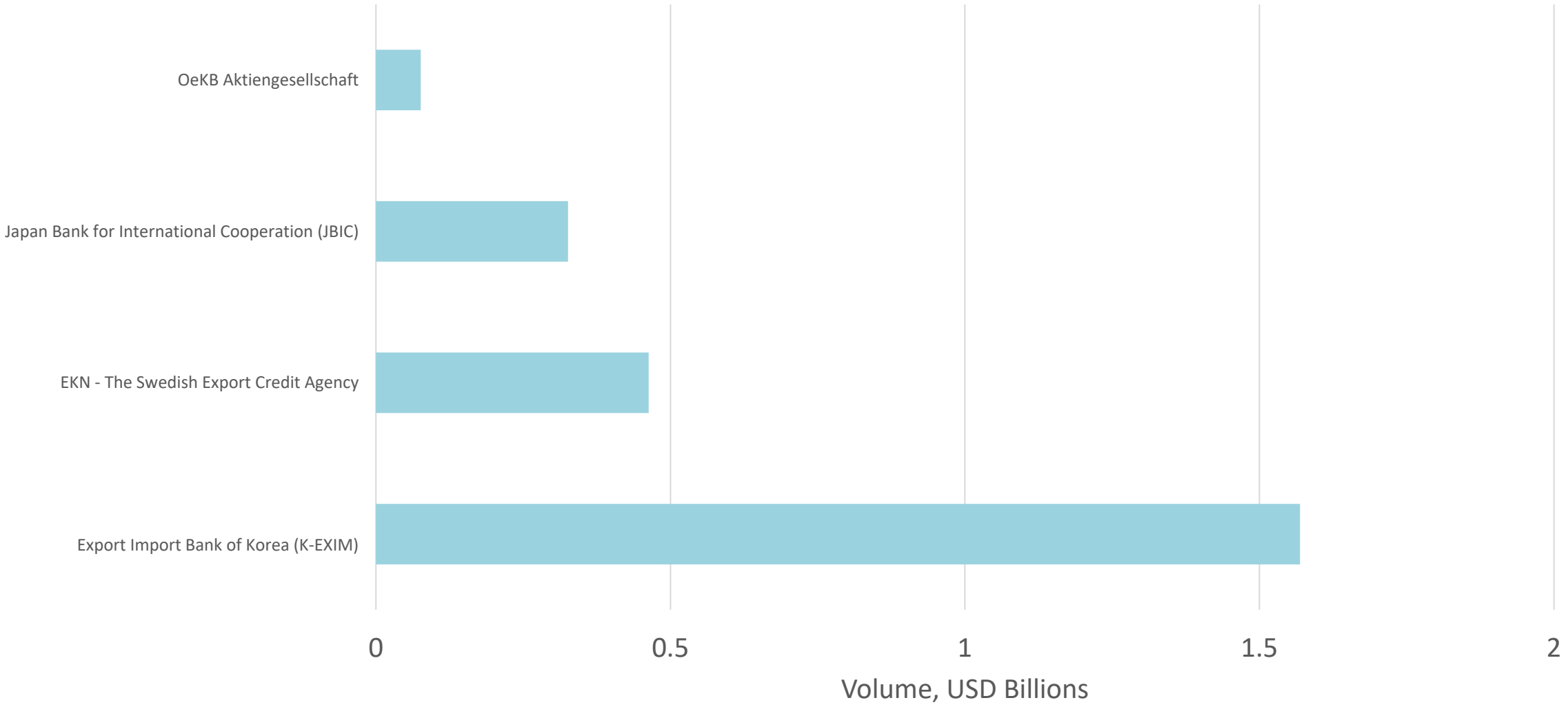

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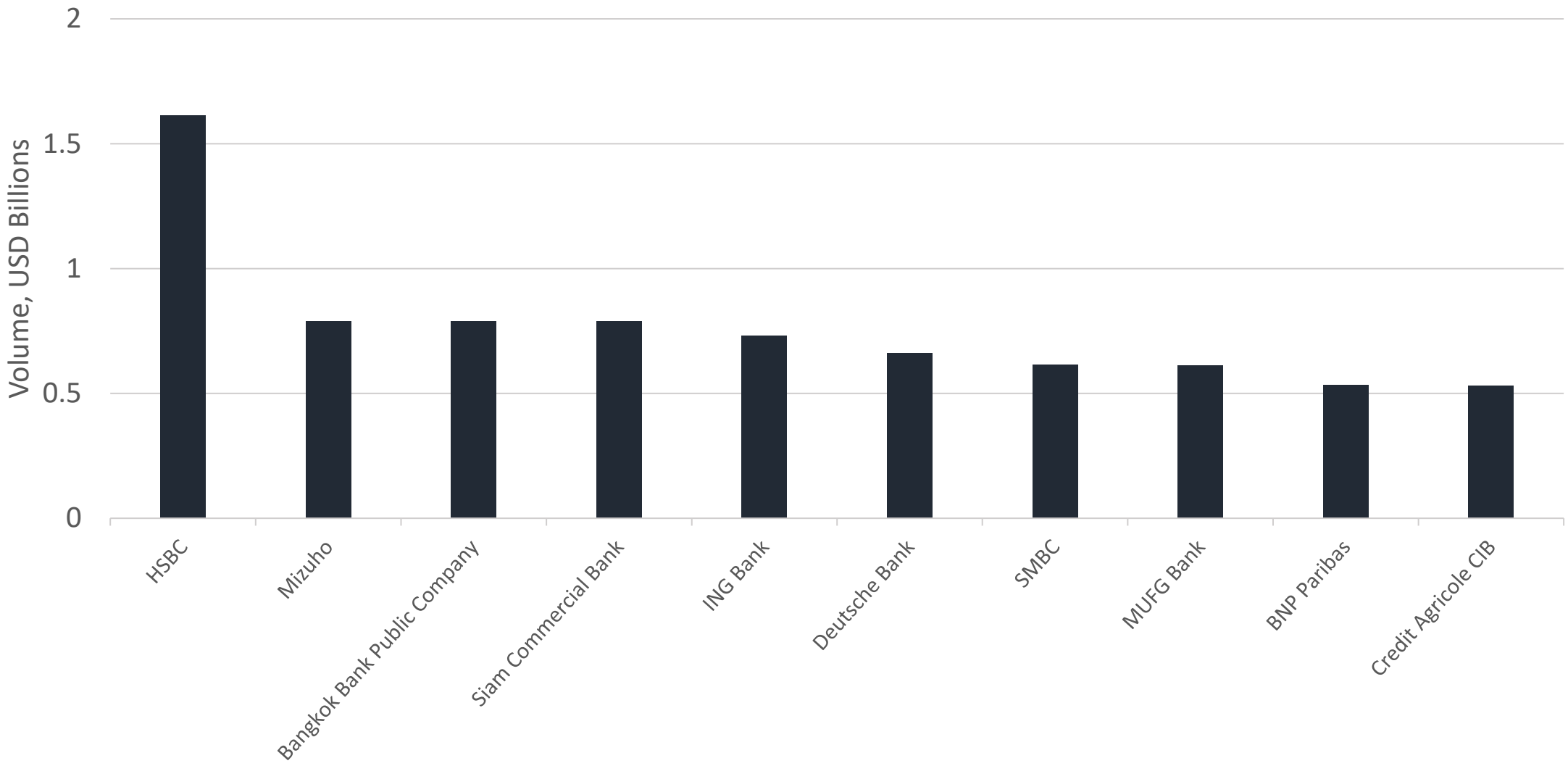
2 Financing by commercial banks: 2018 APAC



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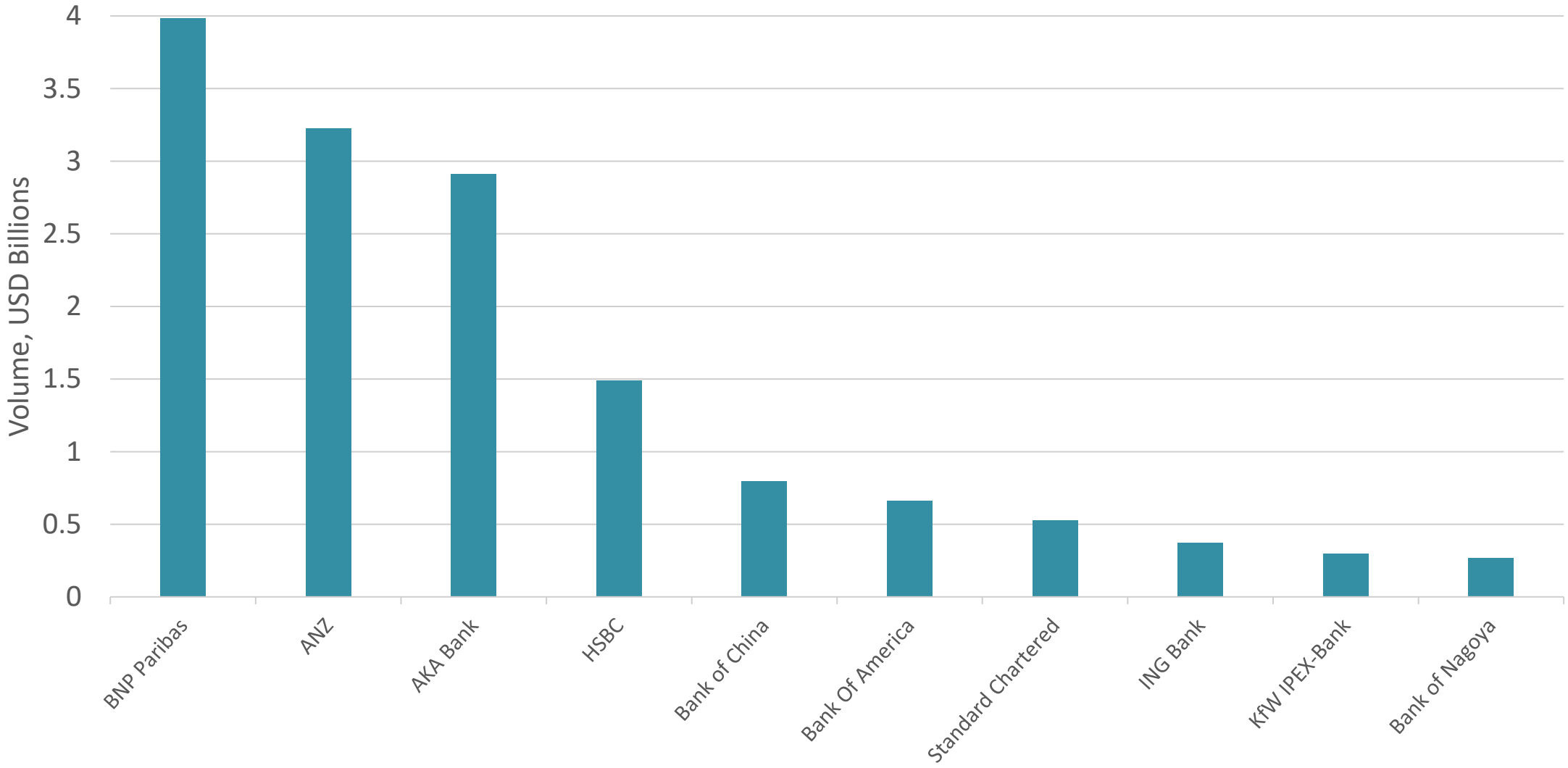

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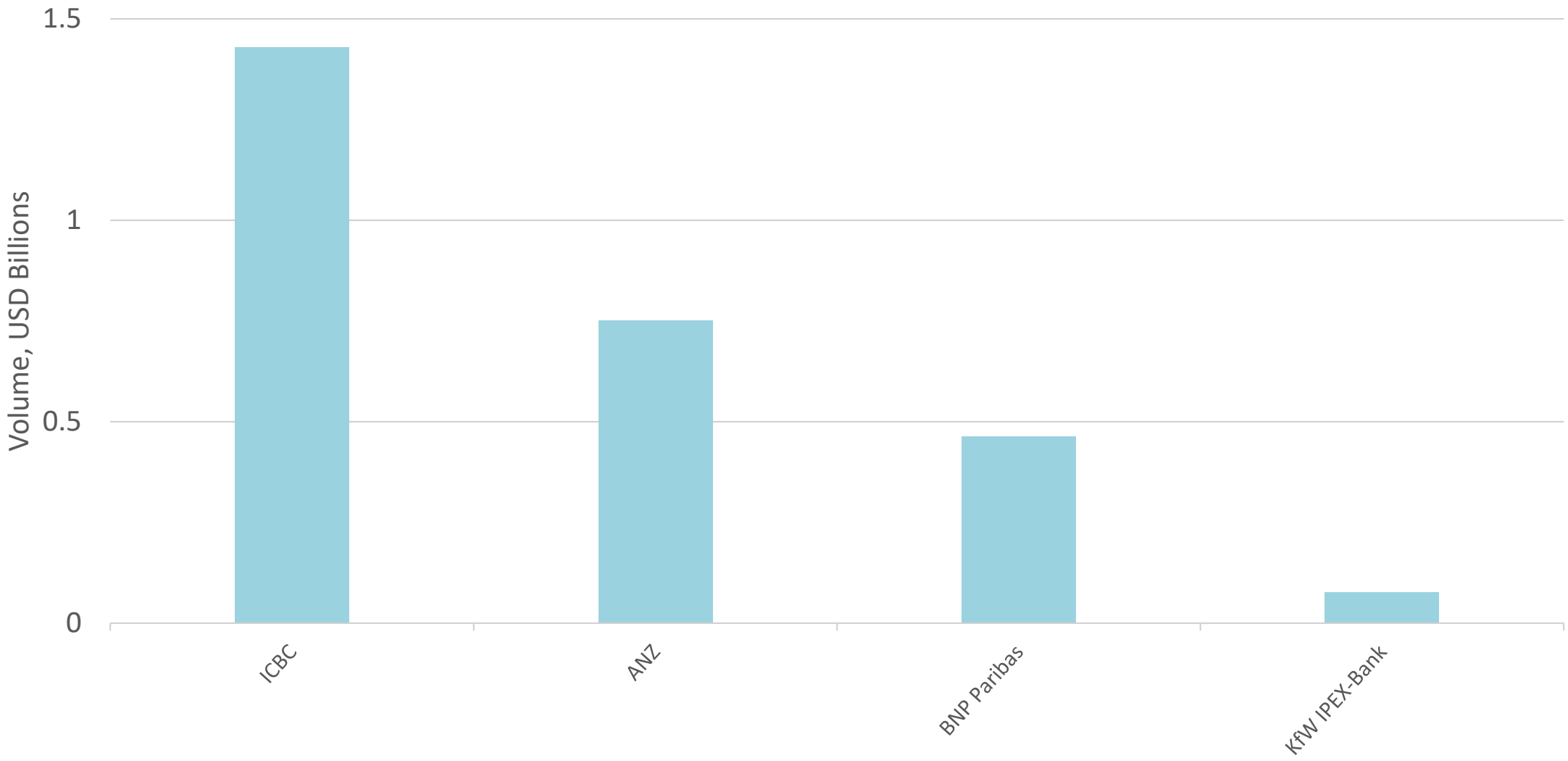

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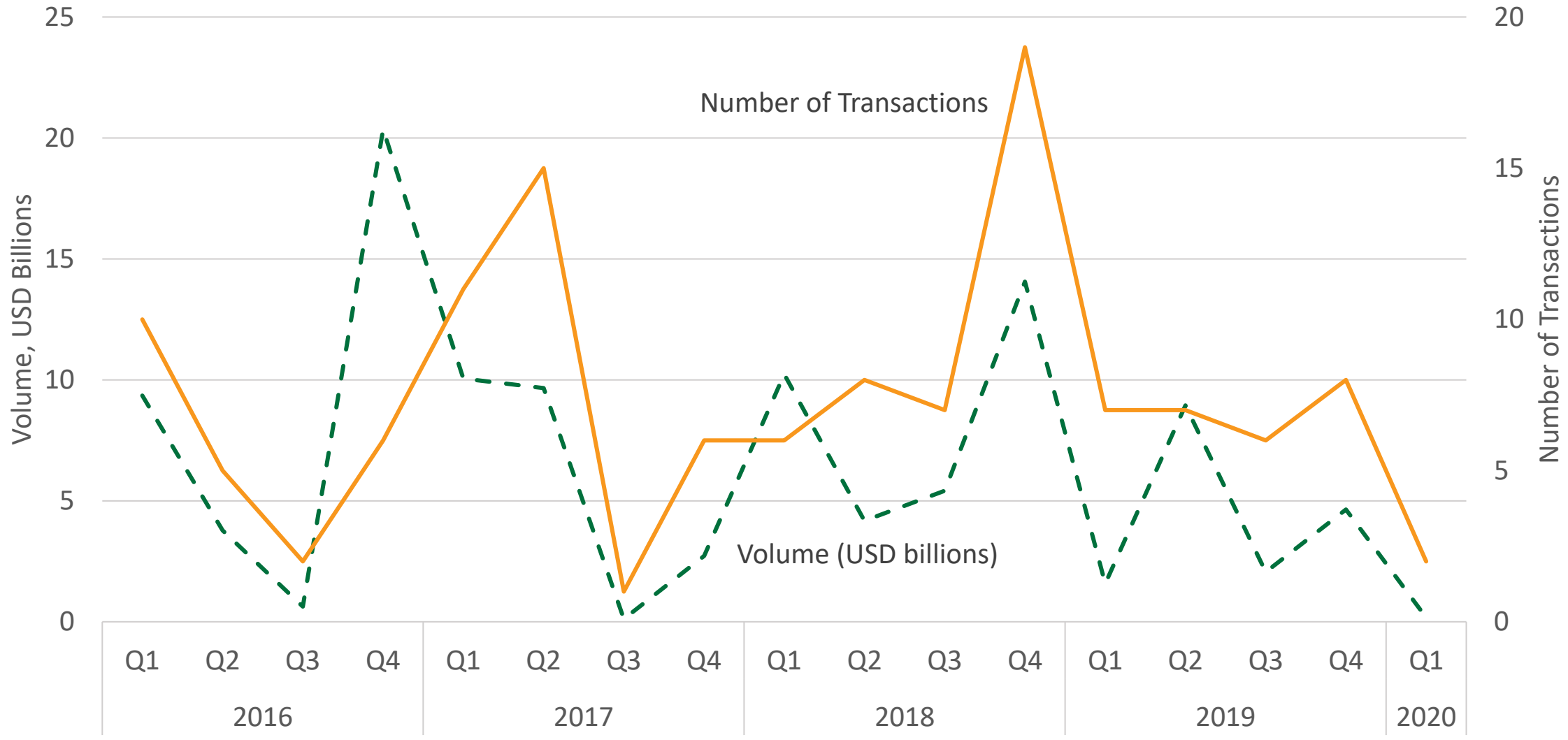
2 Middle East overview by quarter: 2016–Q1 2020



ECA long-term transactions.
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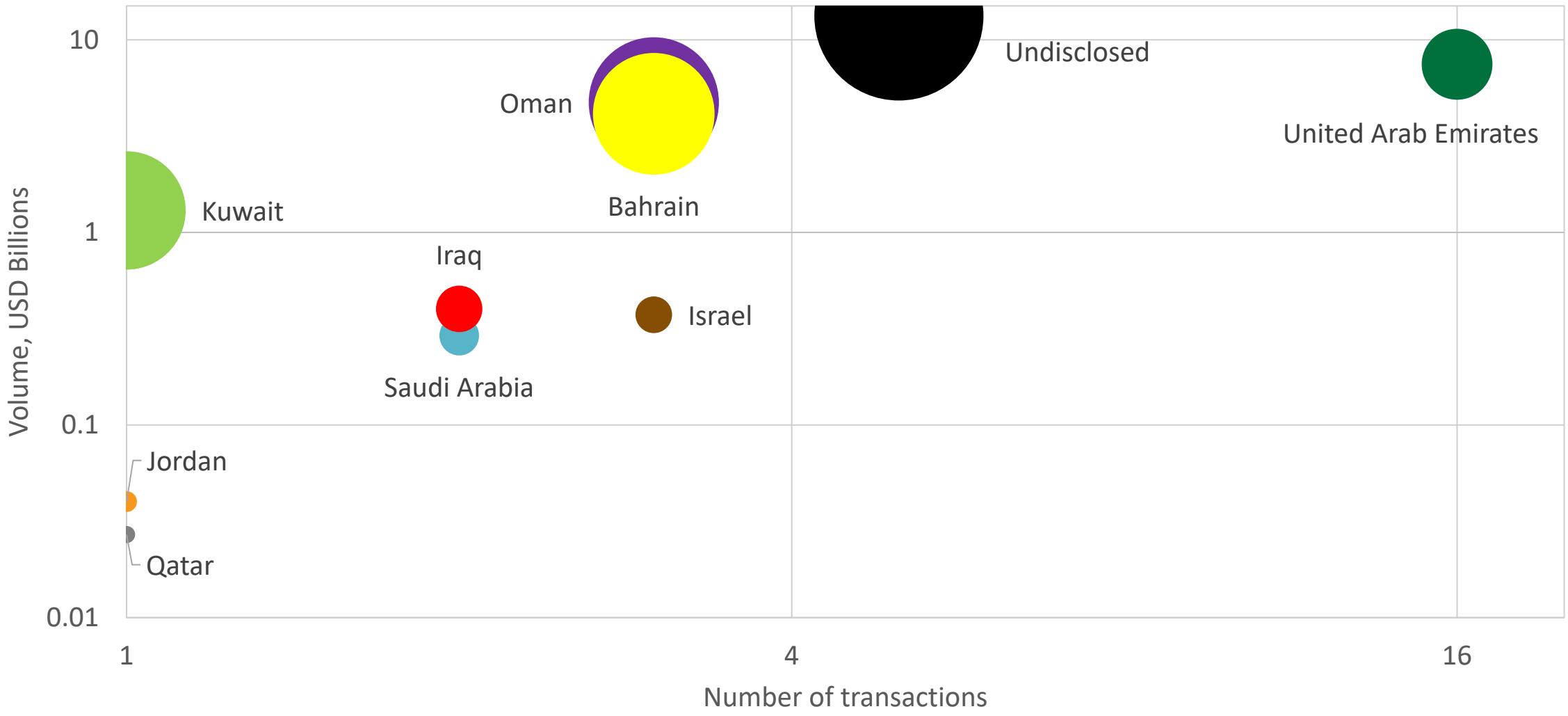
2 ECA financing by country: 2018 ME



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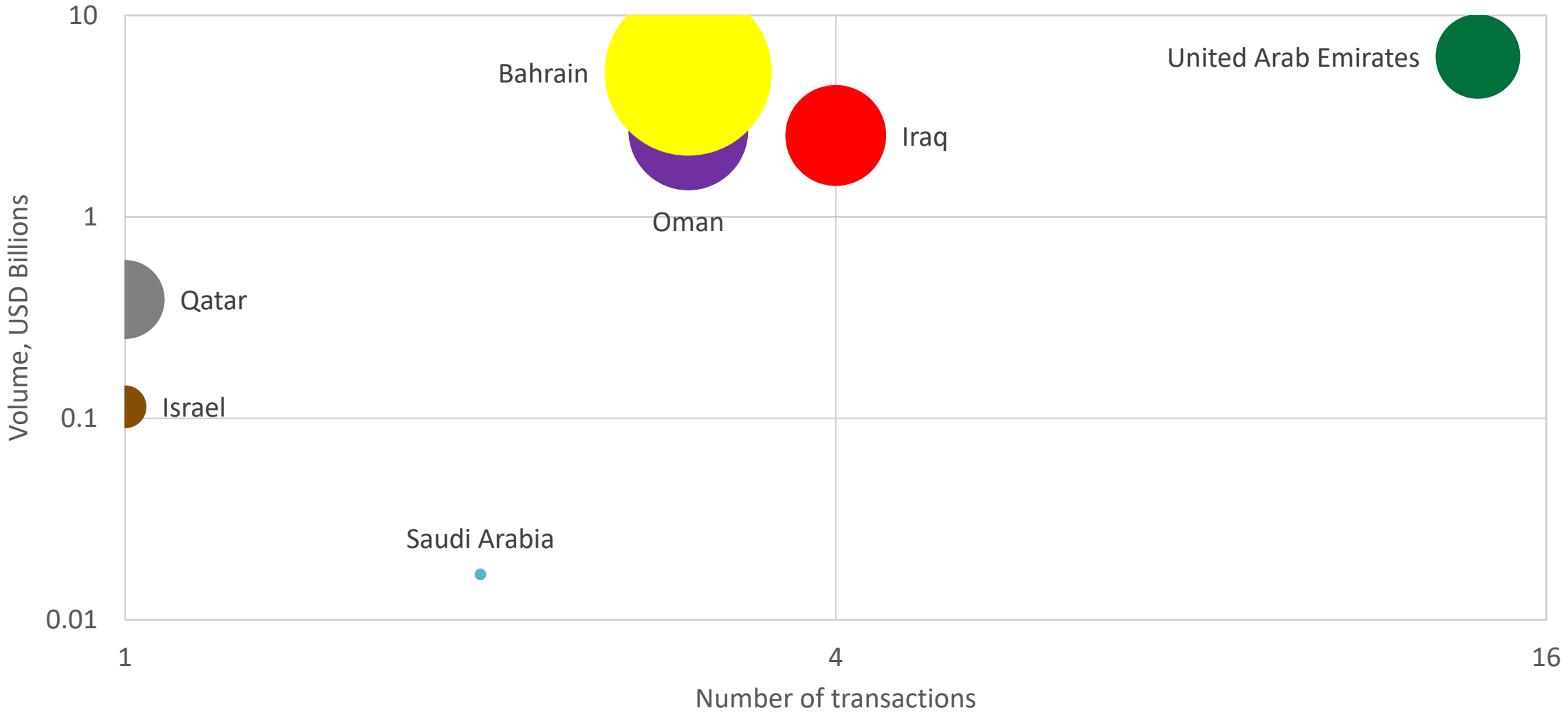

ECA long-term transactions.
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ECA financing by country: Q1 2020 ME

ECA long-term transactions.
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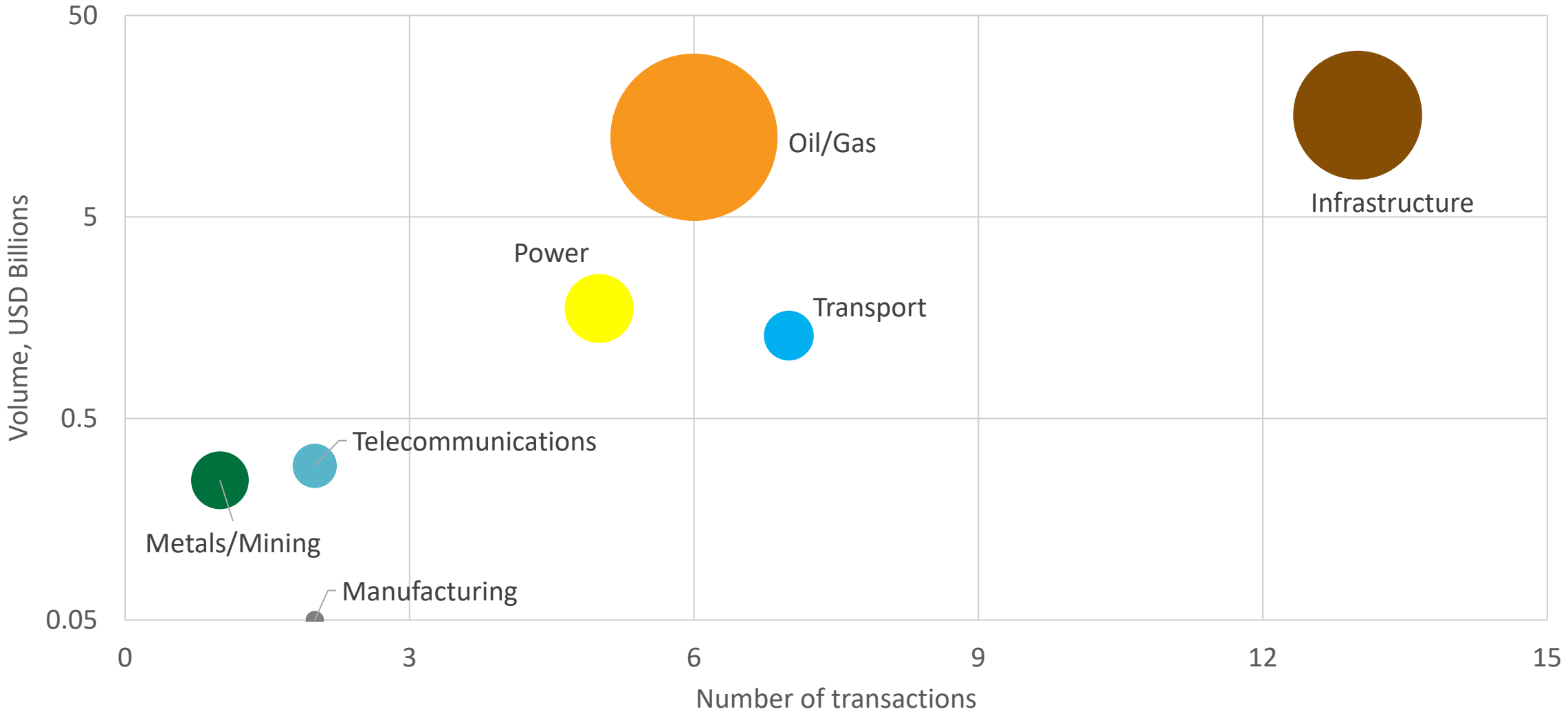
ECA financing by sector: 2018 ME



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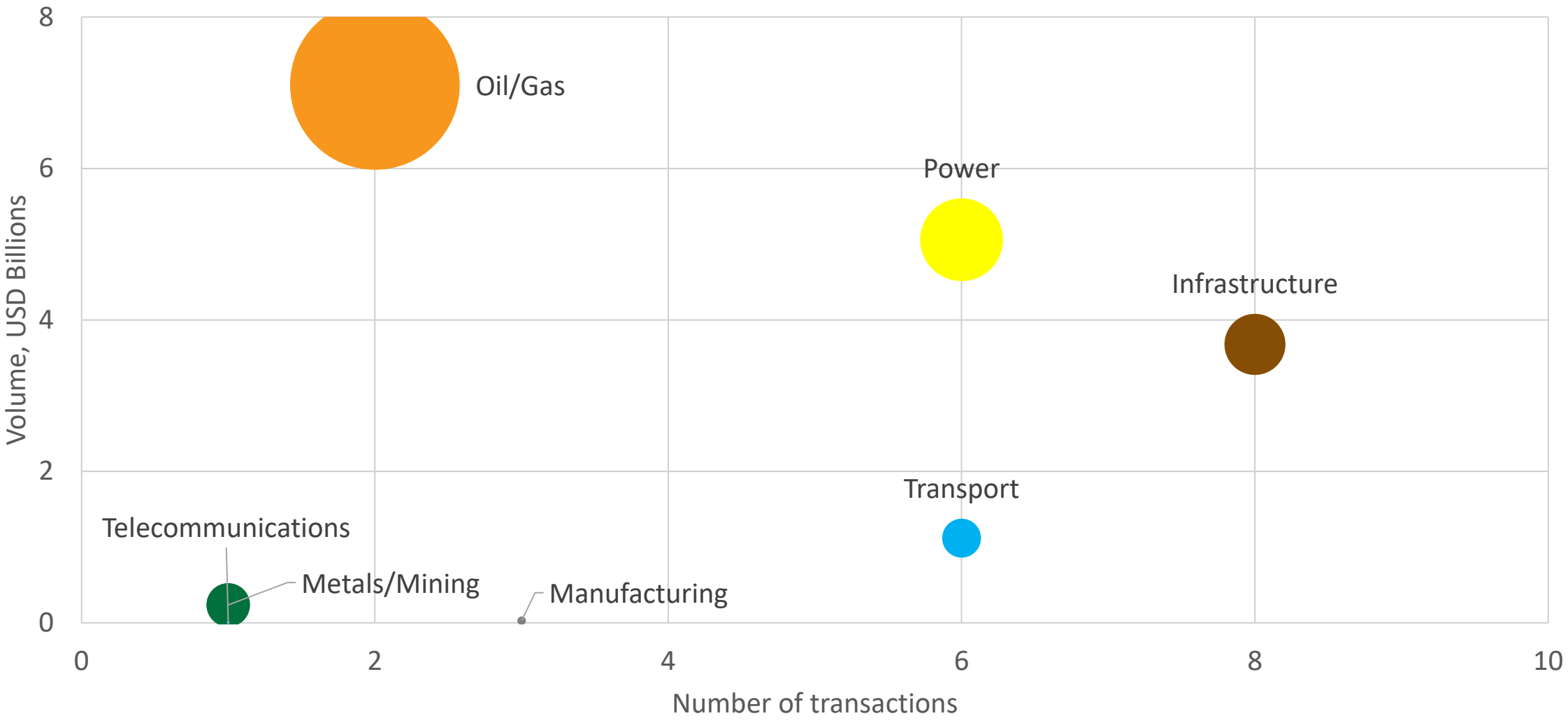

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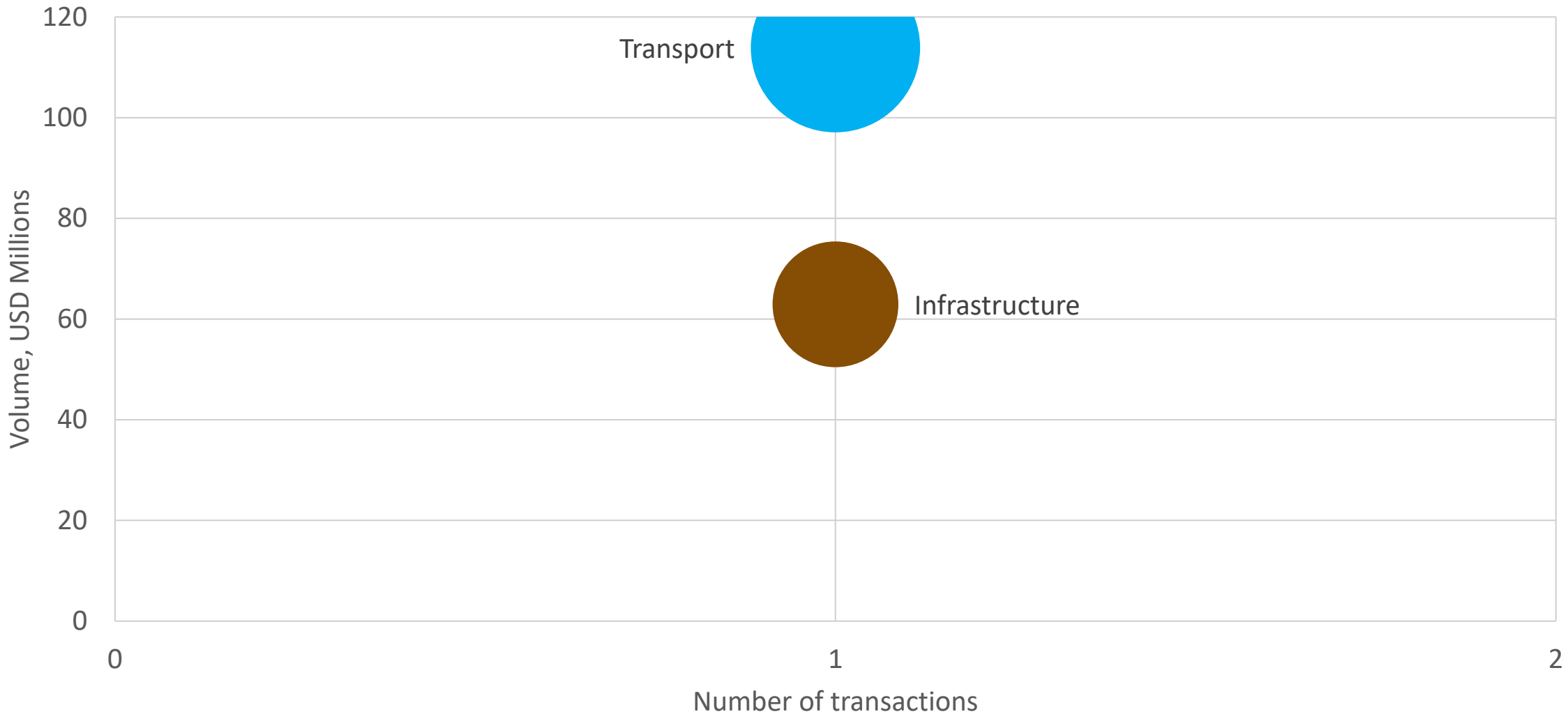

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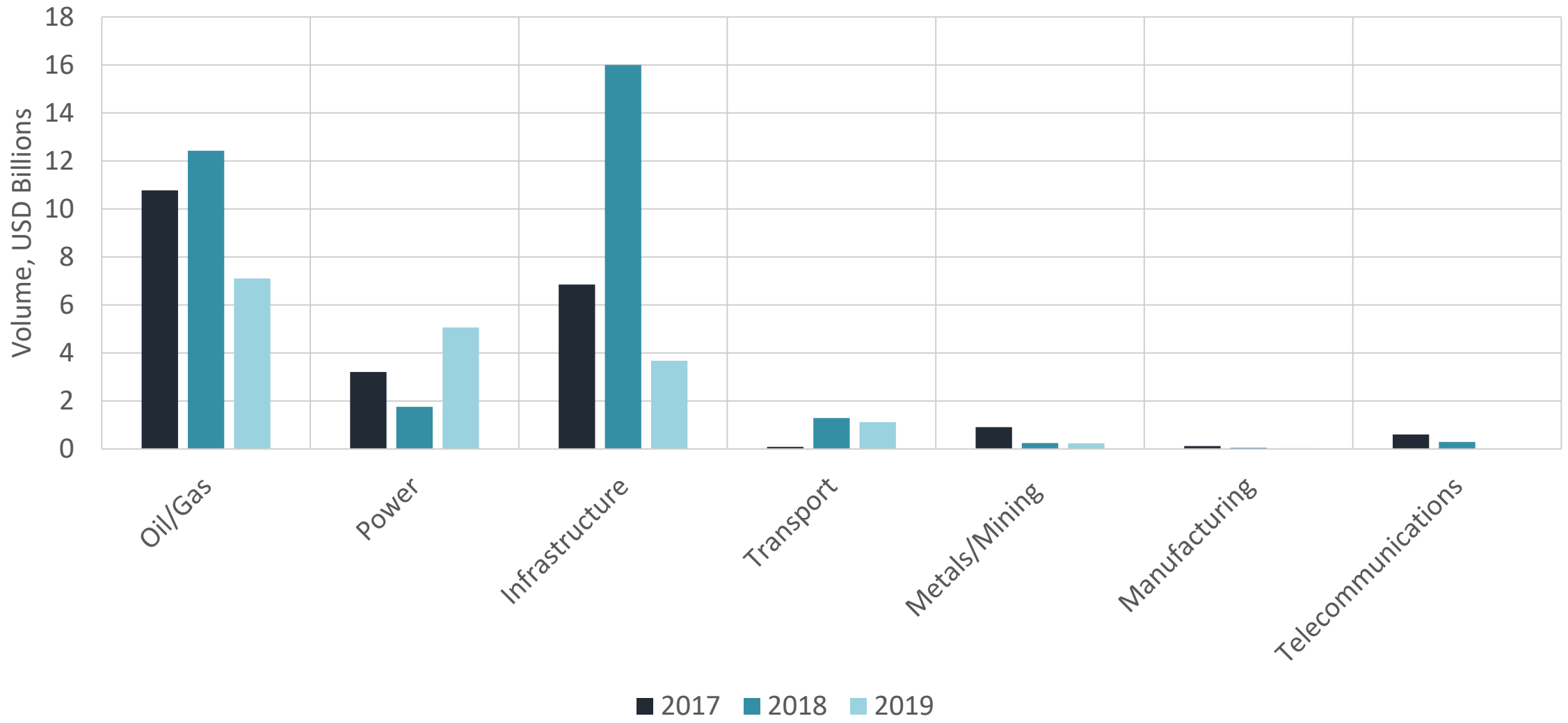
2 ECA financing by sector: 2017–2019 ME



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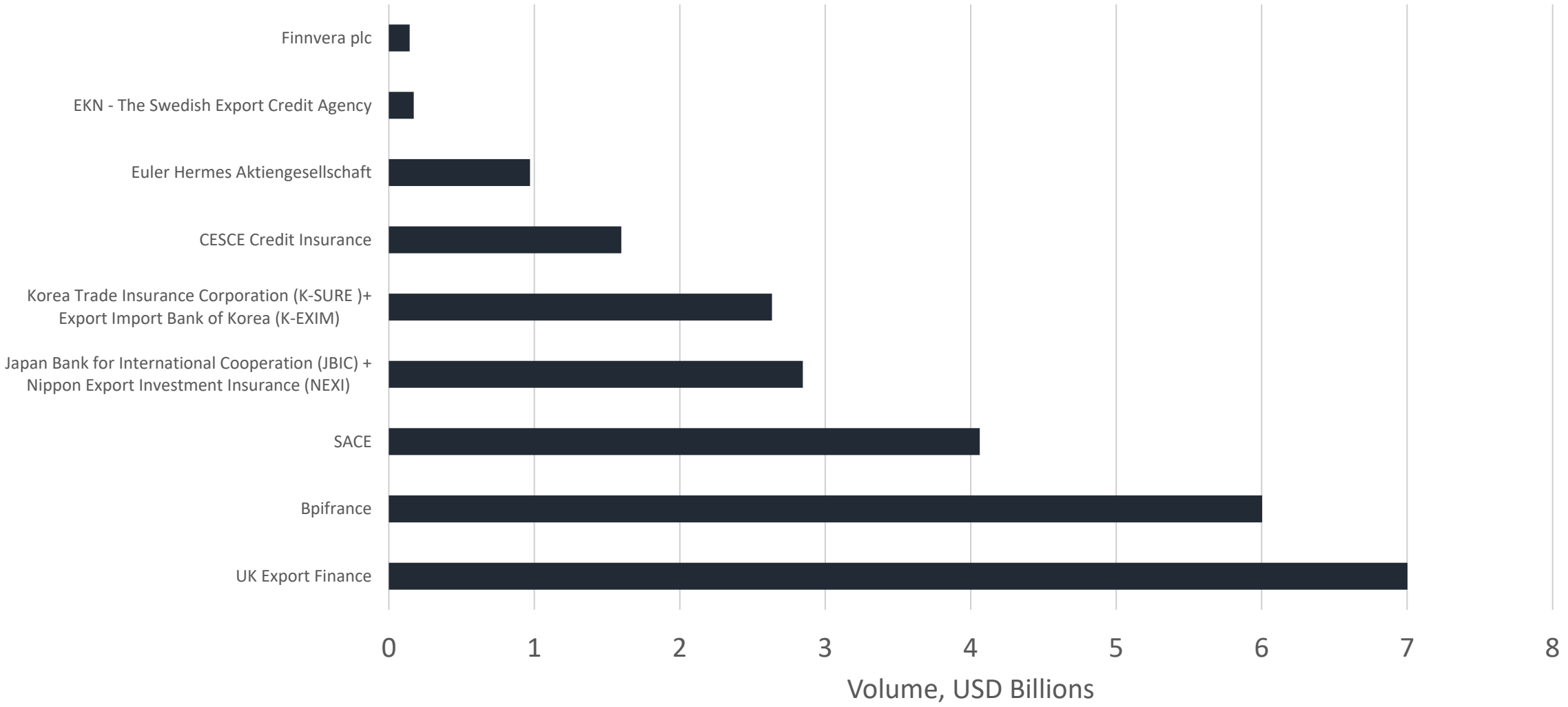
2 Top OECD ECAs by volume: 2018 ME



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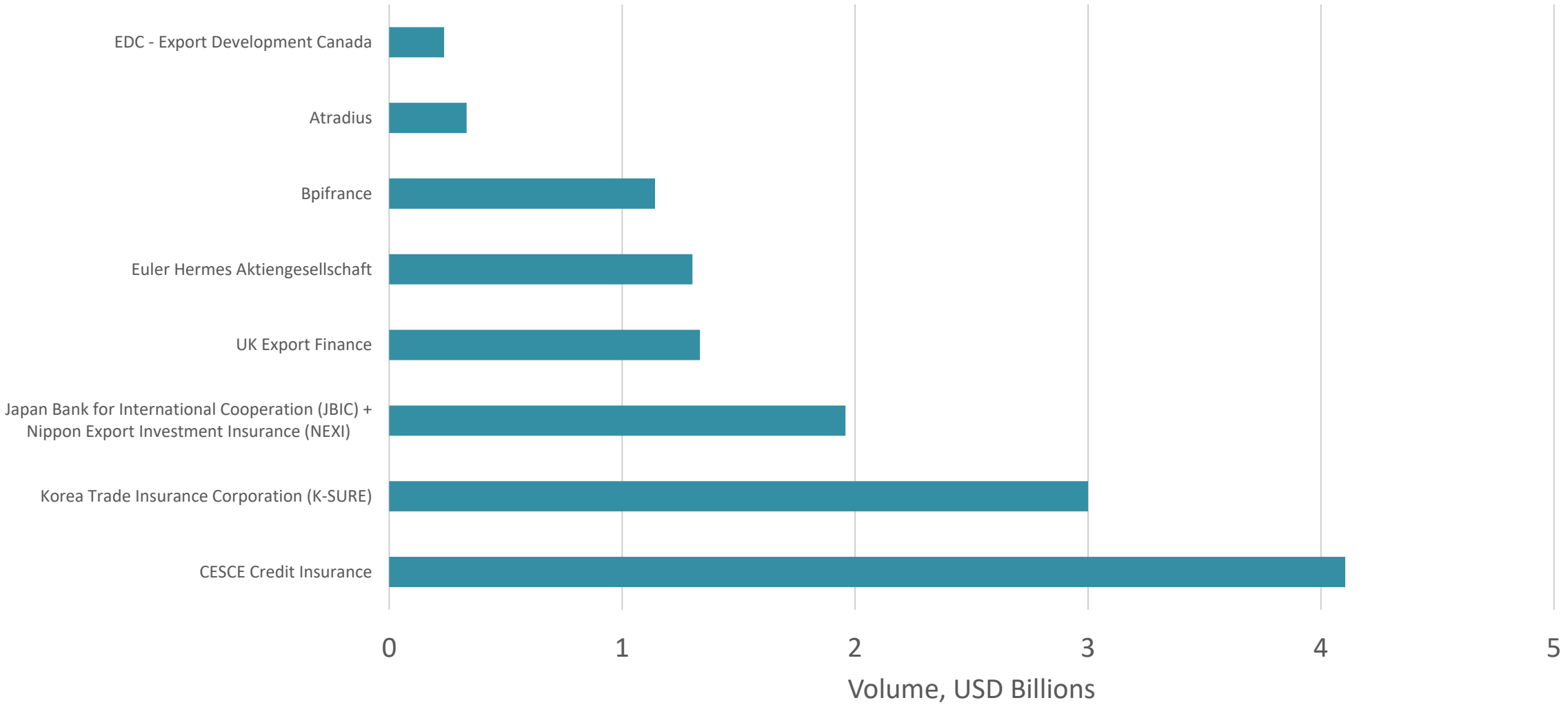

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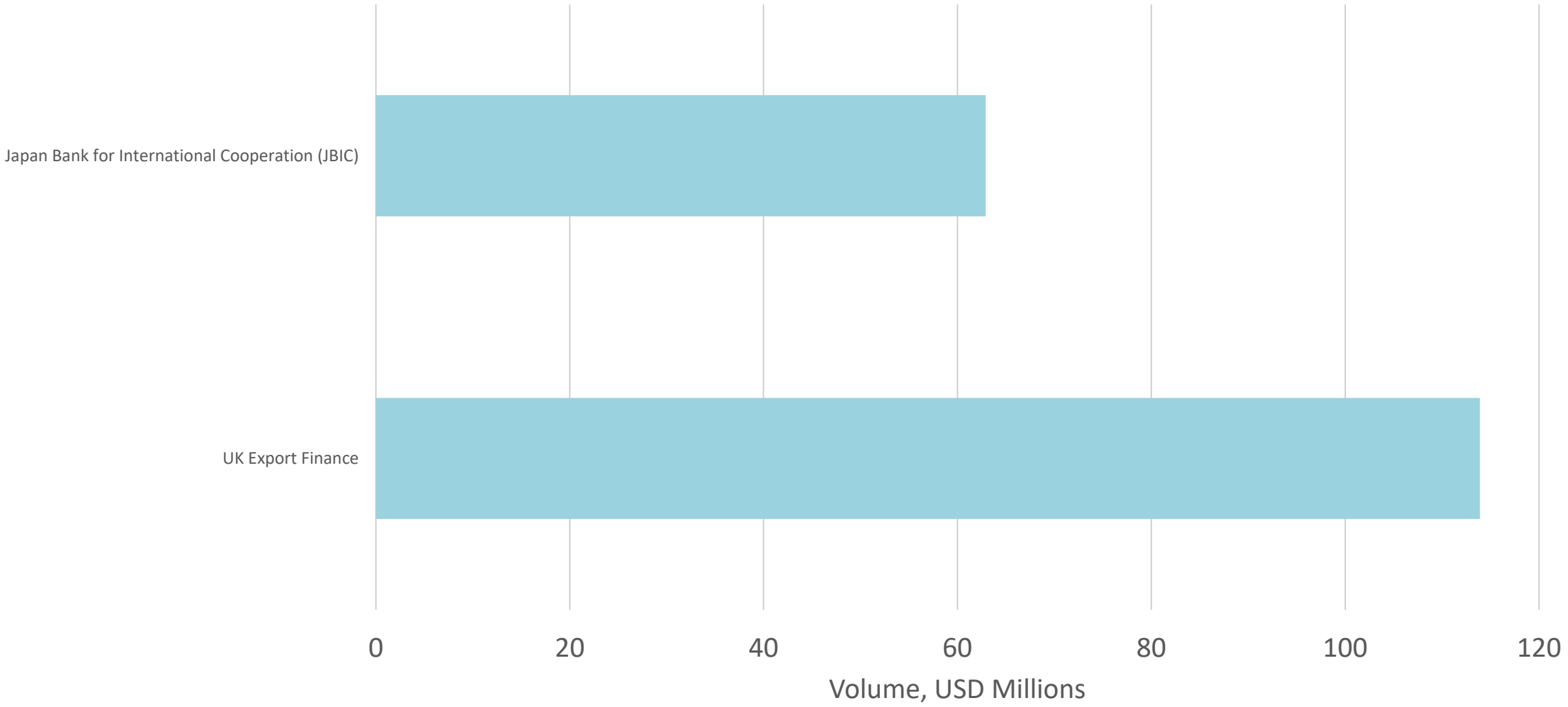

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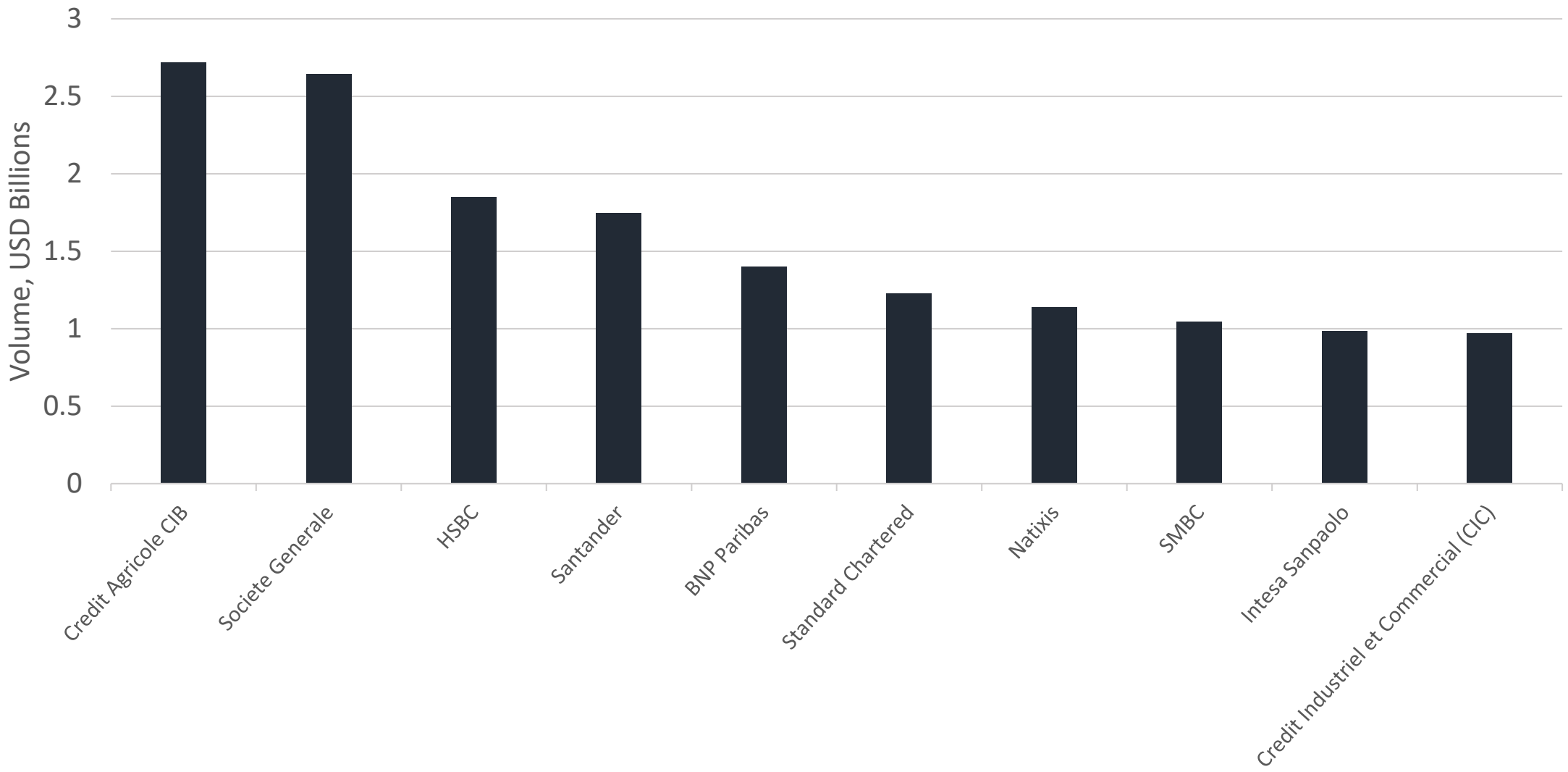

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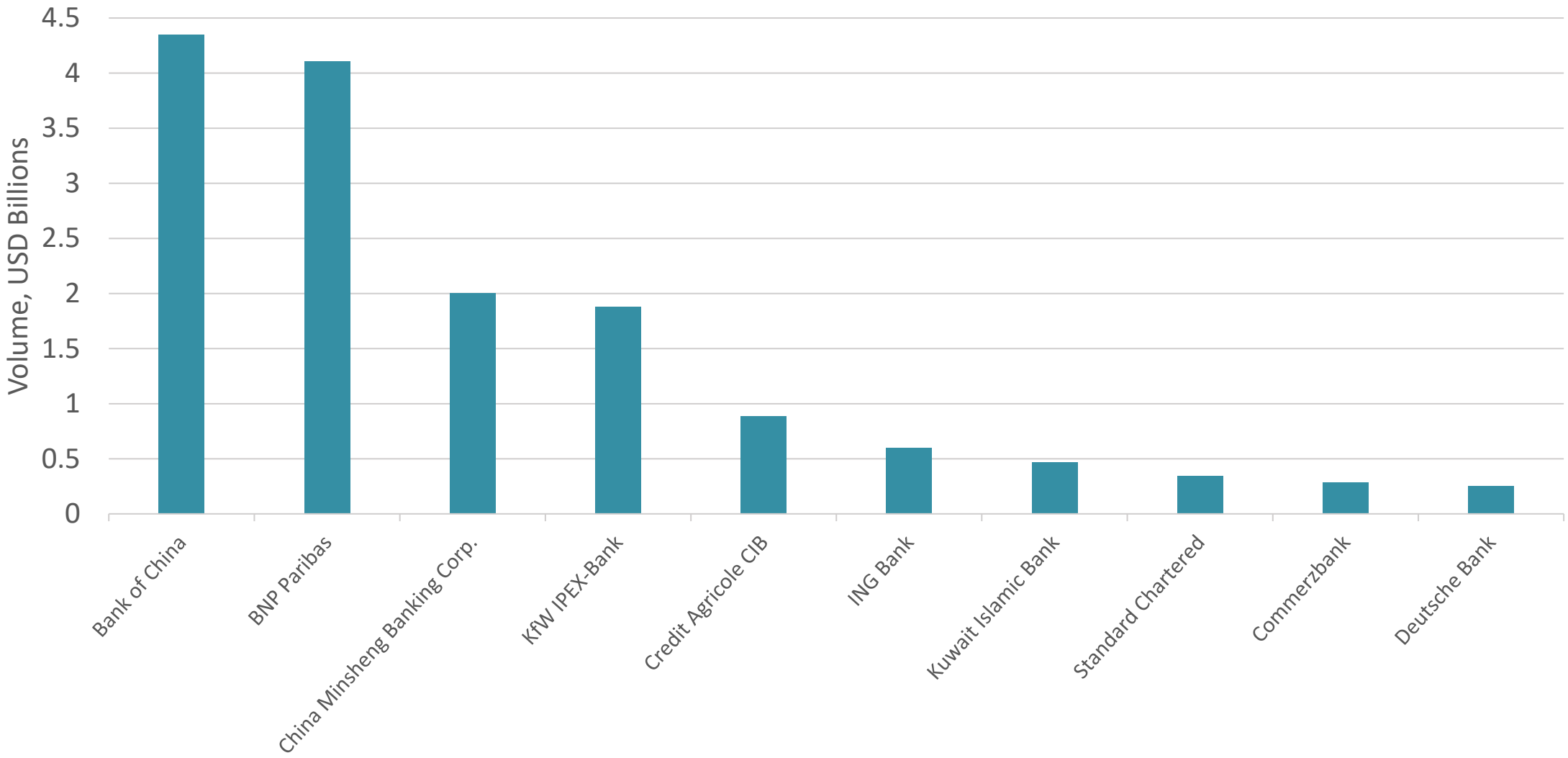
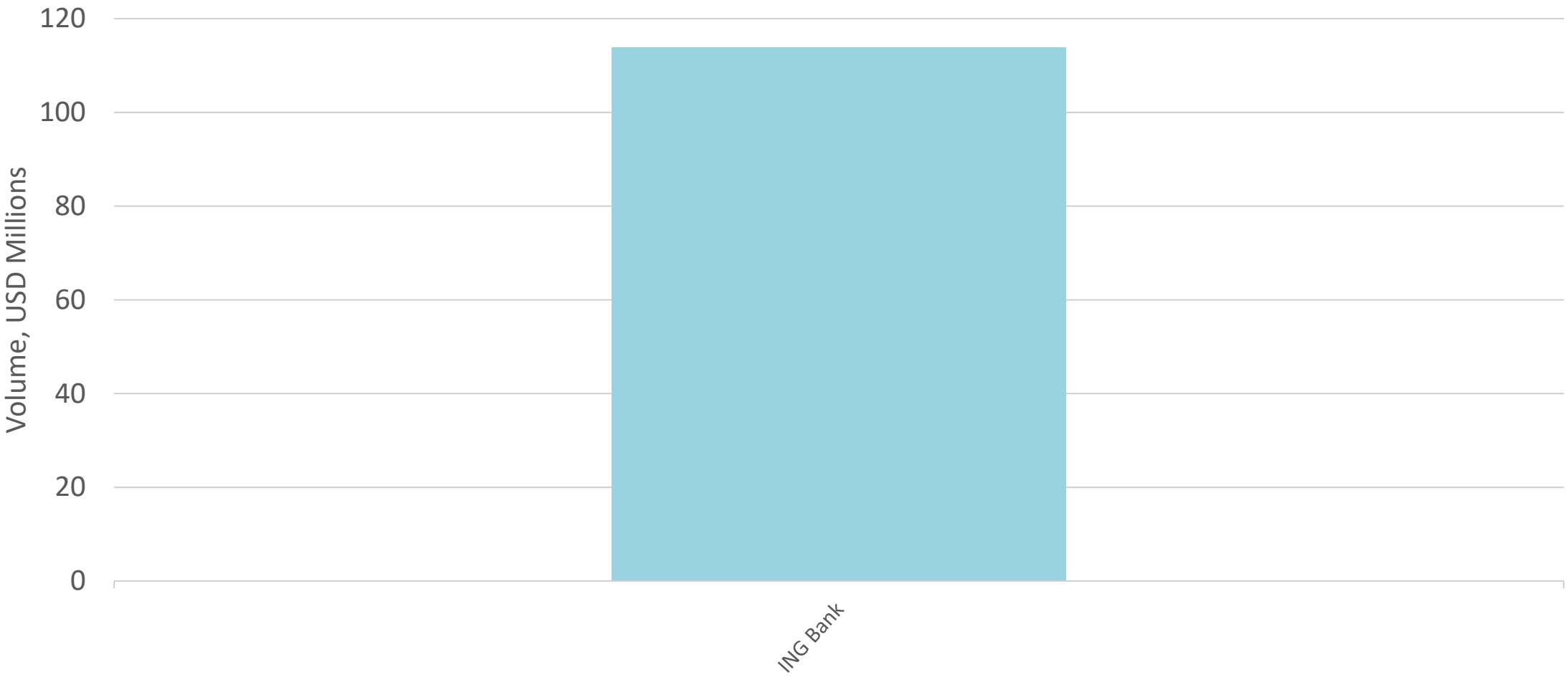
Source: TXF Media

2 Financing by commercial banks: 2019 ME



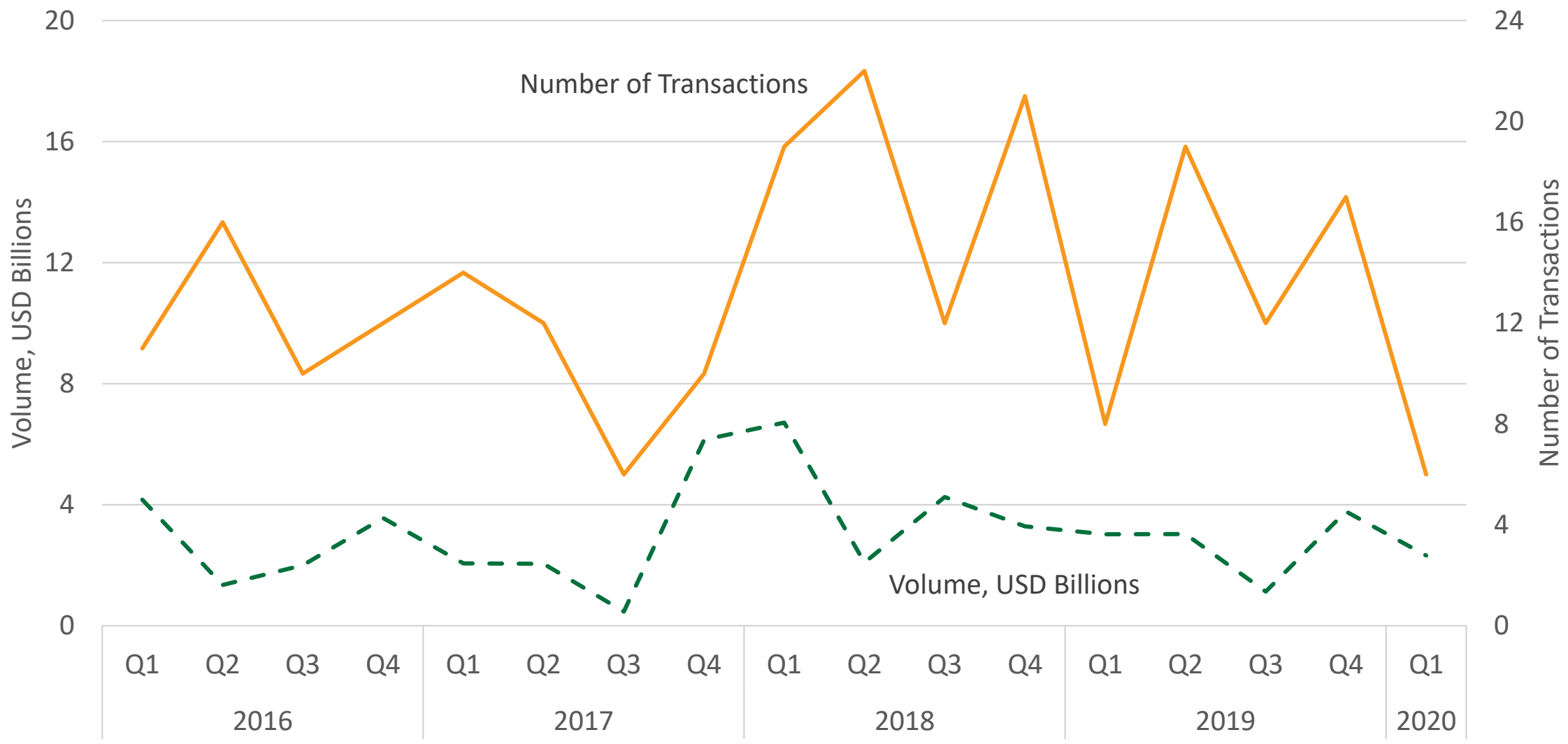
ECA long-term transactions.
Source: TXF Media

Financing by commercial banks: Q1 2020 ME



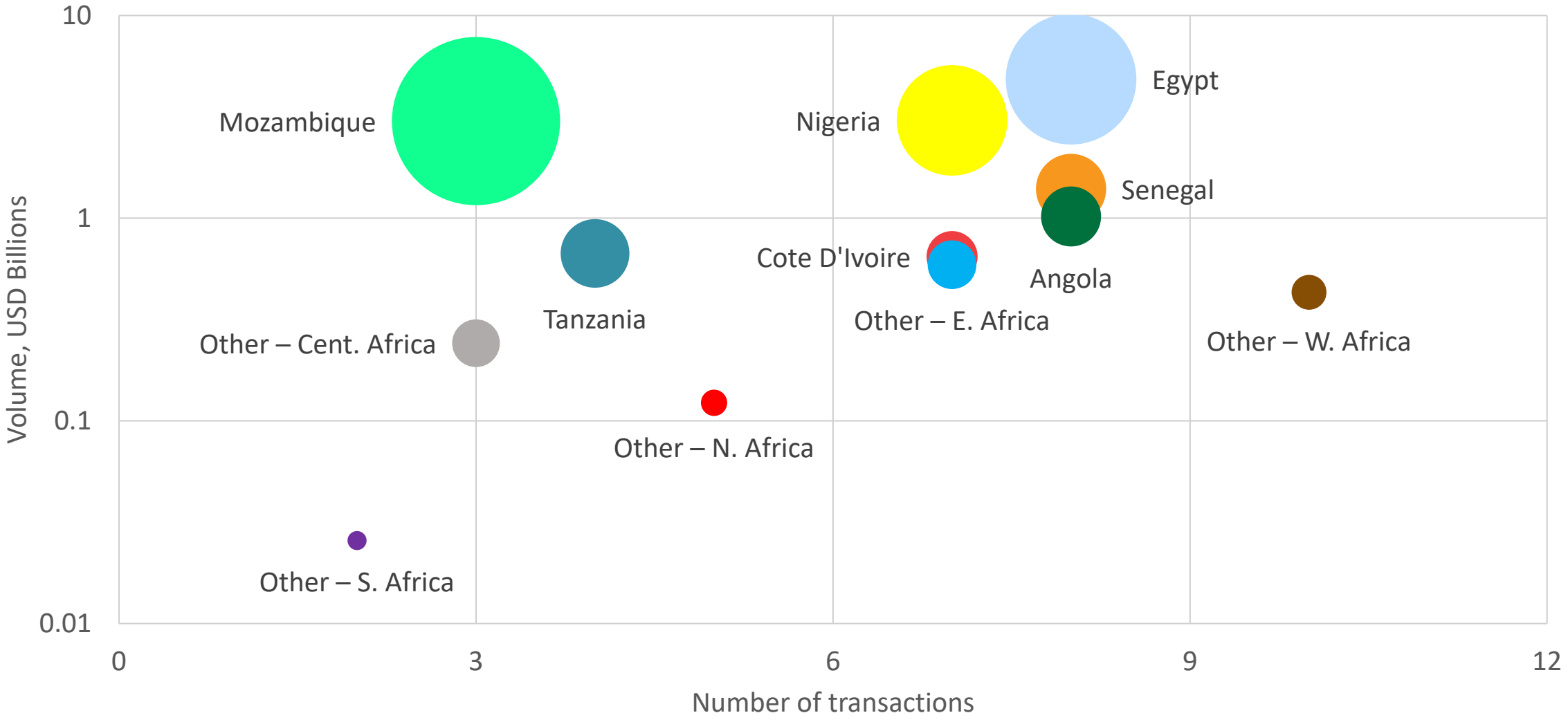
ECA long-term transactions.
Source: TXF Media

2 Africa overview by quarter: 2016–Q1 2020



ECA long-term transactions.
Source: TXF Media

2 ECA financing by country: 2018 Africa



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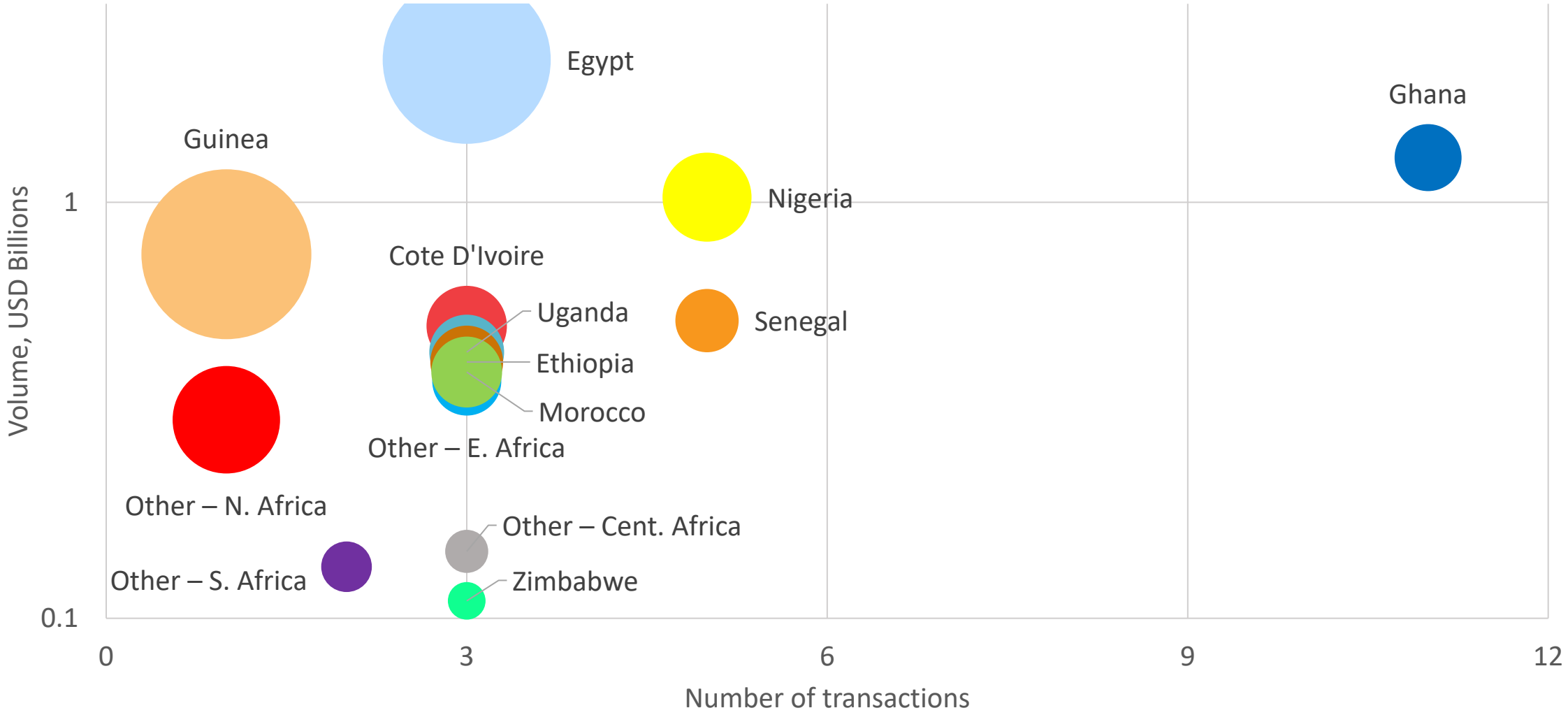
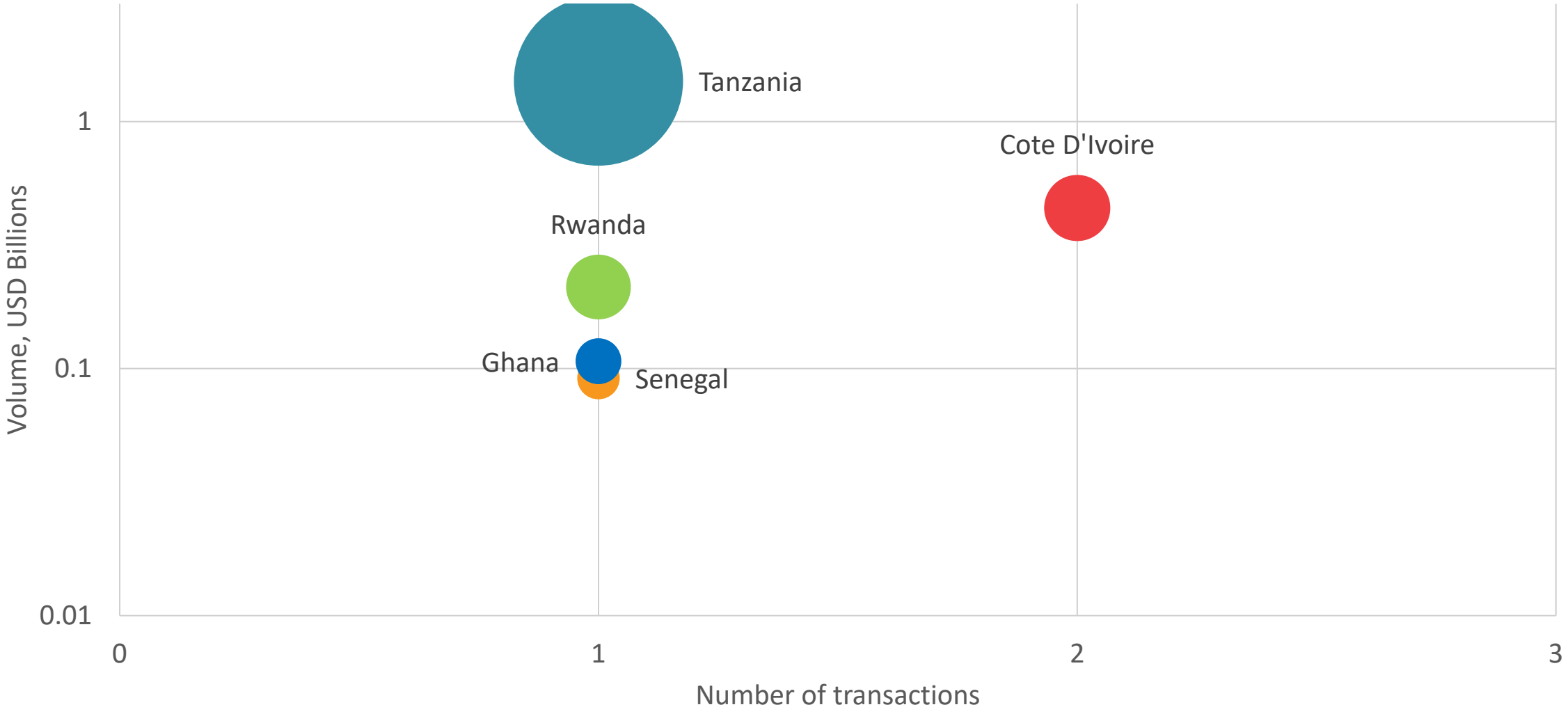


ECA long-term transactions.
Source: TXF Media

2 ECA financing by country: Q1 2020 Africa



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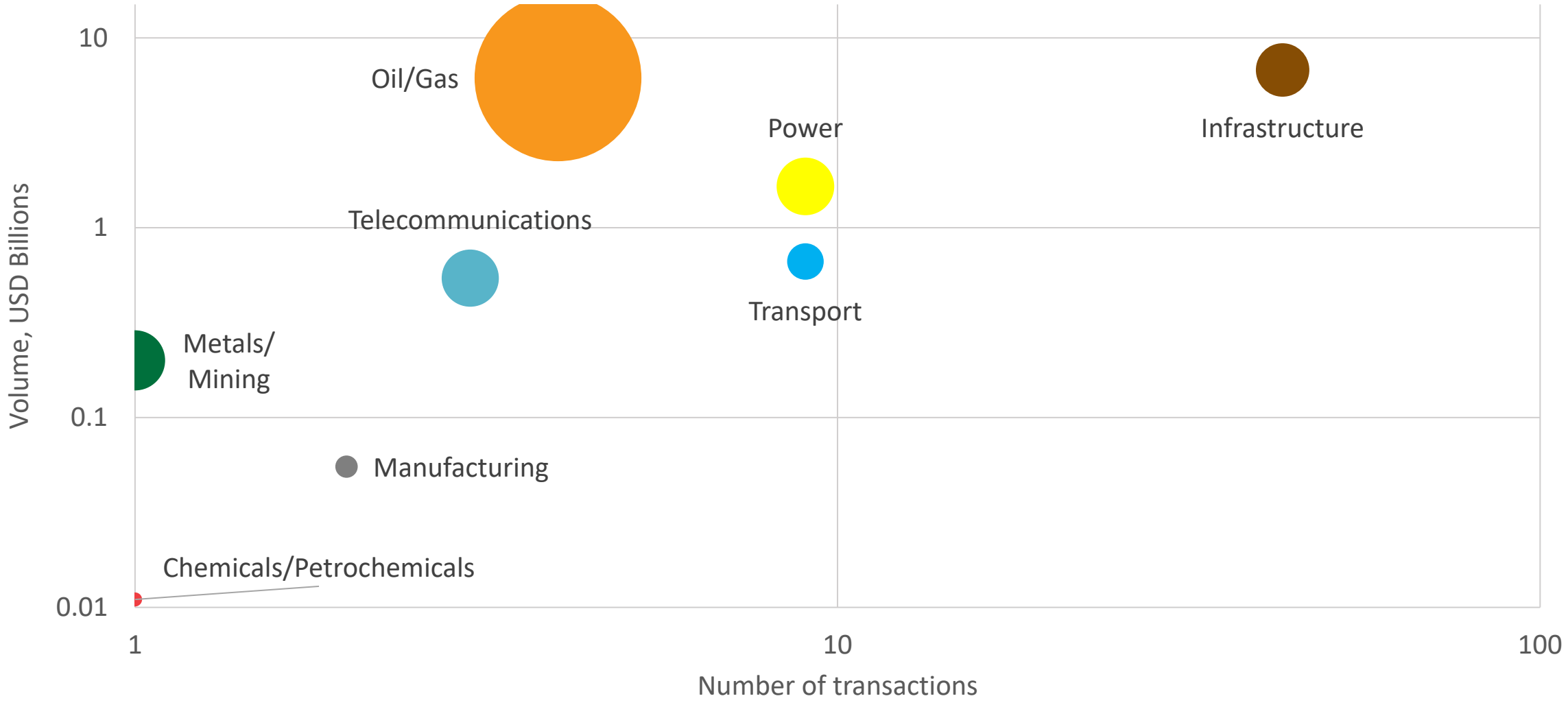
2 ECA financing by sector: 2018 Africa



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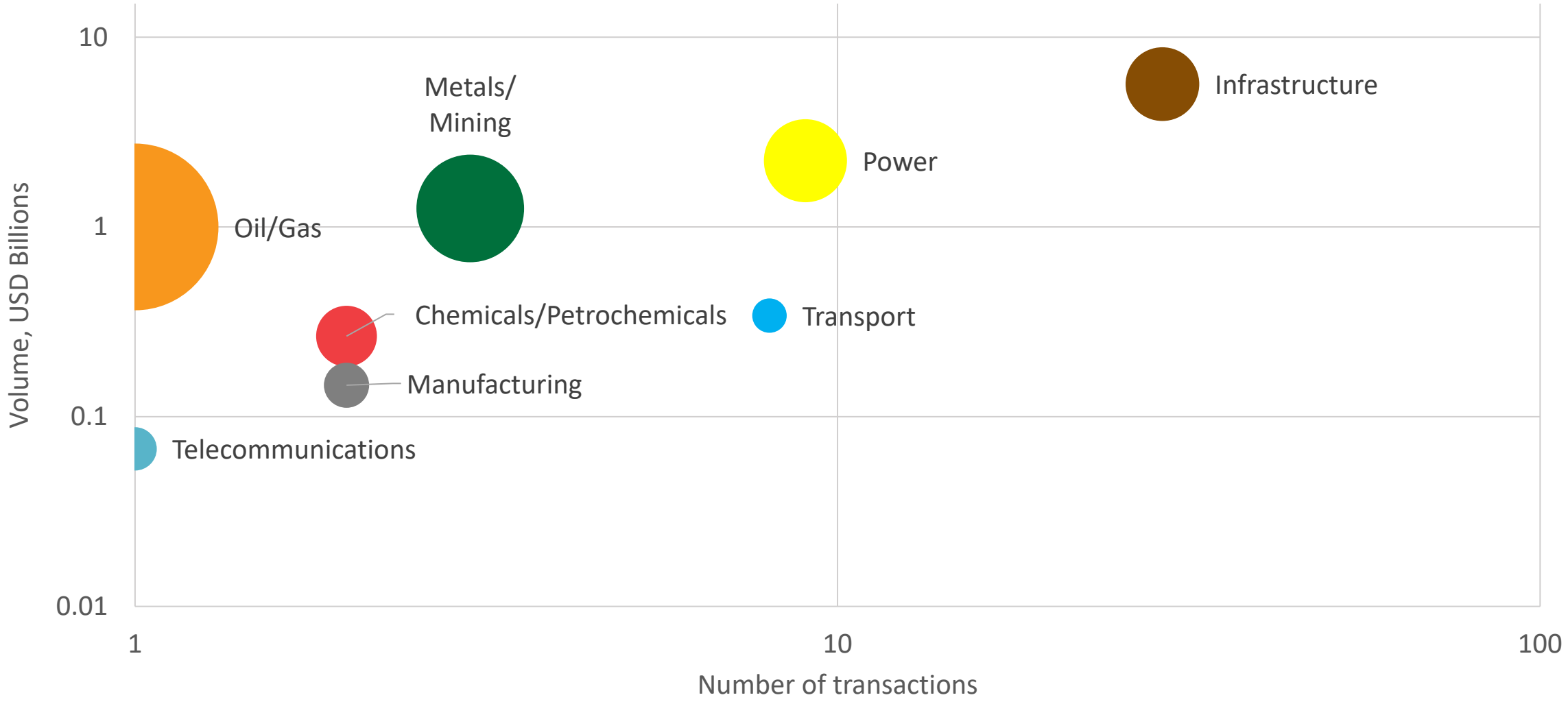
2 ECA financing by sector: 2019 Africa



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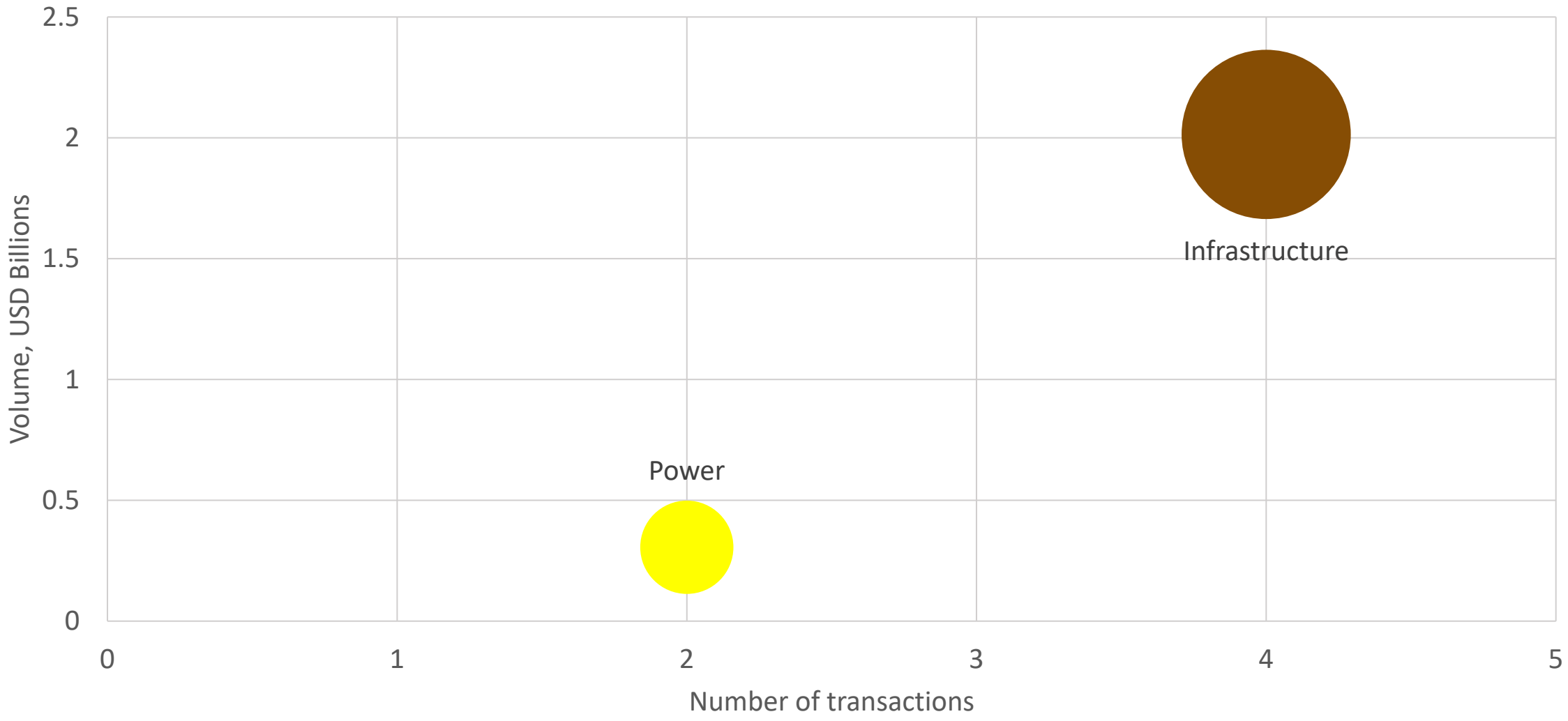
2 ECA financing by sector: Q1 2020 Africa



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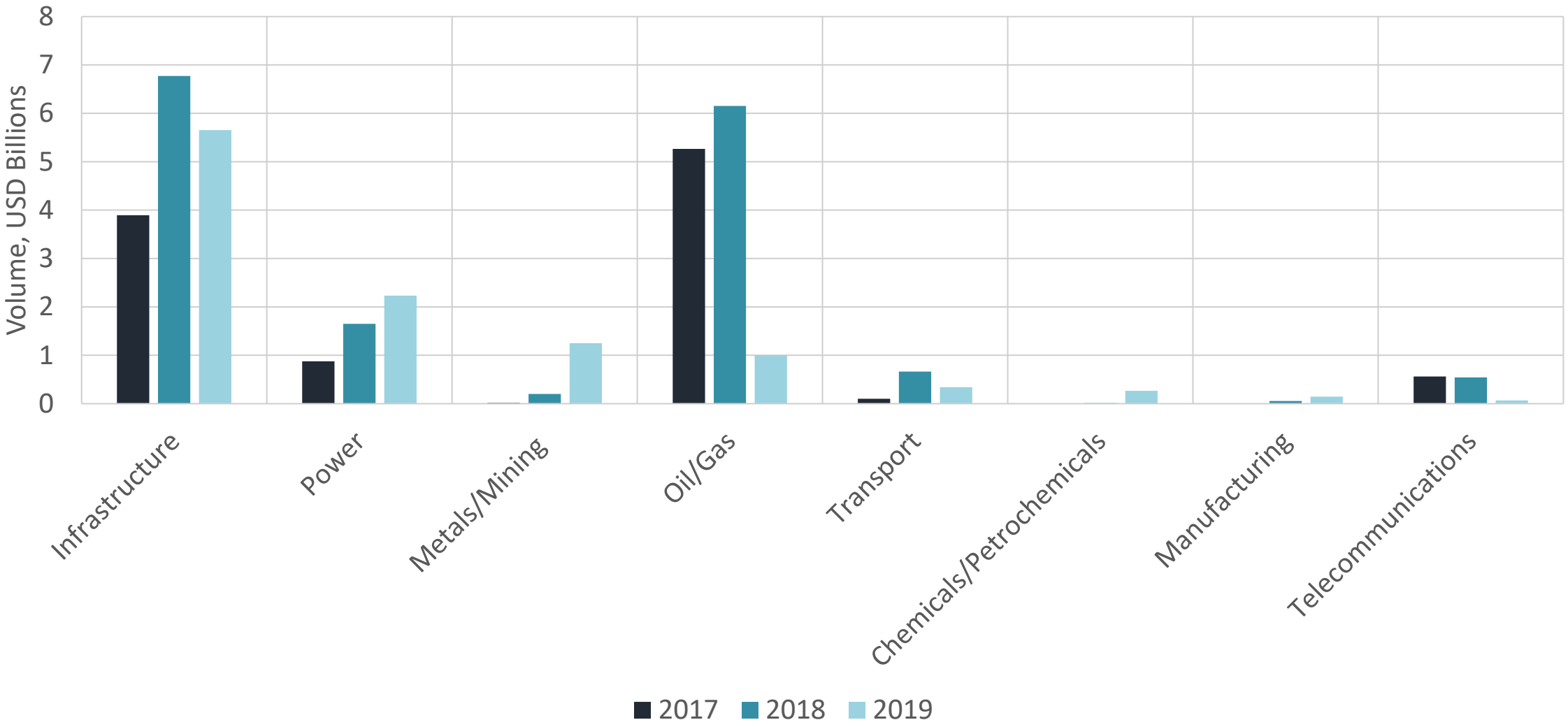
Source: TXF Media

2 ECA financing by sector: 2016–2019 Africa



ECA long-term transactions.
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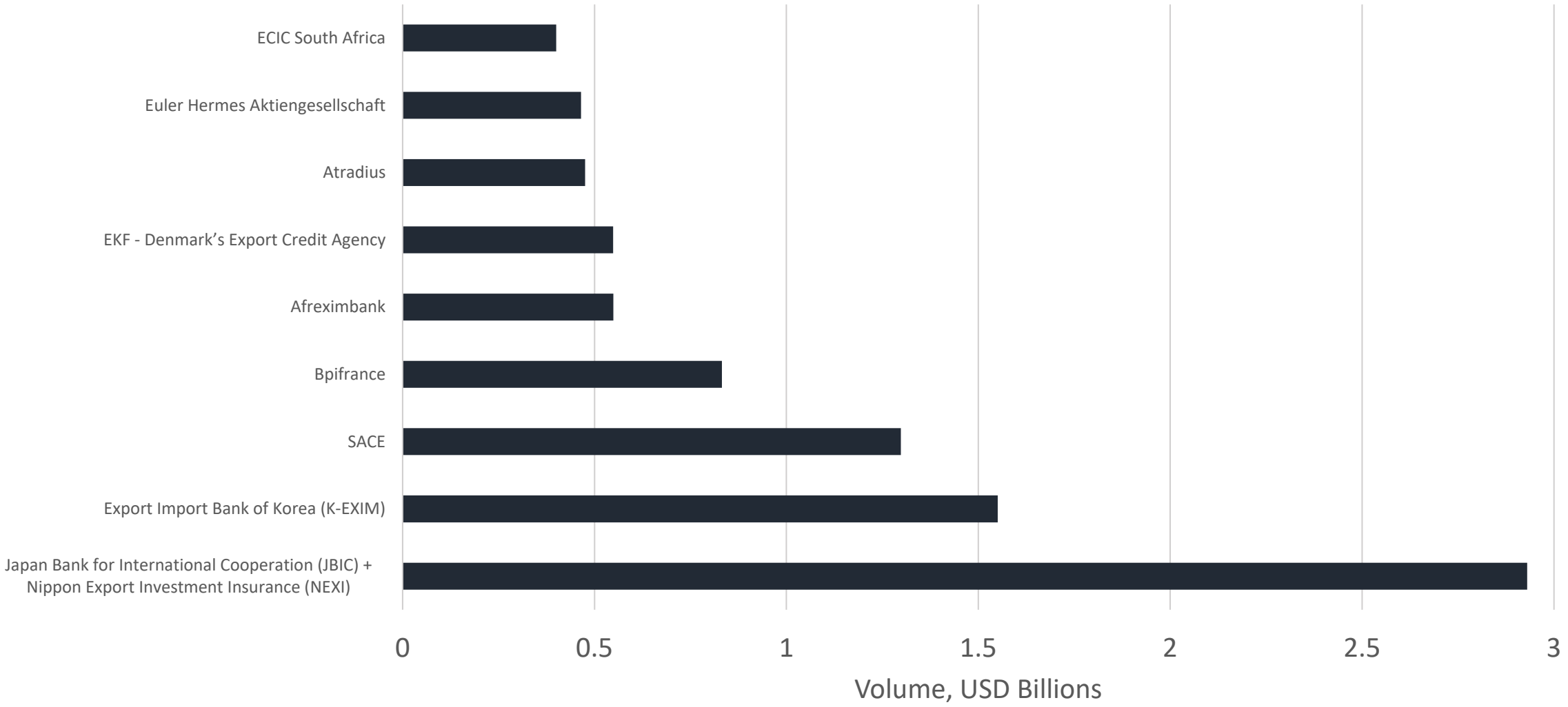
2 Top OECD ECAs by volume: 2018 Africa



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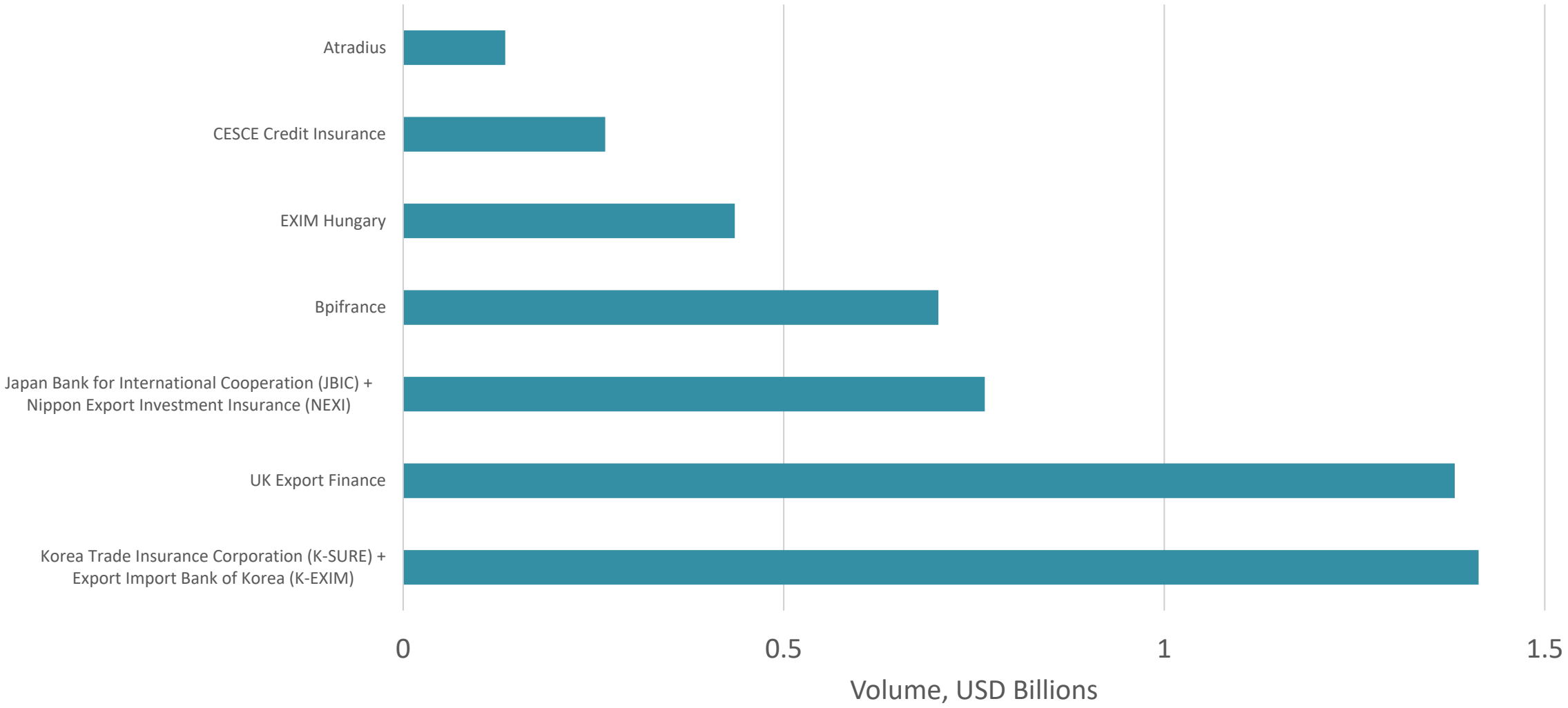

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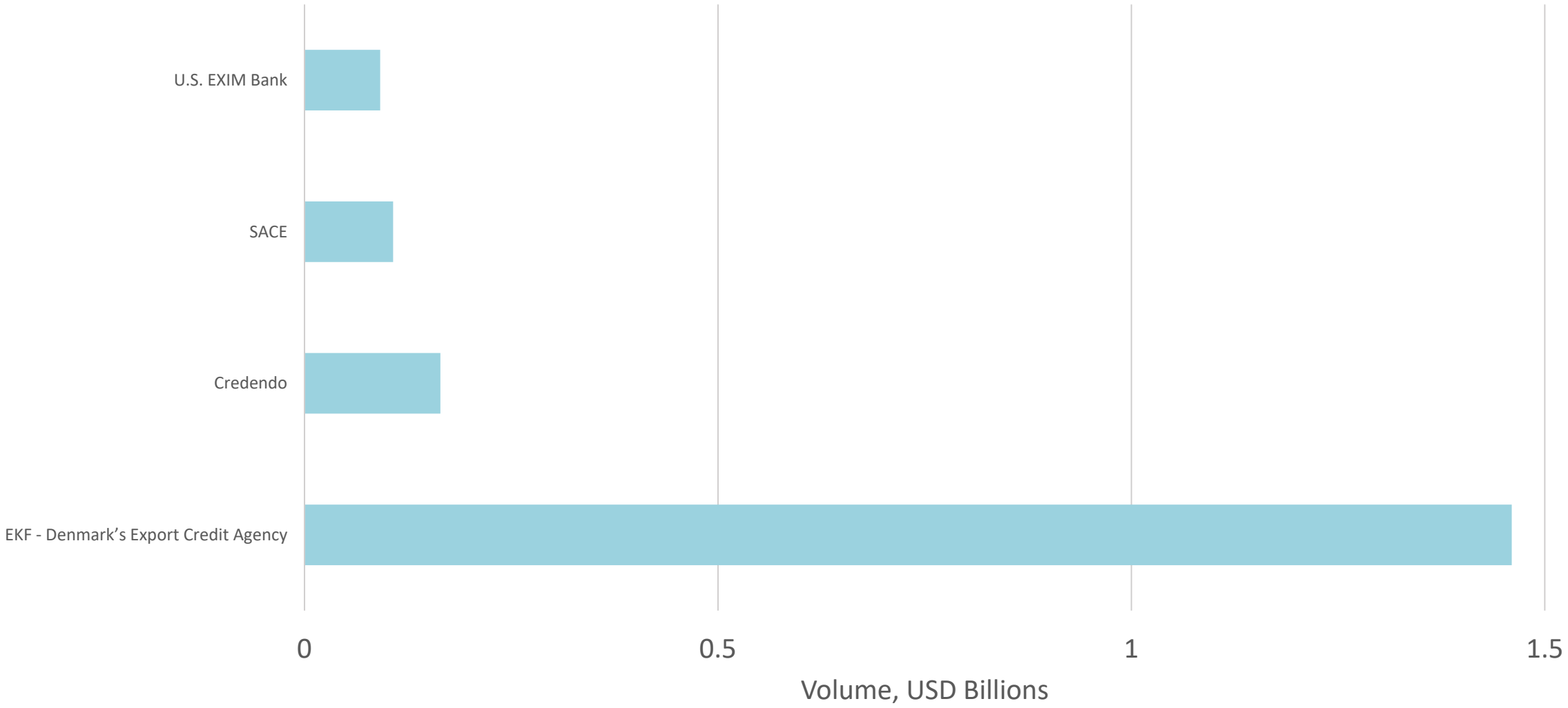

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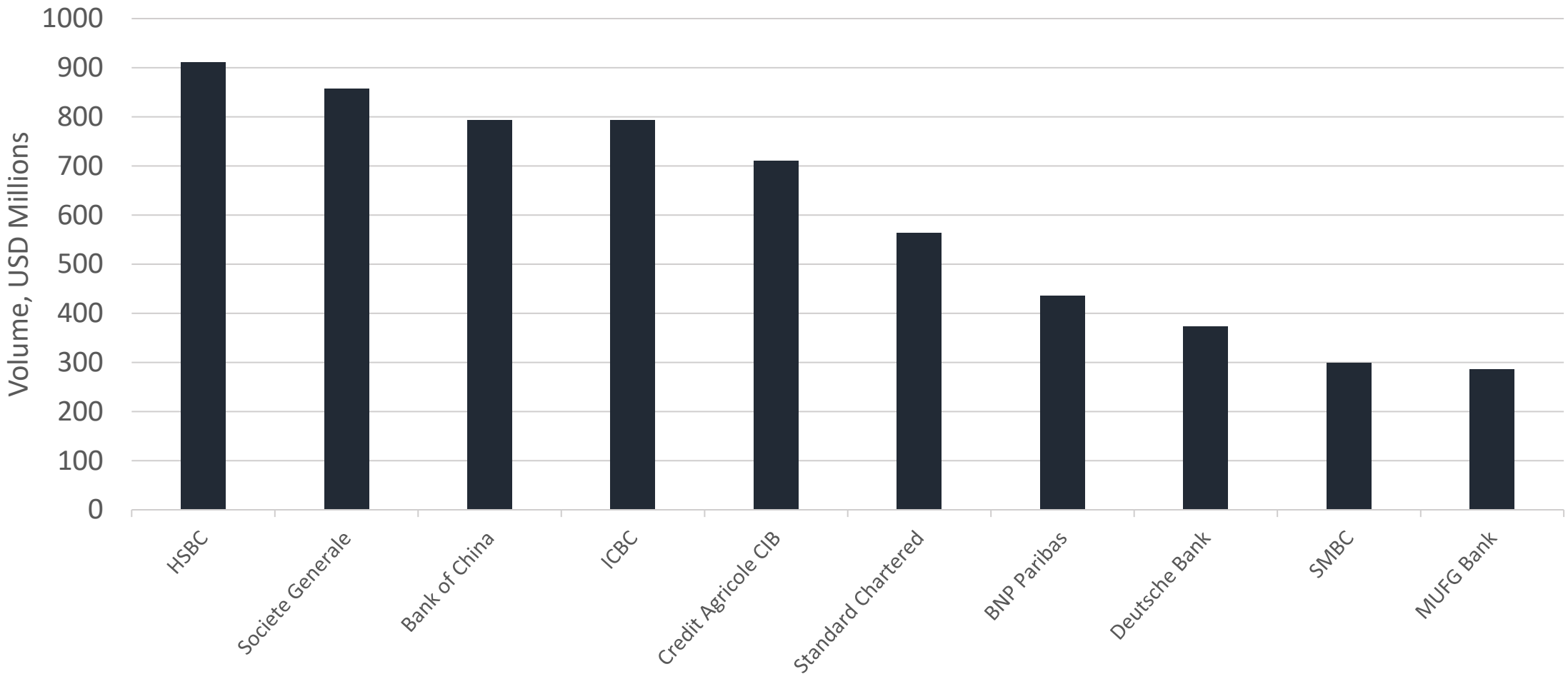
2 Financing by commercial banks: 2018 Africa



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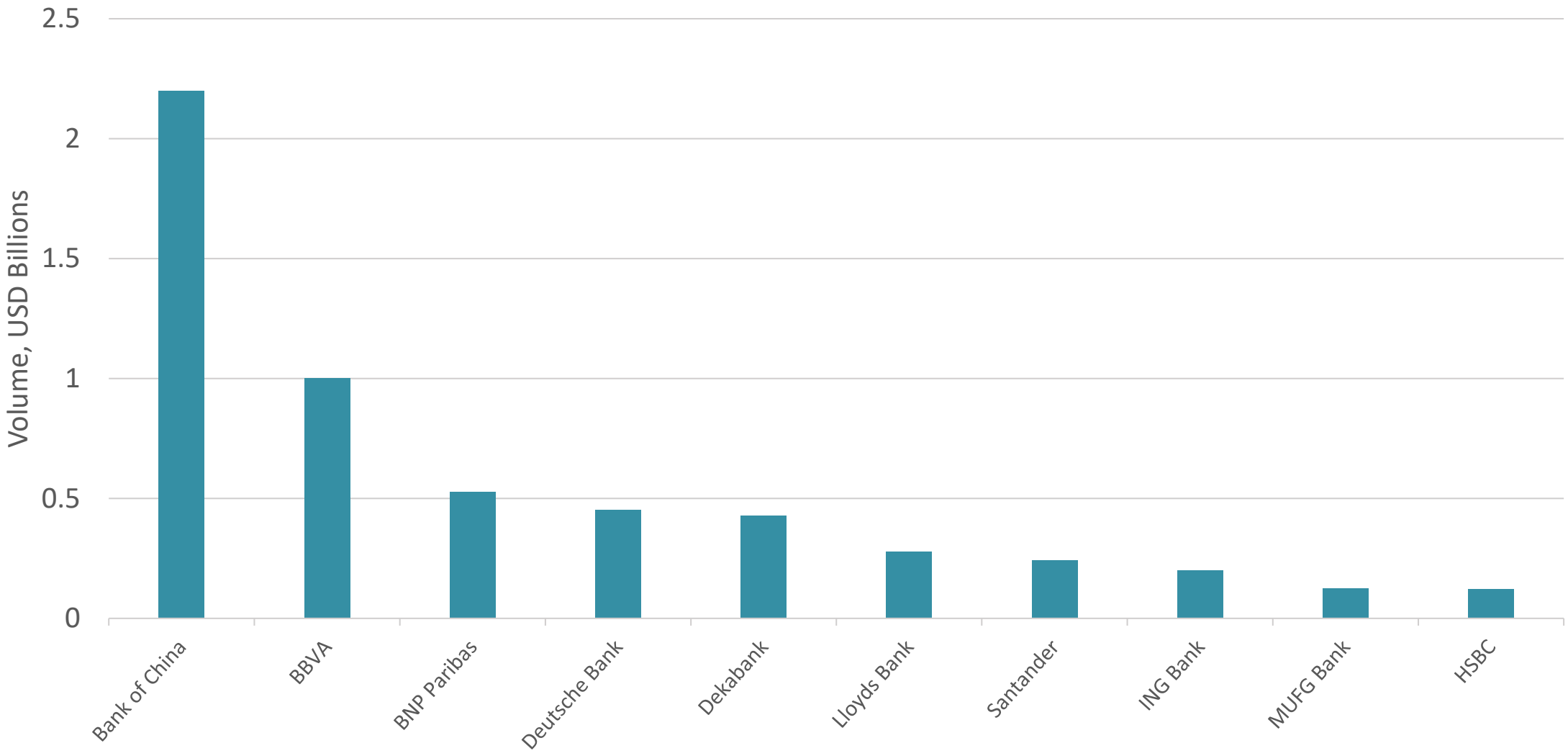
Financing by commercial banks: 2019 Africa



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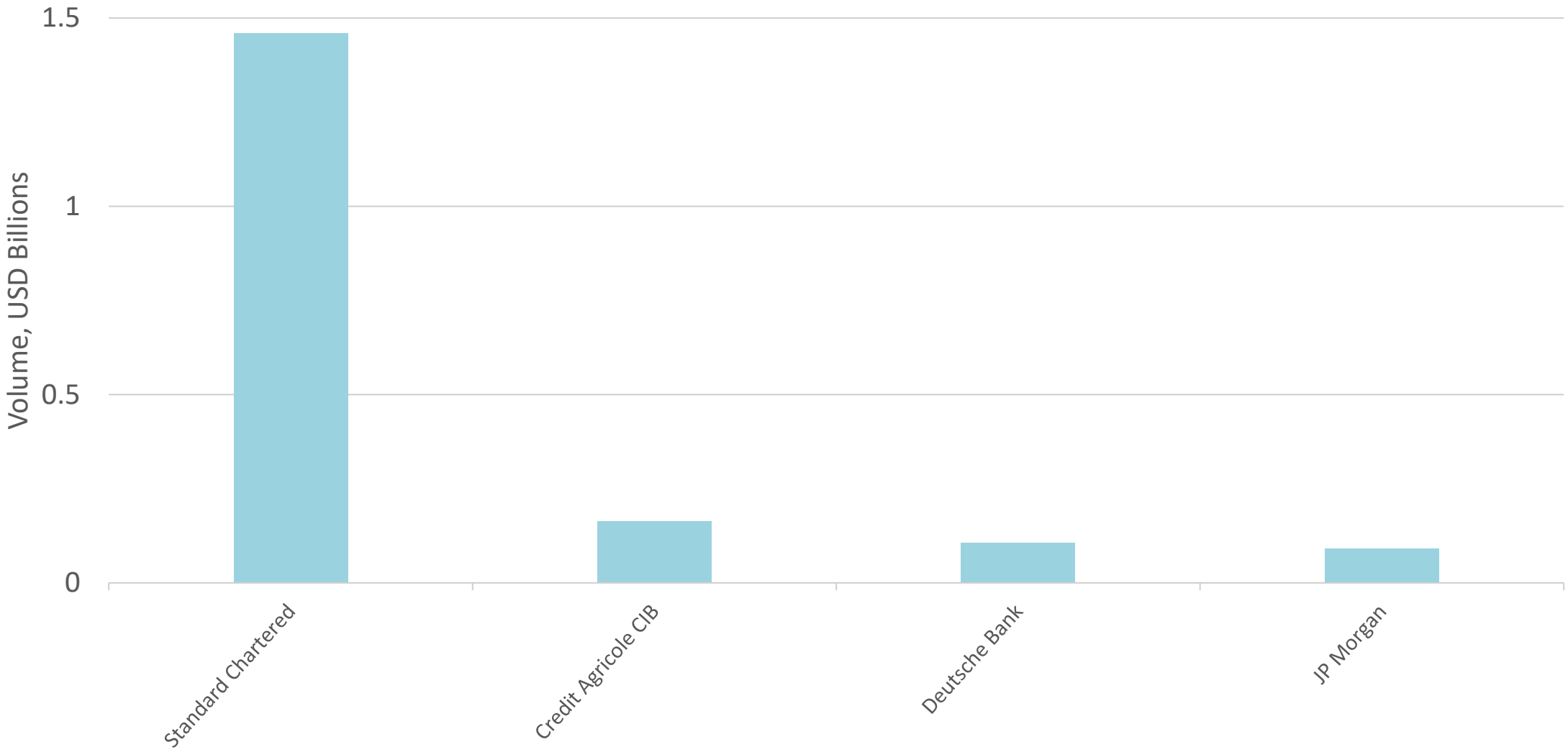
Financing by commercial banks: Q1 2020 Africa



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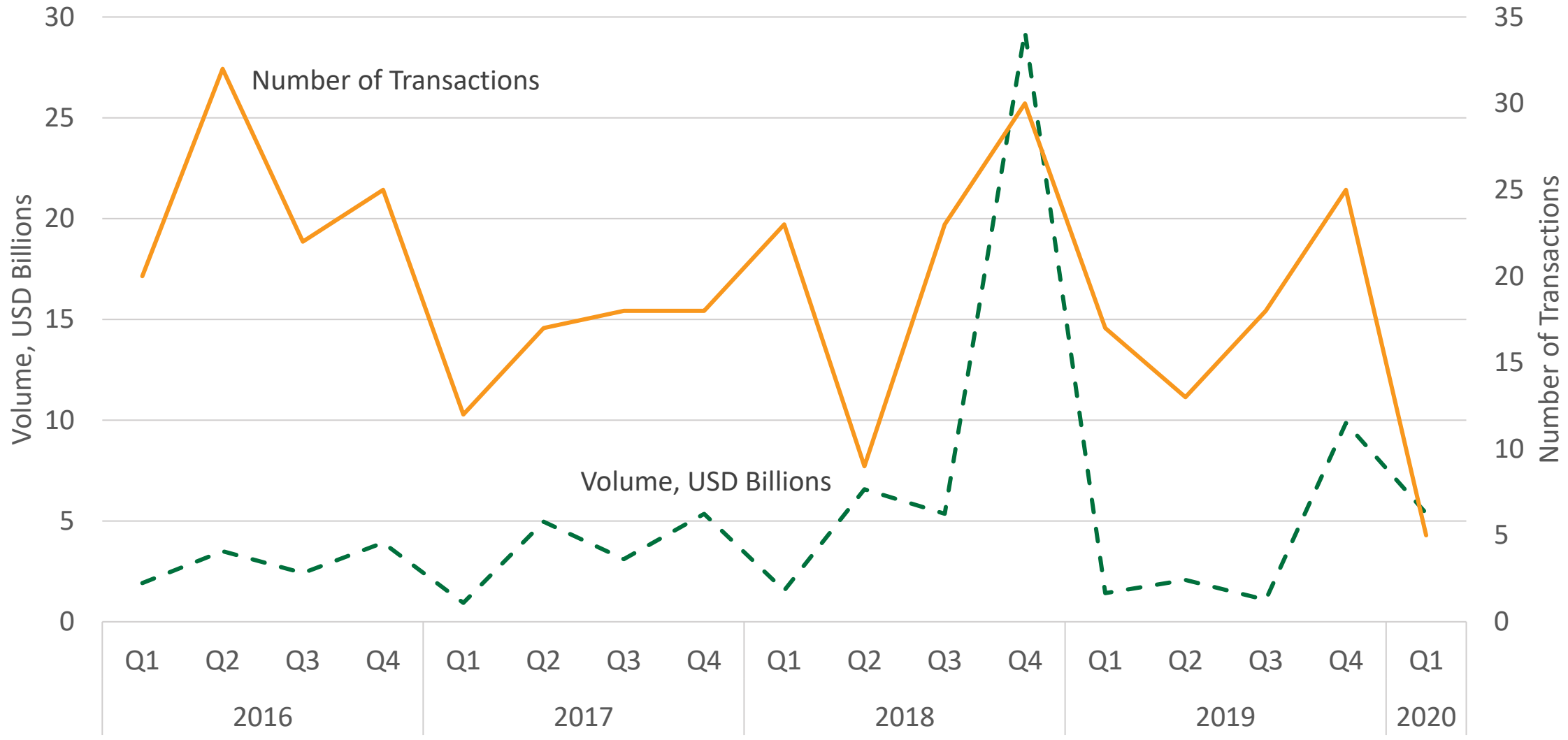
2 Europe overview by quarter: 2016–Q1 2020



ECA long-term transactions.
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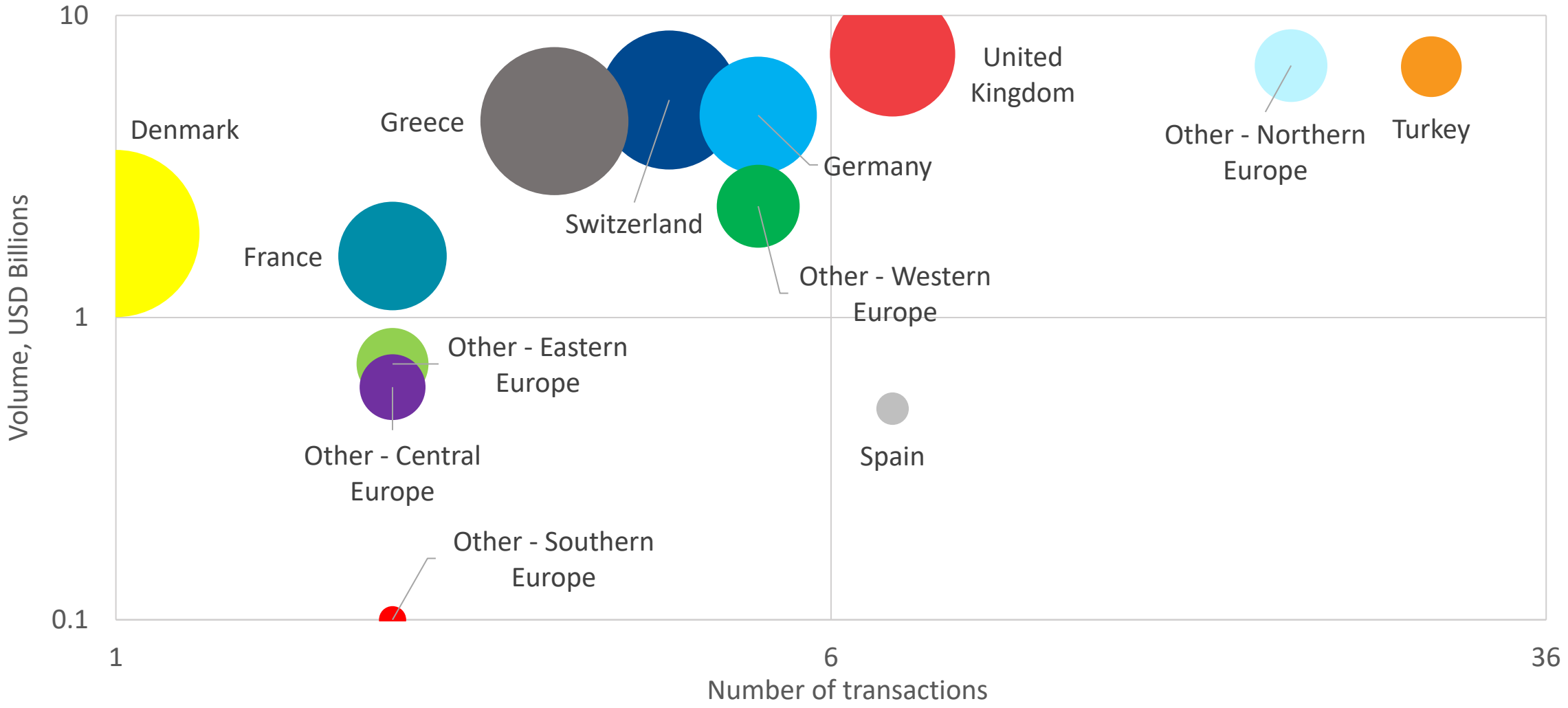
2 ECA financing by country: 2018 Europe



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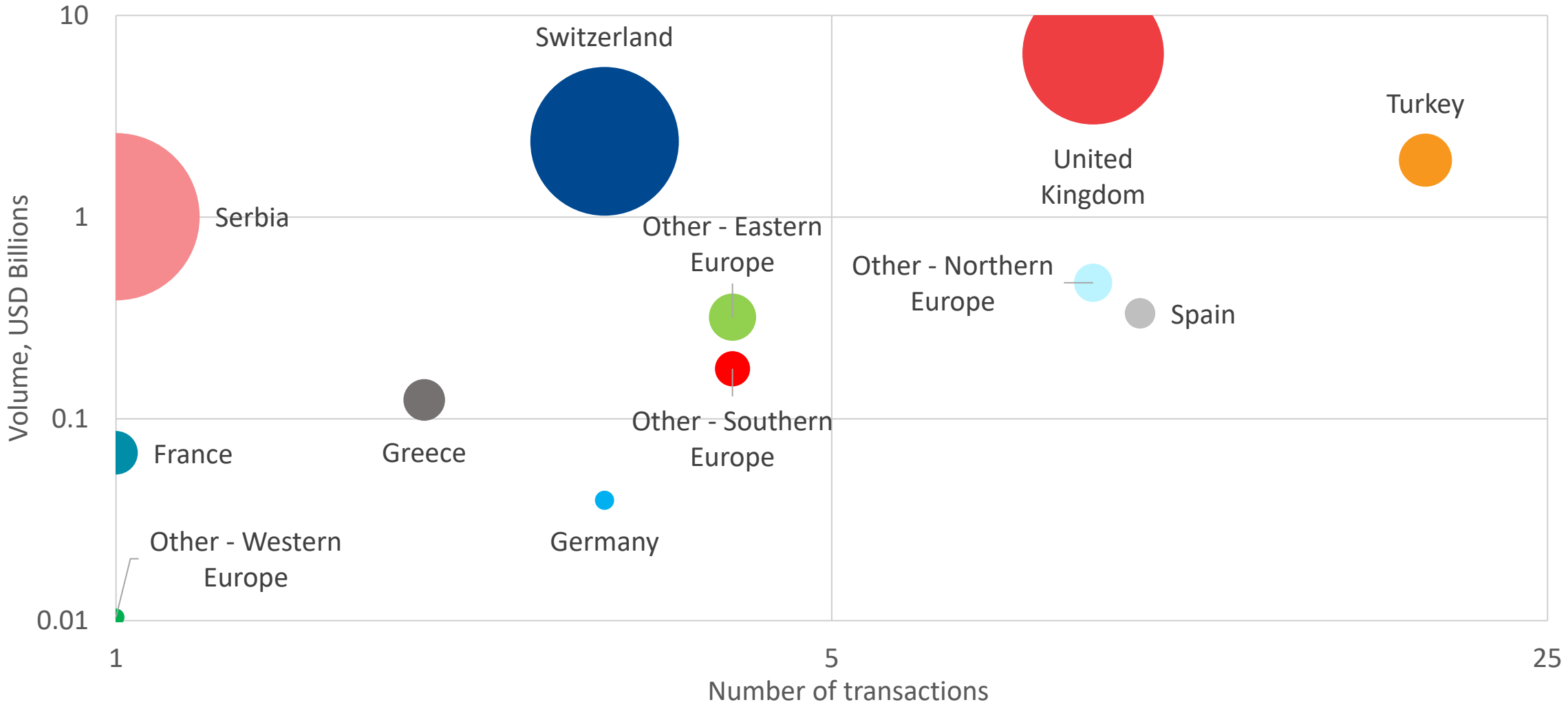
ECA financing by country: 2019 Europe



ECA long-term transactions.
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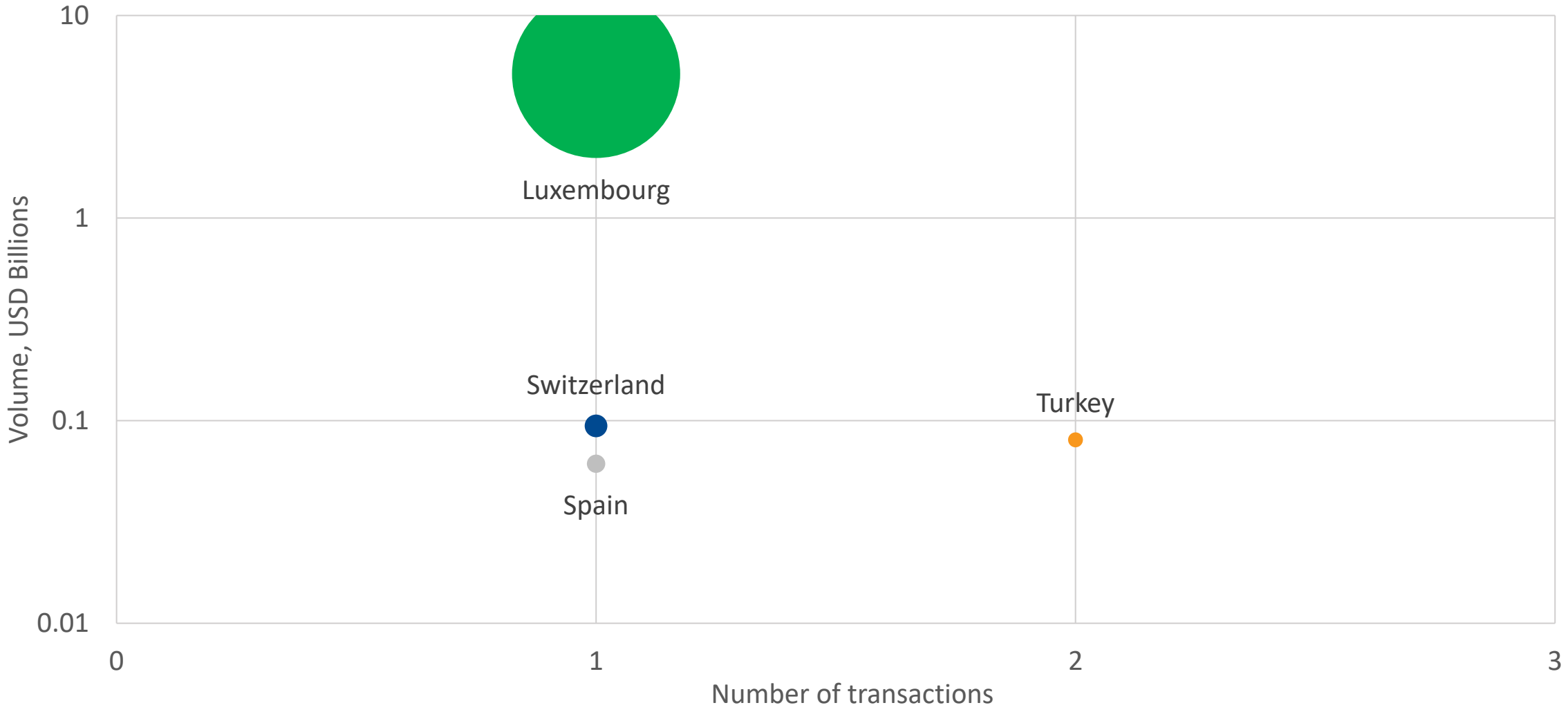
ECA financing by country: Q1 2020 Europe



ECA long-term transactions.
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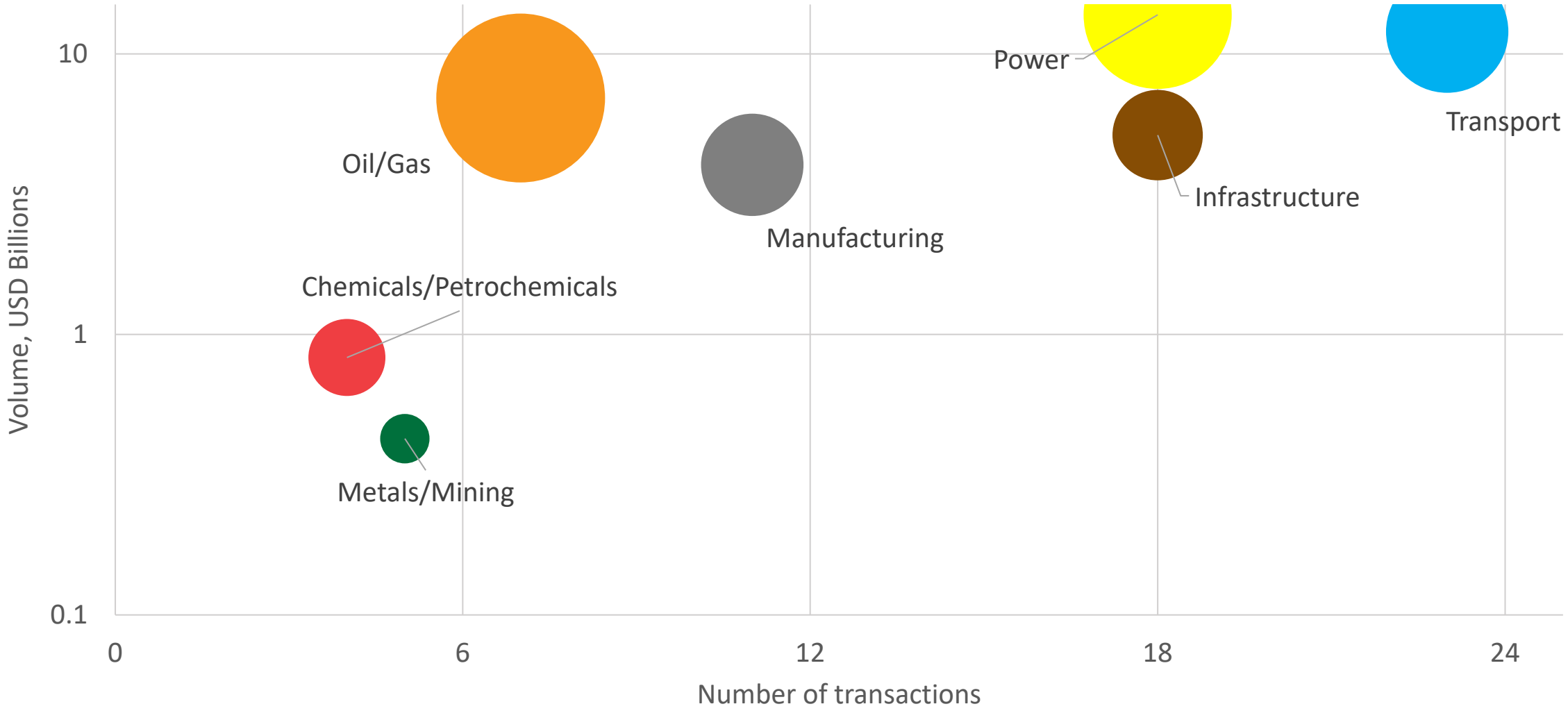
ECA financing by sector: 2018 Europe



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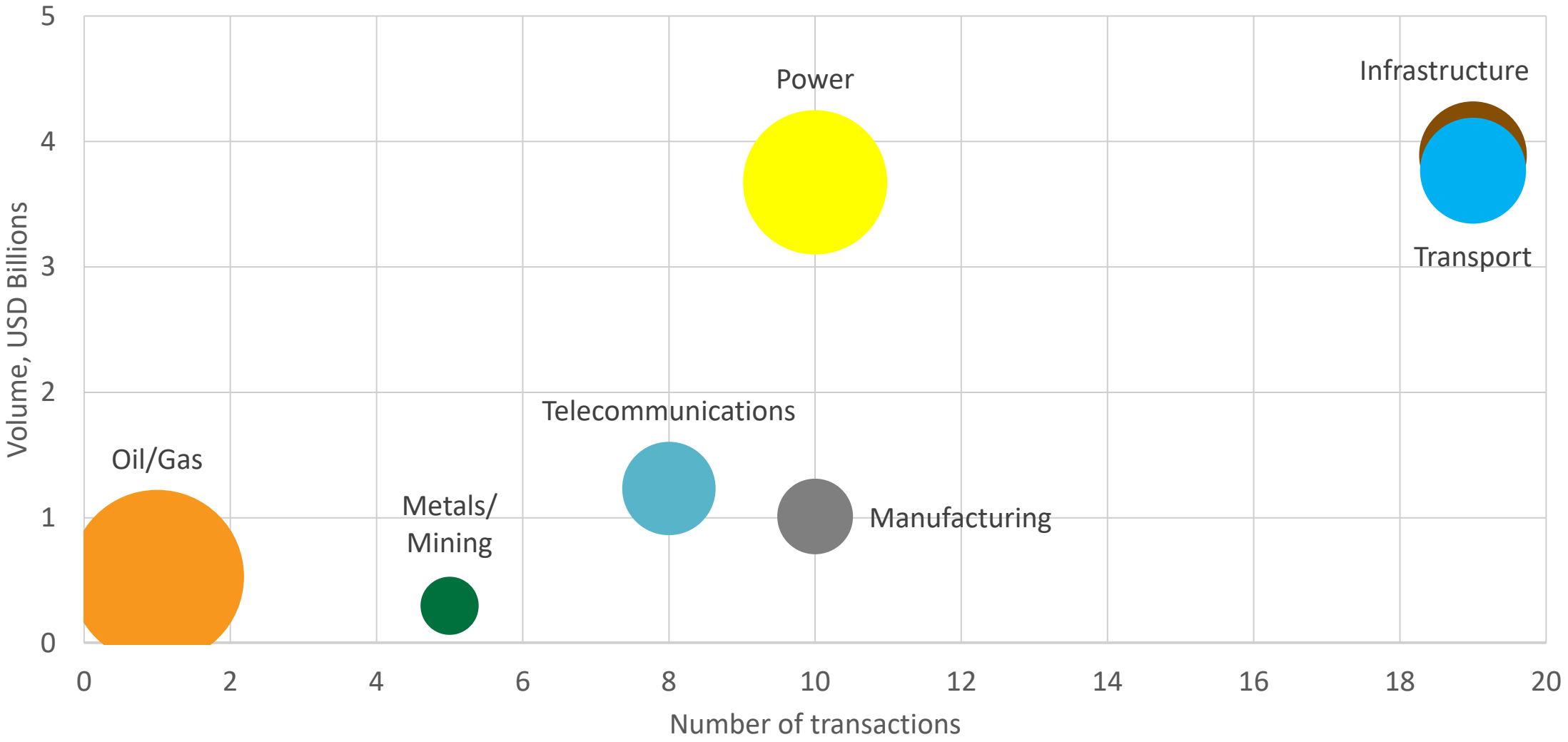

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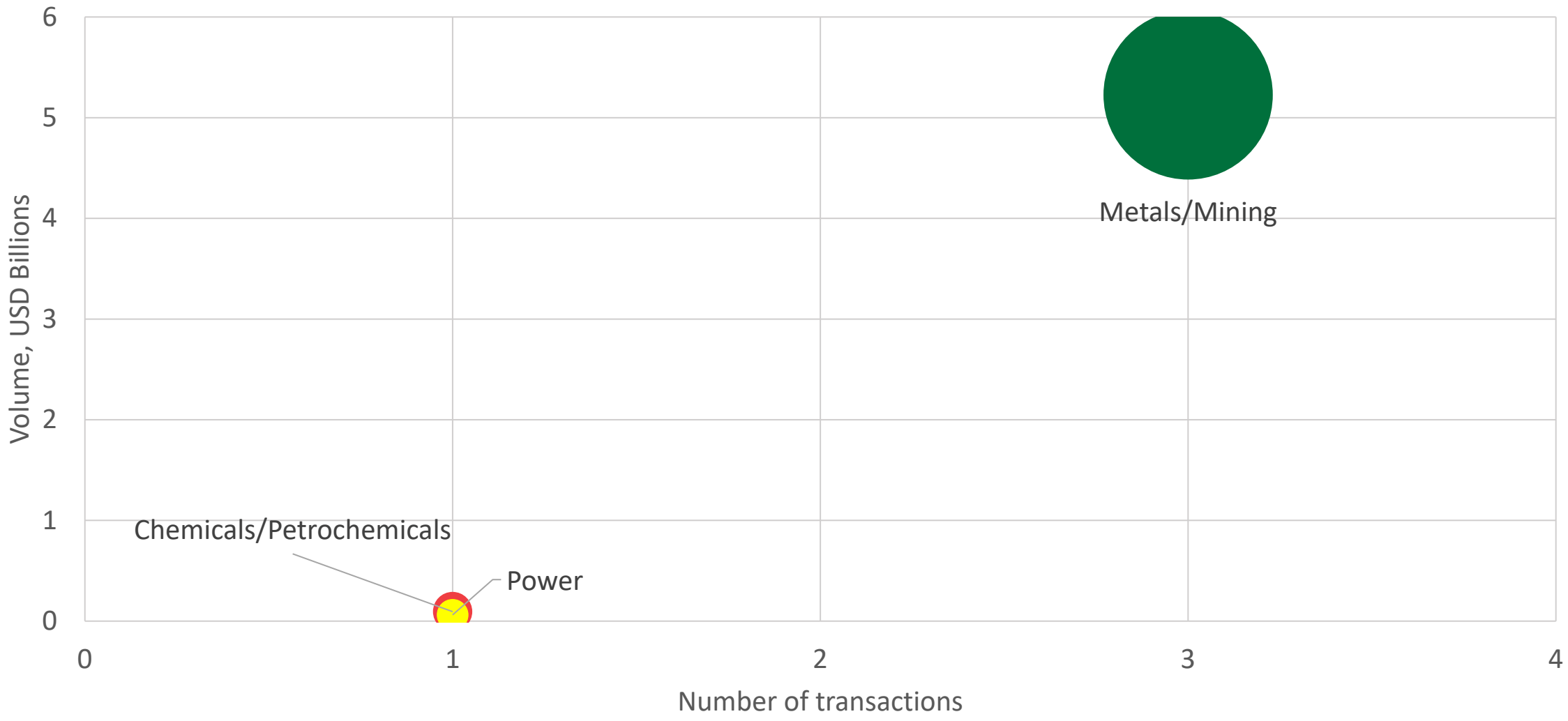

ECA long-term transactions.
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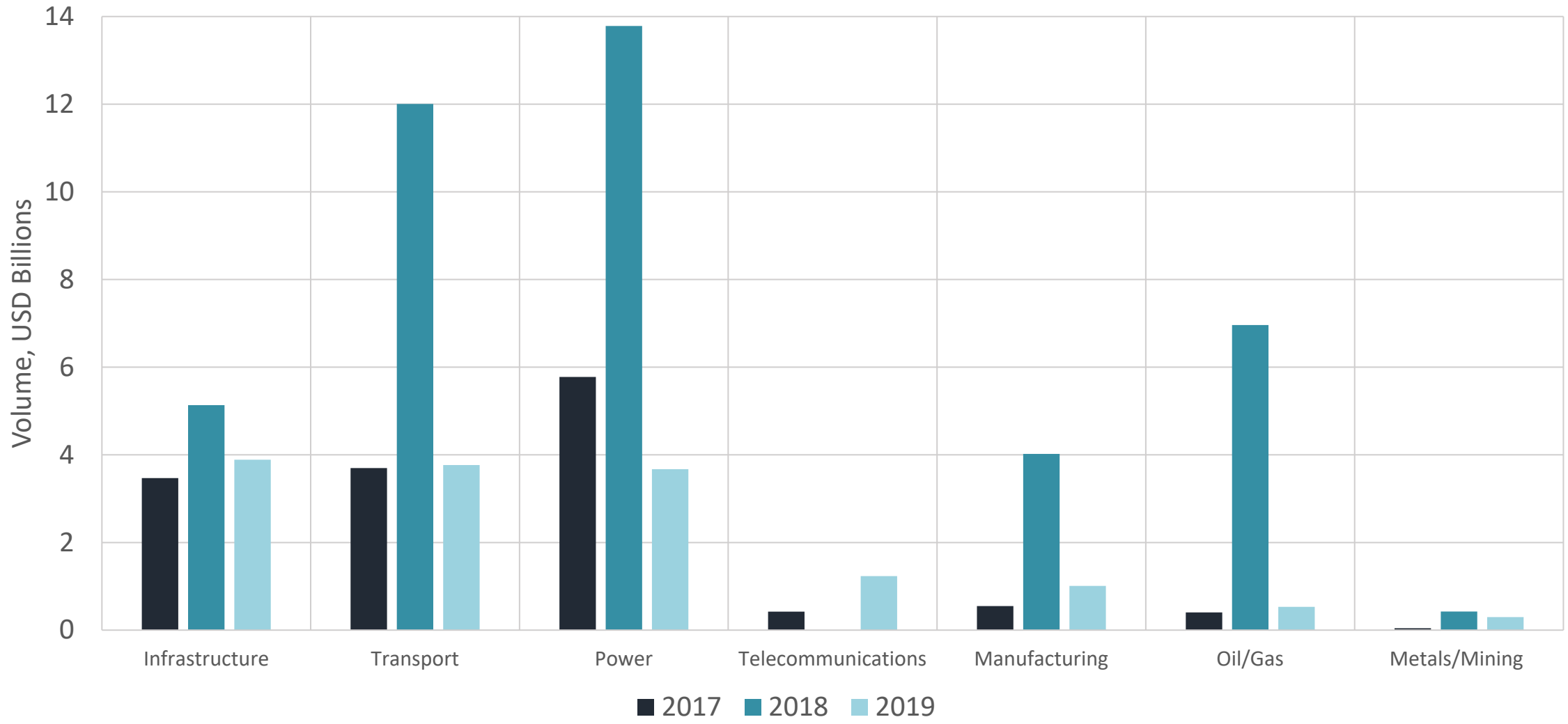
2 ECA financing by sector: 2016–2019 Europe



ECA long-term transactions.
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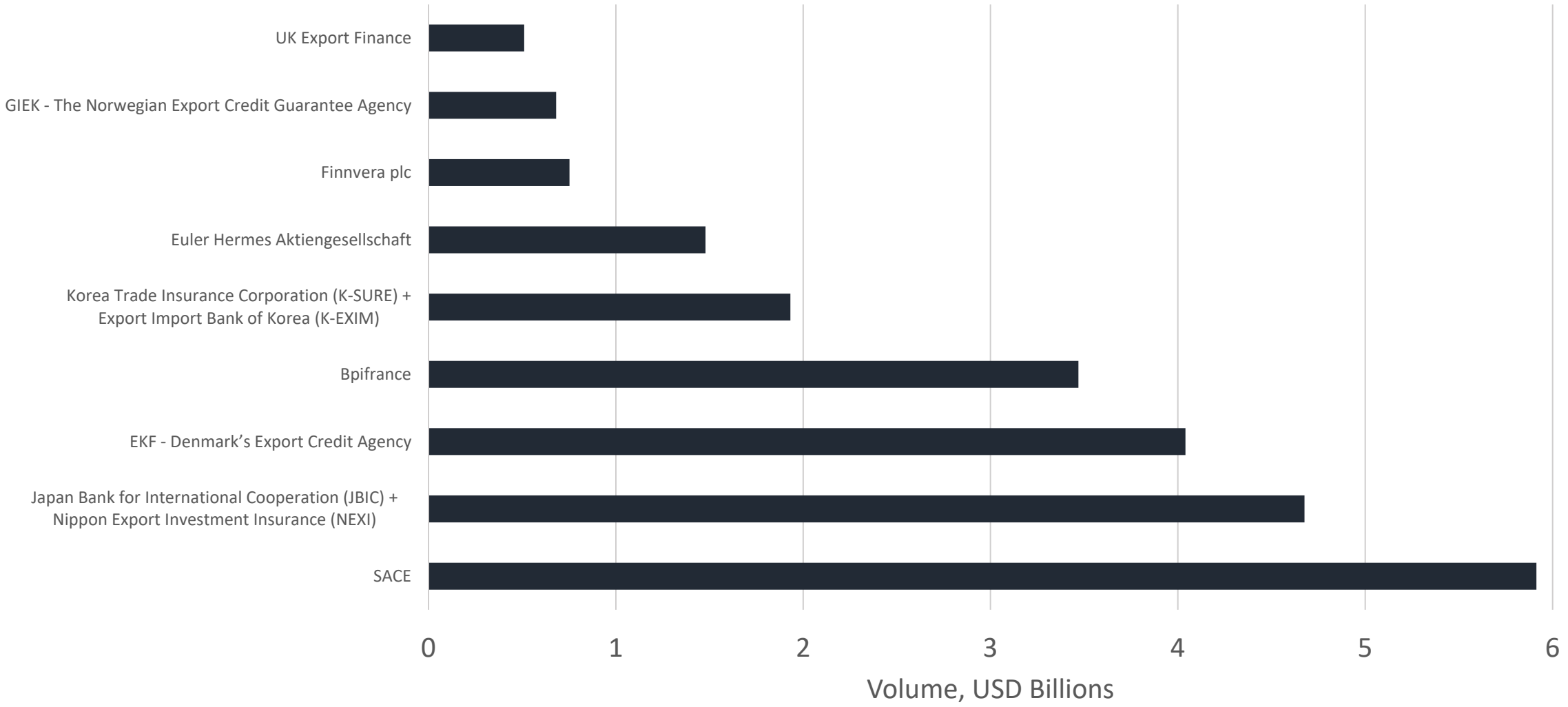
2 Top OECD ECAs by volume: 2018 Europe



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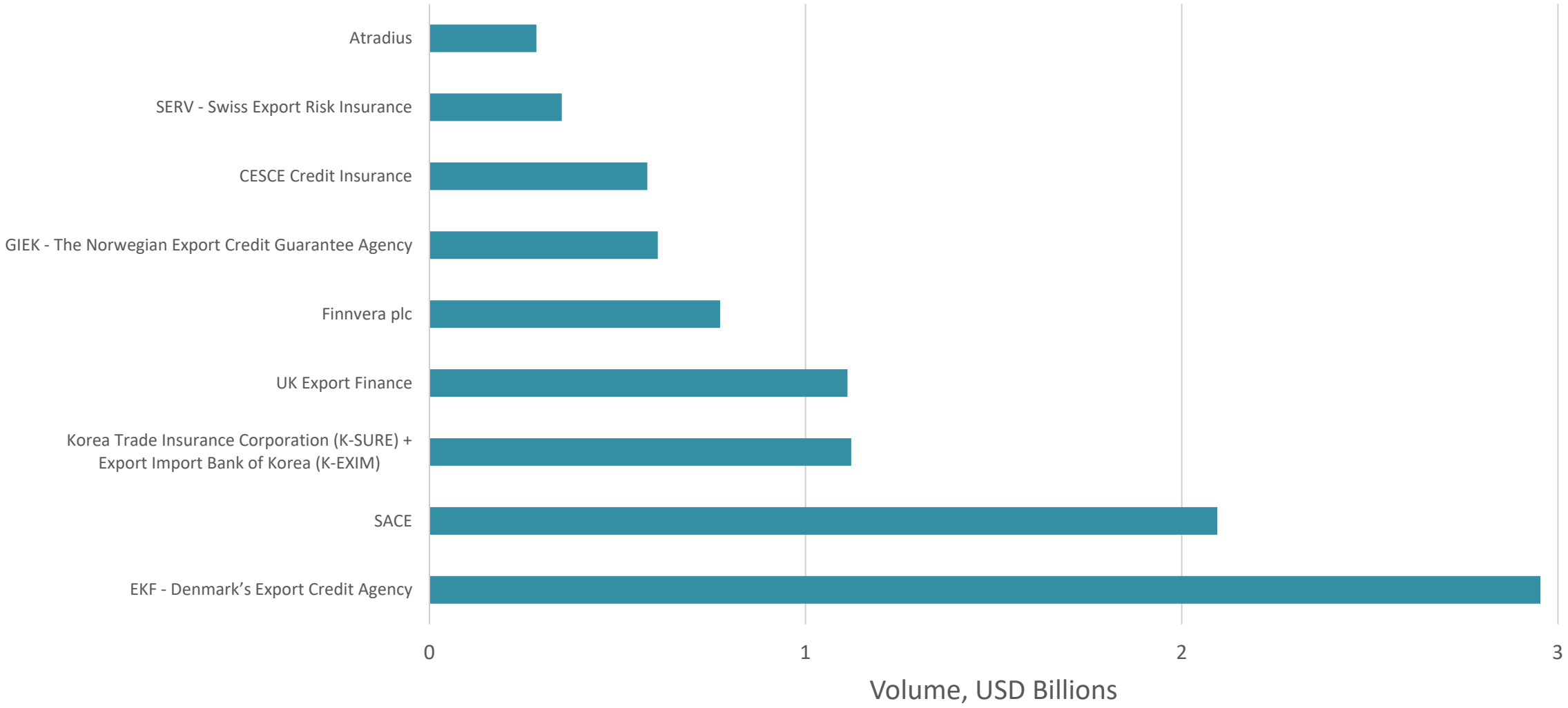

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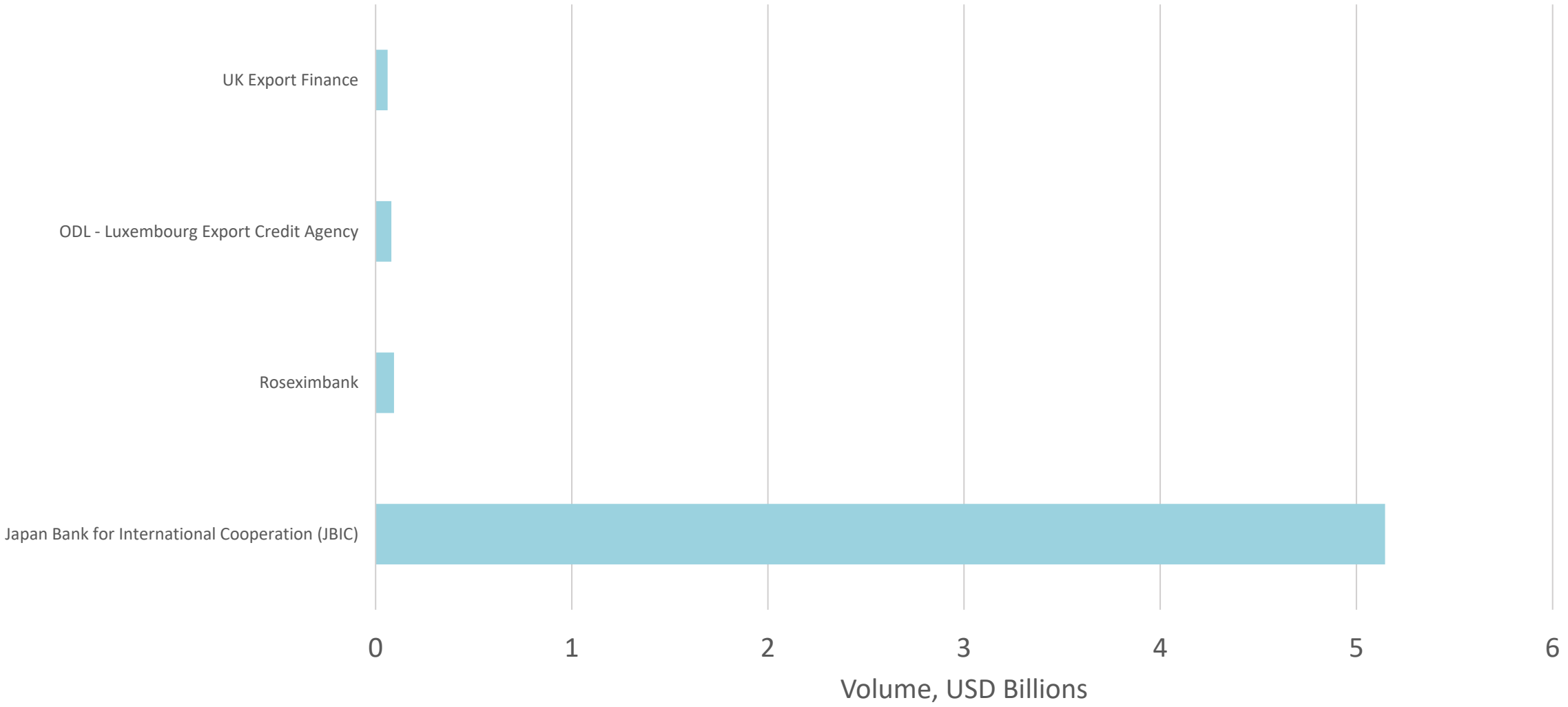

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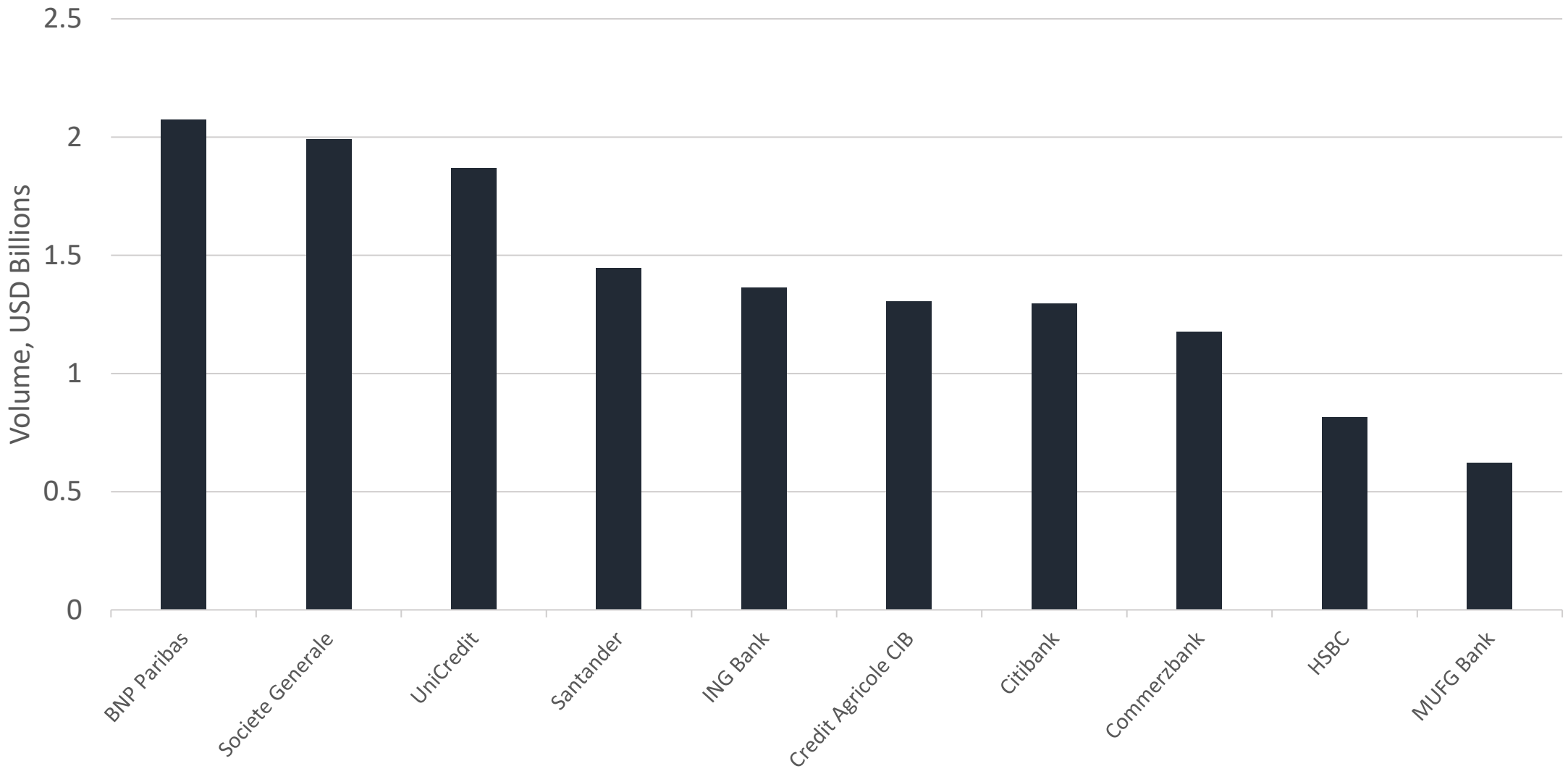
2 Financing by commercial banks: 2018 Europe



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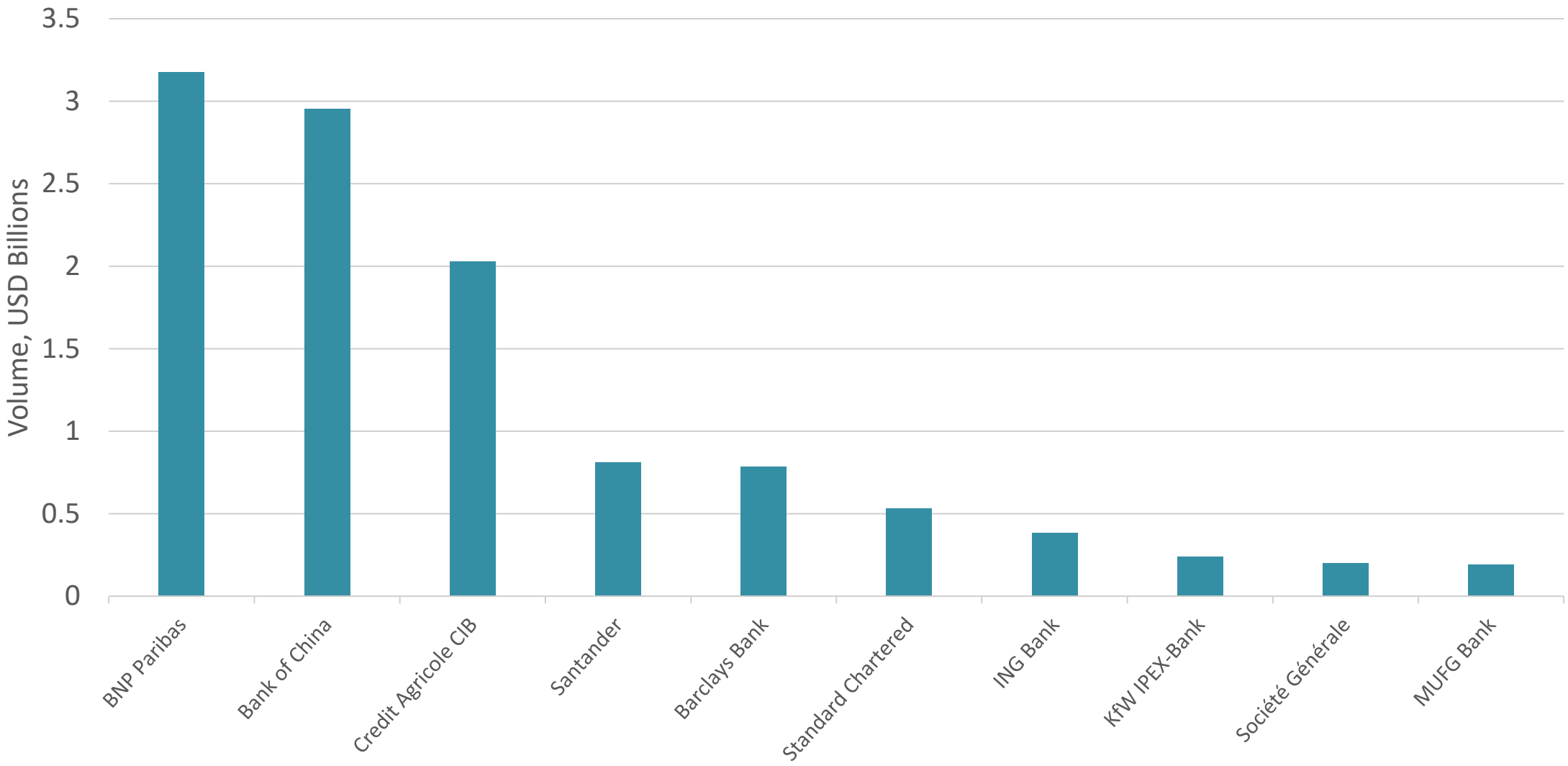

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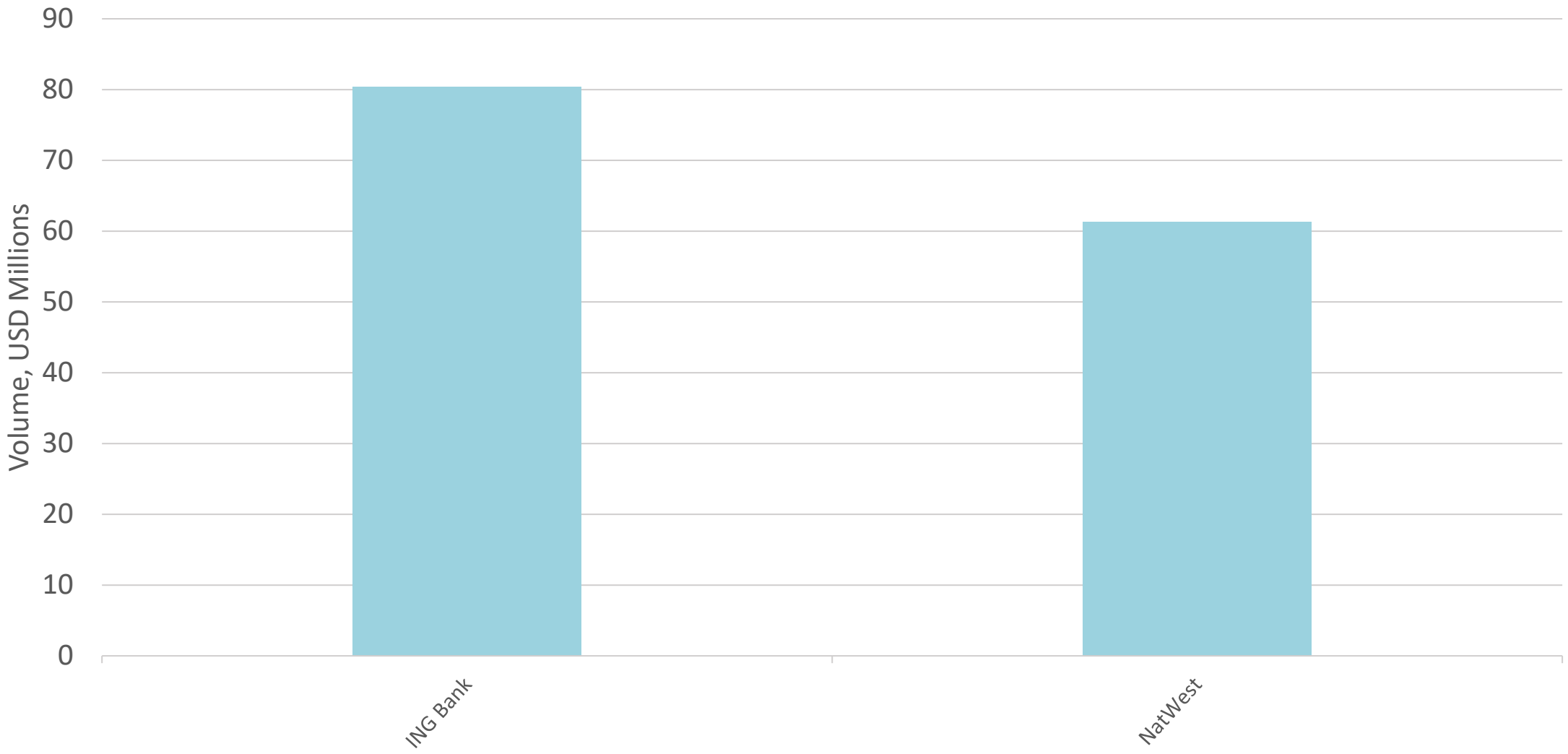
2 Financing by commercial banks: Q1 2020 Europe



ECA long-term transactions.
Source: TXF Media

2 What is supplier credit?

An ECA **supplier credit** is the short-term financing, or cover of financing, by an ECA to an exporter of goods and services to promote their growth and minimize the nonpayment risk by foreign buyers

2 Supplier credits

- Main supplier credit products:
  - Short-term trade insurance
  - Working capital guarantee and financing
  - Bonds
- Focus on small and medium sized businesses at most ECAs

2 Reasons to use supplier credit

- Powerful low-cost financing tool, quick to implementation
- Allows exporters to offer competitive terms to its buyers
  - Longer payment terms
  - Improves buyer's cash flow
  - Cost of supplier credit is passed along in price of goods
- According to WTO, companies buy 40% more from a supplier when extended payment terms are offered

An exporter's safety net

2 Short-term trade insurance

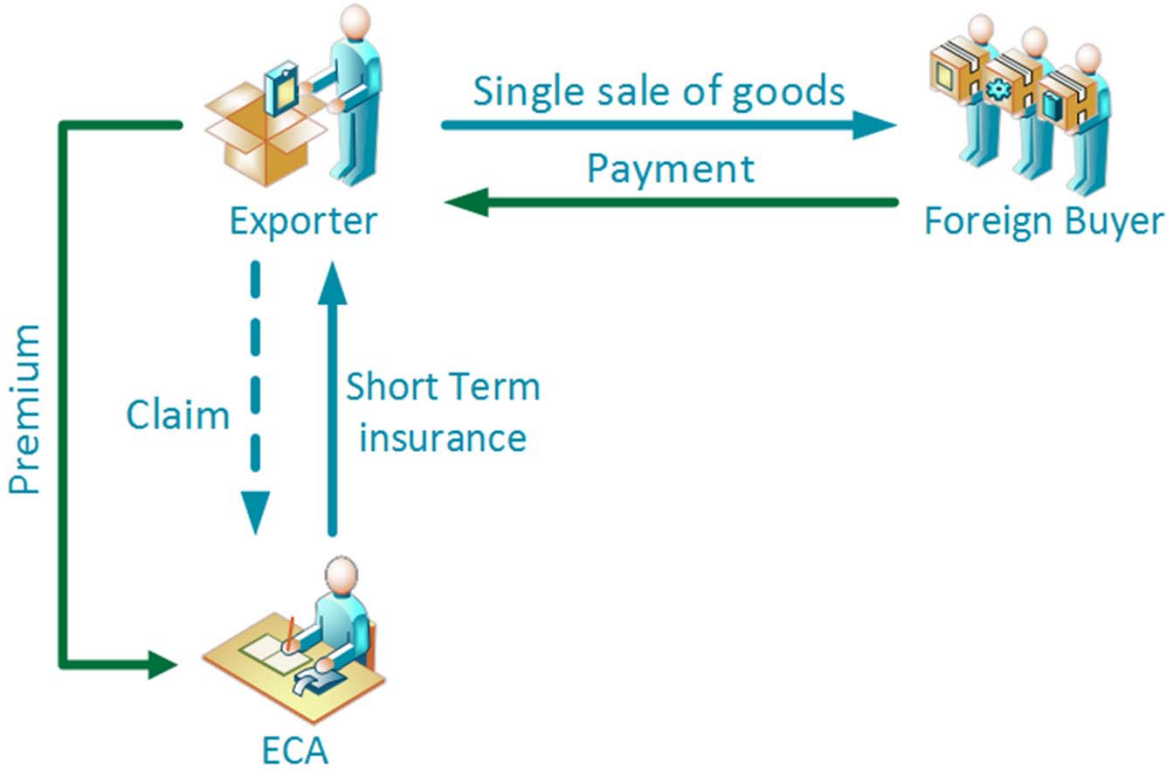
- Limits exporter's exposure to non-payment of accounts receivables by buyer
- Eligible commercial events:
  - Buyer bankruptcy and default
  - Refusal by the buyer to pay the proceeds after accepting the goods
  - Refusal by the buyer to accept the goods
  - Force majeure (natural disasters)
- Eligible political events:
  - War
  - Expropriation
  - Currency inconvertibility
  - Cancellation of import/export licenses
- Claim success depends on precise documentation of trade being insured

2 ECAs have varying levels of ST insurance cover

- Policy term
  - EXIM: Typically 1 year; medium-term insurance program up to 5 years
  - UK, Japan, and Norway: 2 years (and policies can be written in foreign currencies)
- Insurance coverage of foreign trade losses:
  - 100% (Italy SACE)
  - 99% (Spain CESCE)
  - 95% (EXIM and Norway GIEK)
  - 85% (UKEF)
  - Netherlands (Atradius) covers 98% political risks and 95% commercial risks
  - Japan (NEXI) covers post-shipment at 97.5% political, 95% commercial for private/public sector, and 100% for sovereign; pre-shipment at 60–95% political risk and 60–80% commercial risk; overseas investment at 100% political and 95% commercial

2 Single-buyer policies

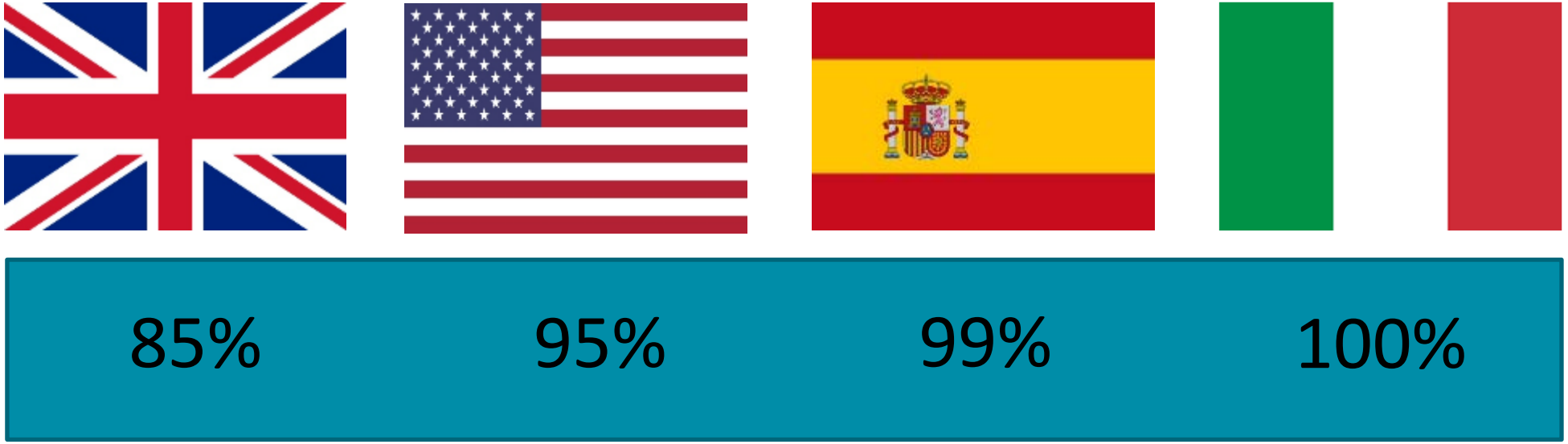
- Applies to trades with one importer
  - Single trade, or
  - Ongoing export program
- A single receivable payment is insured by the ECA
- Exporter offers extended payment terms to enhance the attractiveness of sale
- Typically more expensive form of export insurance



2 Single-buyer terms

- Maximum policy period during which shipments must occur varies by agencies (EXIM – 1 year; UKEF – 2 years)
- Repayment terms typically up to 180 days; can exceed 2 years (ECIC is at 7 years)
- The uncovered portion is for the account of the exporter
- A policy's approval and insurance premium cost are a function of:
  - Buyer's credit quality (payment risk) and country
  - Financing term
- Commercial and political risks are covered for both direct and indirect export sales
- Indirect sales: Supplier A sells its products to Supplier B, who then integrates Supplier A's goods into a finished product sold to a foreign buyer by Supplier B

2 Coverage amount varies



The uncovered portion is for the account of the exporter

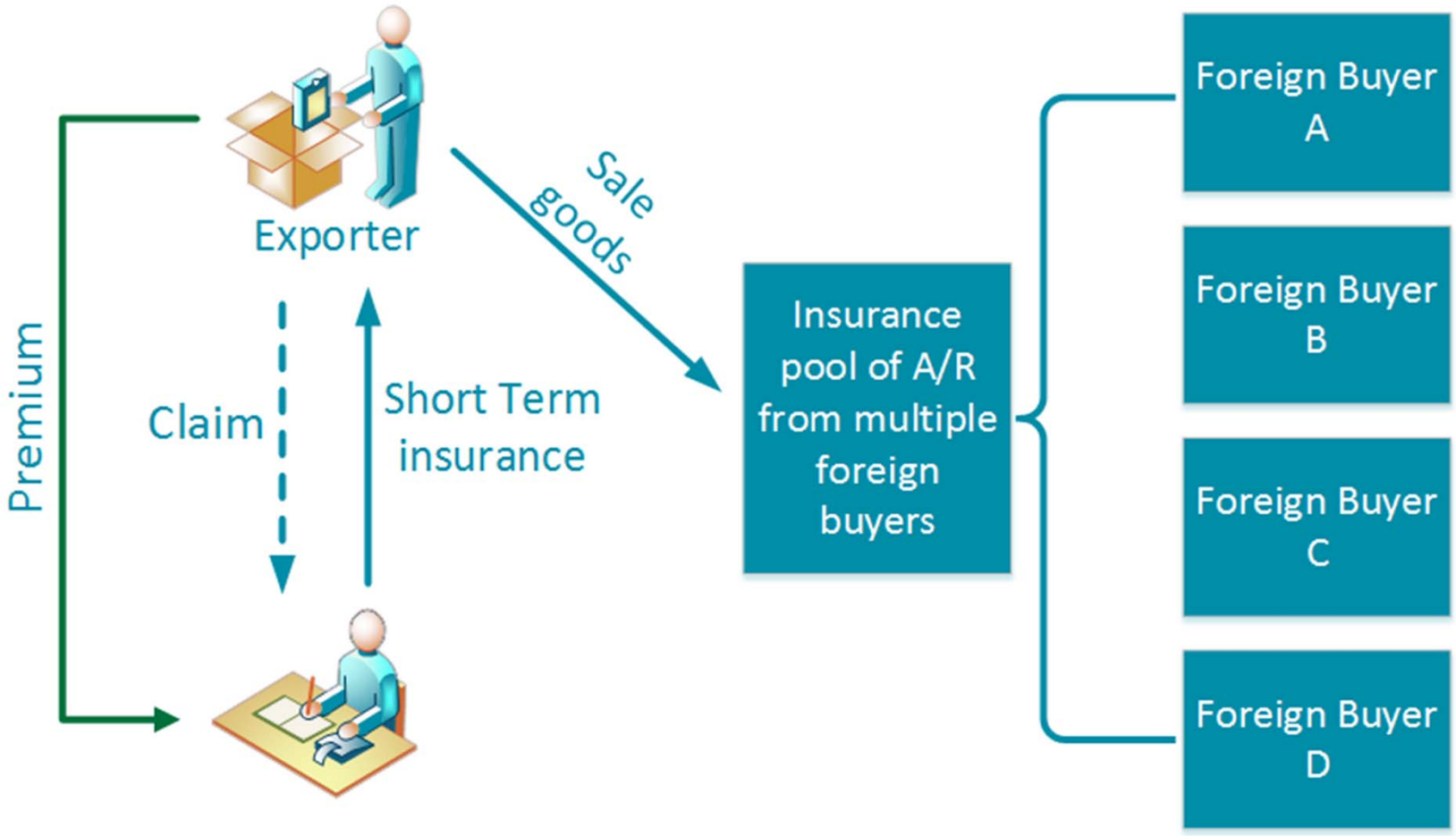
Public/private sectors = 97.5% political, 95% commercial
Sovereign = 100%

2 Direct versus indirect sales

- Indirect export sales can be insured

- Example: UKEF partnered with Barclays, HSBC, Lloyds, RBS/NatWest, and Santander
  - Delegated lending authority to banks with UKEF guarantee in place
  - Created to support indirect and supply chain export sales
  - Contract bonds and working capital financing to a broader base of UK companies
  - Application is with the banks using a new digital platform to expedite processing time

2 Multi-buyer export policies

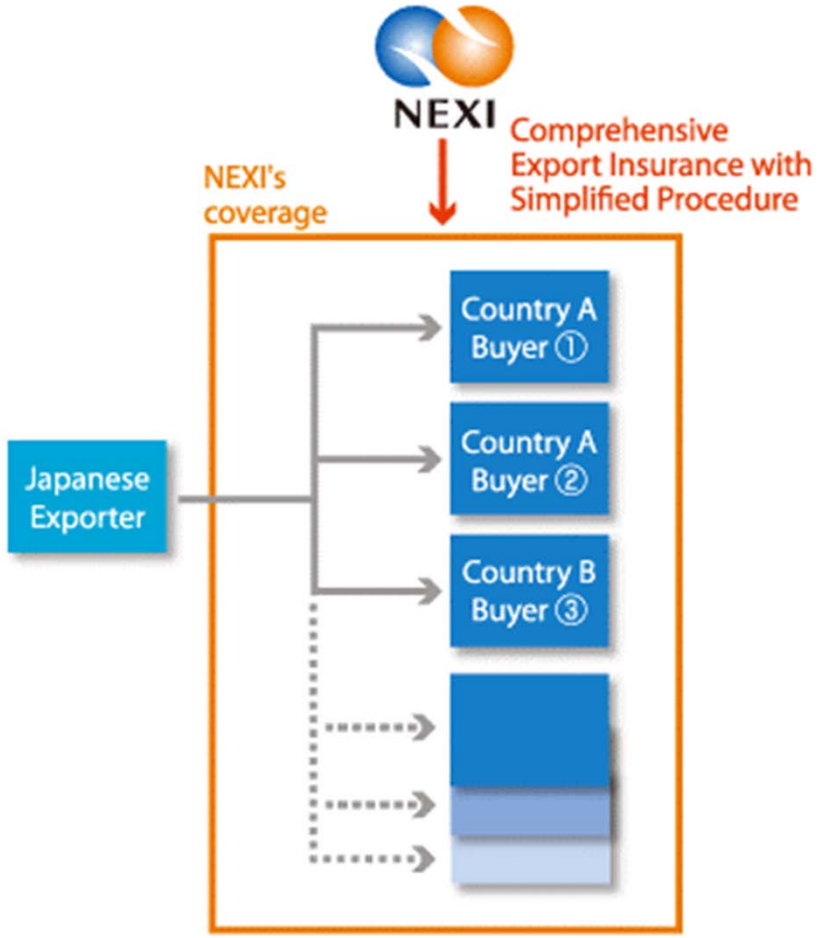


2 Typical terms for multi-buyer policies

- An exporter's pool of international accounts receivable can be insured
- Receivables from riskier countries can be blended with export sales of more stable countries to obtain larger policy limit
- Premiums:
  - Quoted by underwriting teams
  - OECD ECAs follow country risk rating as basis for pricing
  - Premium payment ranges from upfront to "pay as you go" (e.g. EXIM and Atradius)
- Payment term is typically 180 days; may be extended to 360 days for certain category of trades (usually consumables and agriculture)

Japan's NEXI

- Offers traditional export credit insurance program
  - Political and commercial risk
  - Claims processed after shipment and/or after delivering technical services
- Single-buyer policy with repeat business streamlined
- Standard multi-buyer policy structure
- SME policy is simplified with quick claims payment



・Commercial risk of a customer's subsidiary is not covered

Image attributable to NEXI's website

Japan's NEXI

- Intellectual Property License Insurance
  - Covers Japanese company for losses associated with patents, know-hows, and copyrights abroad
  - Nonpayment of license fees (e.g. royalties) due to force majeure including war, bankruptcy, or delay in payment by the overseas buyer

2 SACE ExportPlus

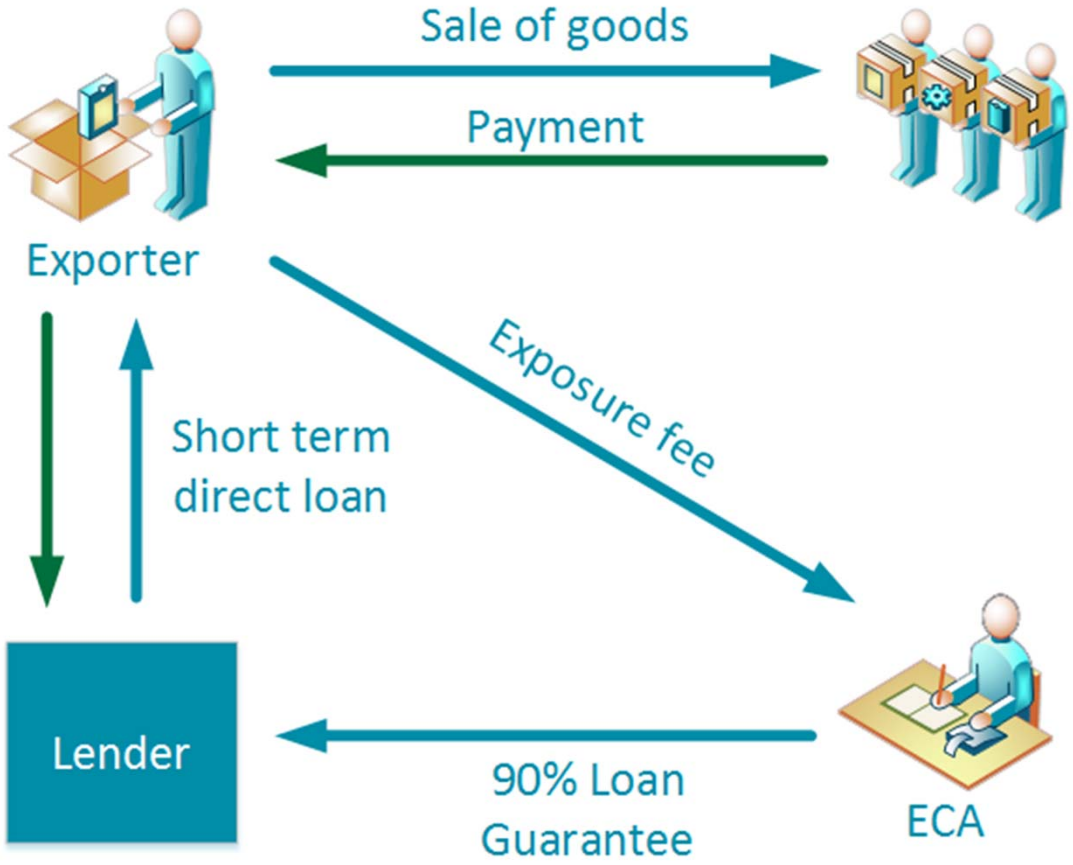
- Italian exporters with online supplier credit insurance quotes
- Applicable for standard export insurance
- Provides 24/7 insurance price quote to support contract negotiations with buyer
- Insurance coverage range:
  - Bank counterparty = to EUR 10 million / Foreign entity counterparty = to EUR 2.5 million
  - No minimum amount, 5-year maturity limit
- Country ceiling limits as determined by SACE analysts
- Coverage up to 100% of credit risks
- Free service for pre-approved companies
- Allows policy assignment to bank to enhance working capital guarantee financing
- Online also for PRI and bonds

2 Working capital guarantees

- Exporters, like all businesses, need liquidity to purchase materials, expand factories, and pay labor and overhead costs
- ECAs provide guarantees to pre-approved lenders to boost working capital
- Exporters receive funds that are allocated specifically for export-oriented sales
- Exporters pledge a combination of:
  - Short-term trade receivables to the guaranteed lenders
  - Owner or parent company guarantees

2 Working capital guarantees

- Working capital ECA guaranteed loans benefit exporters by:
  - Providing greater liquidity
  - Lowering interest rates
  - Expanding international sales opportunities



2 EXIM working capital guarantee

- Exporters can use the Working Capital Guarantee to obtain financing
  - 90% advance rates for export accounts receivables
  - 75% for inventories (including work-in-progress)
- EXIM fees:
  - USD 100 application fee
  - Up-front facility fee
    - 1.75% of total loan amount for a one-year loan
    - 0.875% of total loan amount for a six-month loan
- Bank costs: delegated authority lender will charge its own fees and interest margin
- Term: Up to 1 year
- Exports must exceed 50% U.S. eligible content

2 Case study: Working capital guarantee

A clever exporter uses a multi-buyer policy to expand exports

- Exporter wins a sizable long-term contract with a foreign pharmaceutical company
- Additional production capacity is required
- Exporter approaches its commercial bank and requests a working capital line of credit to fund expansion.
- Bank is unwilling to make loan because the production expansion is expensive and future revenues are dependent on a new customer located in an emerging market with unknown payment history

2 Case study: Working capital guarantee

- Benefit of working capital guarantee:
  - Exporter buys a multi-buyer ECA insurance policy to cover receivable risks from its other ongoing exports
  - Exporter pledges the multi-buyer policy to its commercial lender
  - Delegated Lending Authority approves the working capital loan, exporter starts production enhancements for new pharmaceutical client

2 Basic bond (surety) products

- Some ECAs offer surety bonds in support of their exporters
- In this section we will review the types of bonds, terms, and review ECA offerings
- Simple definition: A type of insurance where the beneficiary can file a claim if the surety bond's promise is not met
- Three parties:
  - Obligee: Party who seeks financial protection
  - Principal: Party who obtains the bond for the benefit of the Obligee
  - Surety: ECA who issues the bond to the Principal for the benefit of the Obligee

2 Bid bonds

- A written guaranty to the Obligee (customer) from the Surety (ECA) requiring the Principal (contractor) to accept and execute the job if selected
- Purpose: Without bid bonds, Obligees (project owners) would lack assurance that the bidder selected for a job will be able to properly complete the job without running into cash flow problems
- Also called bid guarantee or bid surety
- Upon award, a Principal usually then posts a performance bond

2 Performance bonds

- An ECA guarantees the smooth execution of a Principal's contract entered into by a foreign Obligee
  - Also known as a contract bond
- In the US, performance bonds are required for all public work contracts > USD 100,000
- Cost (or Rate) is a percentage of the full contract amount
  - Larger contract premiums are usually around 1% (developed markets)
  - Smaller contracts have fewer underwriting requirements but are priced > 3%
- The Rate is determined by:
  - Project type
  - Principal's line of work (concrete, architectural construction, engineering, etc.)
  - Principal's performance history on prior jobs
  - Obligee's location

2 Advance payments bonds

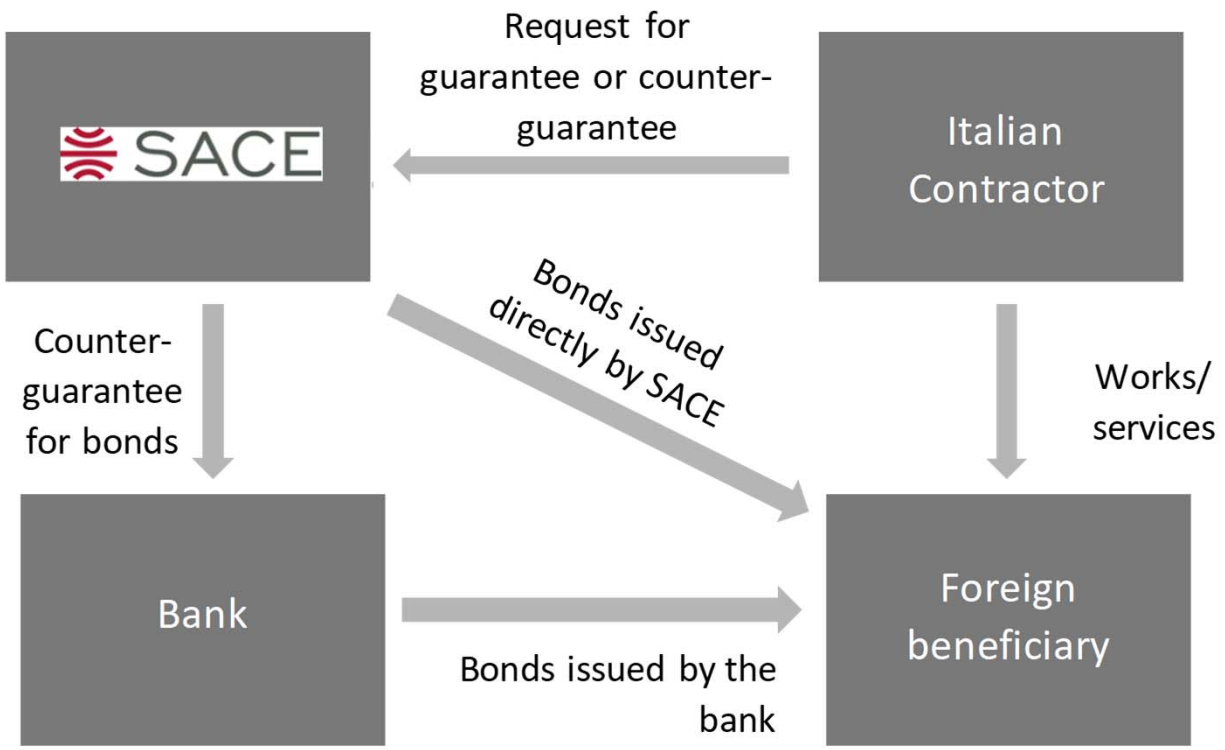
- The ECA guarantees repayment of advance payments made by the Obligee for contract execution
- Claims can be made by the Obligee in event of non-fulfillment by the Principal
- Also called advance payment guarantee
- Information requirements when applying for an advance bond include:
  - The Bond Request form with a basic overview of the transaction and requested bond
  - Copy of the complete contract (including verification that a bond is required), the penal sum of the payment bond, the scope of work, the completion period, etc.
- Contract award process must be disclosed (negotiated sole source or through bid process)
  - If it is a bid process, the surety will want evidence of bid bond
  - Bid results should show a tabulation of all bids; if the lowest and second-lowest differ by more than a certain % (usually 10%–20%), then provide an explanation for the difference

Other common ECA bond products

- Maintenance Bond
  - Guarantees the smooth operation of the project provided by the Principal
  - Functions as an insurance policy on a construction project
  - Contractor obligated to maintain the facility, and in the event of a defect, either correct it, or compensate the Obligee
  - Also known as a warranty bond
- Money Retention Bond
  - Guarantees repayment to Obligee in event of contractual non-fulfillment of the money paid in advance to the Principal at every milestone
  - Is a percentage (typically 5%) of the amount certified as due to the contractor on an interim basis
  - Offering a money retention bond in place of cash retention can result in substantial cost savings for the Principal

2 SACE bond products

- Extensive range of bond products
  - Bid
  - Performance
  - Advance payment
  - Maintenance
  - Money
- Benefits
  - Support Italian exporters
  - Fulfill legal obligations for certain tenders
  - Increase options for Italian exporters
  - Available to SMEs



2 UKEF bond products

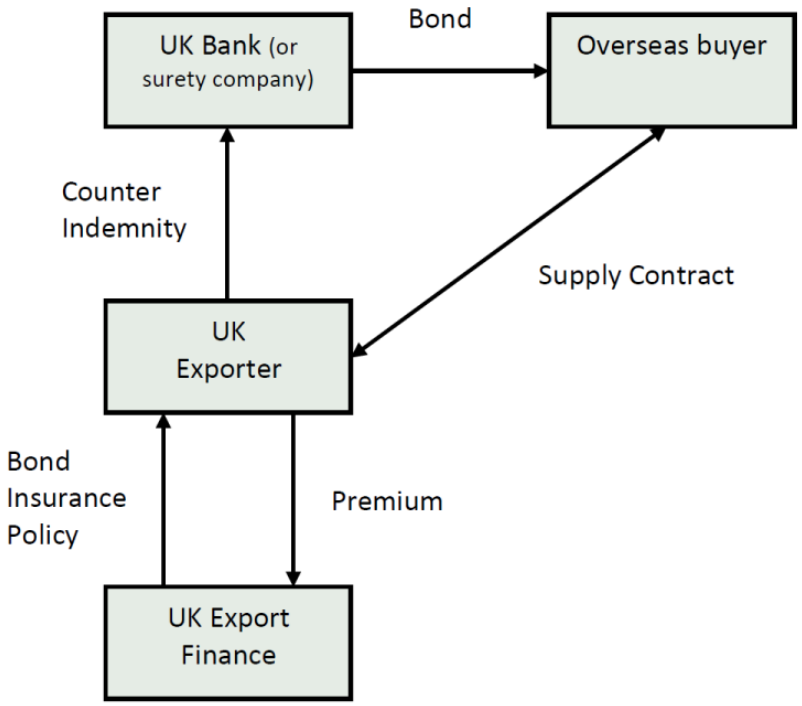
UK Export Finance

- UK bank issues a bond on behalf of UK exporter either directly to an overseas buyer, or through a counter-guarantee to a bank in the buyer's country, as a condition of an export contract
- The policy protects the exporter against loss caused by:
  - The unfair calling of the bond (or any related counter-guarantee)
  - The fair calling of the bond due to political events
- UKEF does not provide tender or bid bonds
- UKEF provides advance payment bonds and performance bonds
- Reducing bonds are available as the amount payable reduces over time or as goods or services are delivered
- Exporter is given up to 100% cover
- There is no fee for the application
- The premium is determined on a case-by-case basis

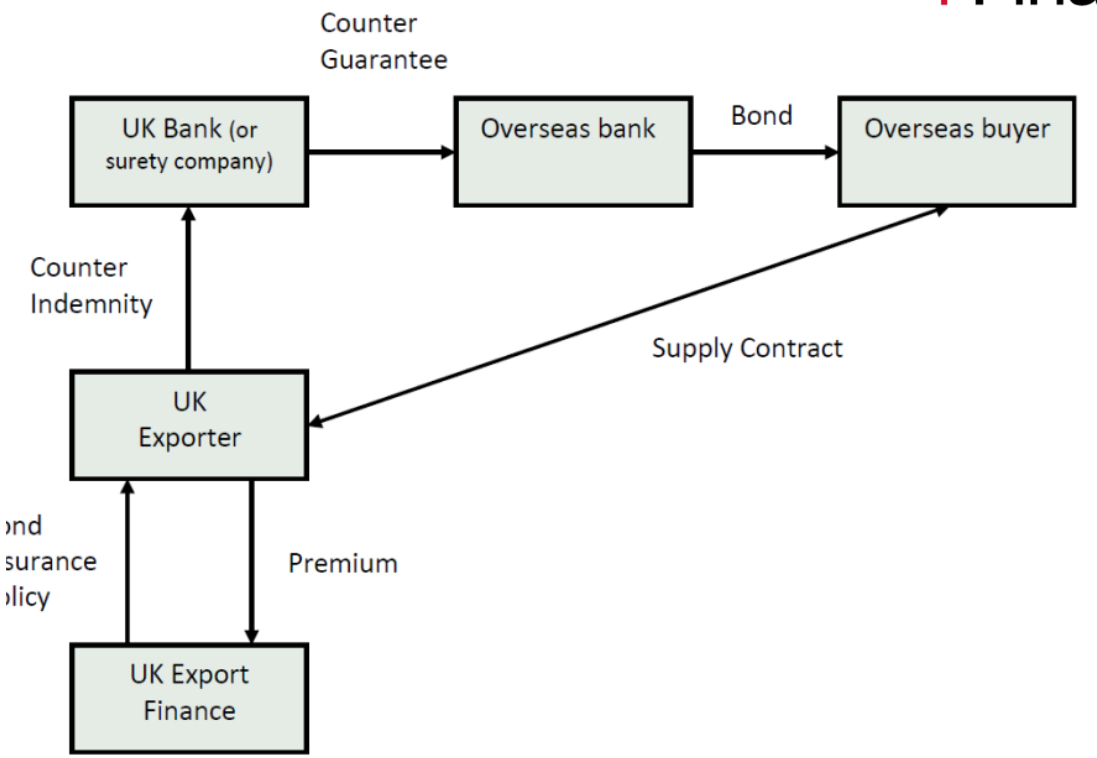
UKEF bond products

UK Export Finance

Direct



Via local bank



2 Finnvera, Finland

- Offers bid, performance, advance payment, and maintenance bonds
- Cover to bank in favor of foreign buyer on behalf of Finnish exporter
- In a claim, Finnvera recovers from exporter the full indemnity paid to the bank
- The bond guarantee from Finnvera can be used simultaneously as a counter-guarantee in favor of a bank and as risk insurance in favor of an exporter
- The bond may be given by either a Finnish or a foreign bank or insurance company
- Finnvera is flexible regarding governing law, as well as the agreed arbitration/litigation procedure of the export contract

2 SINOSURE bond products

- SINOSURE is the world's largest provide of ECA bond insurance
- Typical bonds:
  - Bid
  - Performance
  - Advance payment
  - Quality
- The Lease Payment bond is a unique bond product covering non-fulfillment of lease obligations by a Chinese entity

2 Small business matters

- Small and medium enterprises (SMEs) are powerful economic drivers

90% of all businesses globally are SMEs

94% of SMEs employee less than 5 people

50% of global employment work in SMEs

- SMEs cite the need for ECA trade finance products to expand exports
- ECAs need outreach to SMEs to:
  - Identify relevant products
  - Explain benefits of using export finance
  - Assist with application and compliance with programs
- As a result, many ECAs are expanding programs specifically in support of SMEs

2 European Union SME enterprise category

	Headcount	Annual turnover	Annual balance sheet total
Medium	< 250	≤ EUR 50 million	≤ EUR 43 million
Small	< 50	≤ EUR 10 million	≤ EUR 10 million
Micro	< 10	≤ EUR 2 million	≤ EUR 2 million

2 SME Definition by countries

Country	ECA	SME Definition
Australia	Export Finance Australia	Business turnover not exceeding AUD 10 million (subject to change in the next 12 months)
Belgium	Credendo	Annual turnover not exceeding EUR 5 million and overseas exports not exceeding EUR 0.62 million
Canada	EDC	Medium-sized exporters: total annual sales between CAD 5 million to 25 million; small sized exporters: total annual sales less than CAD 5 million; emerging exporters: total annual export sales less than CAD 1 million
Germany	HERMES	Maximum 500 employees
Hungary	HEHIB	Maximum 250 employees, less than 4 billion HUF (up to USD 15 million) turnover or maximum balance sheet total of 2.7 billion HUF (less than USD 10 million) and fulfils the interdependence criteria
Korea	KEIC	Maximum 300 employees and net assets not exceeding 8 billion Korean Won (USD 6.1 million) for manufacturing firms
Mexico	BANCOMEXT	Enterprises grossing less than USD 2 million
Netherlands	NCM	Maximum 99 employees
Turkey	Türk Eximbank	Maximum 200 employees with fixed assets (except for land and buildings) less than USD 2 million in manufacturing
United States	EXIM Bank	Maximum 500 employees or net gross revenues, which differ depending on industry sector and subsector (reference SBA definition)

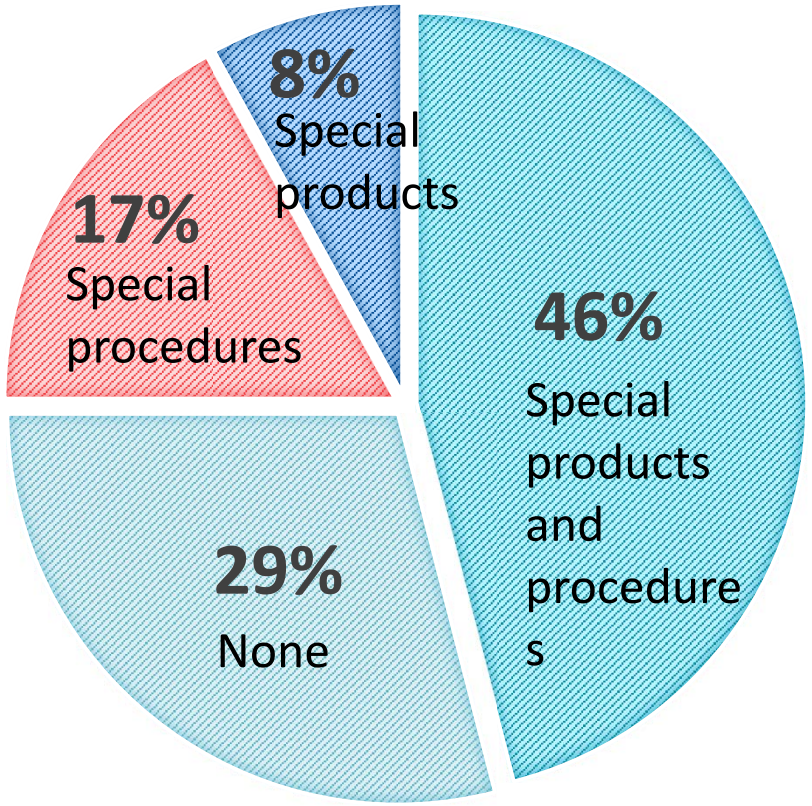
Berne Union members and SMEs

- Definition of an SME varies country-by-country
- Specialized lending products have been developed to help these companies expand markets to global buyer, and do so in a cost-effective manner
- Top challenges facing SMEs (Berne Union member responses):
  - Obtaining financing
  - Obtaining working capital
  - Complicated foreign regulations
  - Cost of doing business abroad
  - Understanding market opportunities

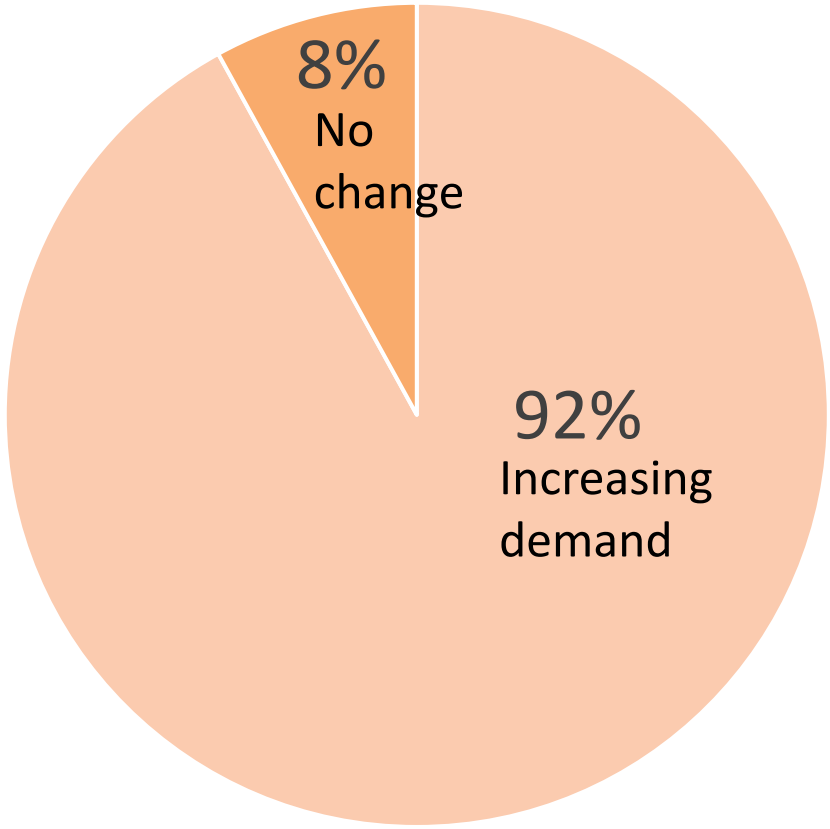
Volume SME authorizations by ECA	SME business as % of portfolio
Germany	46%
Australia	19%
USA	17%
Canada	13%
Sweden	4%
United Kingdom	2%

Berne Union SME survey – Summer 2017

ECAs' adaptation to SMEs



SMEs' financing needs next 2–3 years



2 Small business direct lending

- Some ECAs recognize that small businesses and companies new to exporting typically have limited financing capacity
- ECAs that have, or are implementing, SME direct lending programs include UKEF and Finnvera

2 Korea encourages small businesses

- Korean exports rely disproportionately on large companies
- Korea Eximbank adopts the concept of “Hidden Champion”
- Now, SMEs and Hidden Champions get preferential treatment
- Goal: Support growth of these small businesses to maximize contribution to Korean economic growth
- Favorable loan terms and conditions
  - Interest rate reductions up to 60 bps of large companies and up to 70 bps for job creating SMEs
  - Fee exemption: No application or processing costs

EXIM's insurance content rules

	Non-small business	Small business only
Eligible content	Labor, materials, and direct overhead costs (excludes profit and indirect overheads)	All costs (excluding profit)
Eligibility threshold	If < 50% U.S. content, then export ineligible for financing	If < 50% U.S. content, then finance U.S. content
Evidence of export	All goods must ship from U.S.	All goods must ship from U.S.

2 India Exim Bank SME initiative

- Dedicated SME credit line from the Asian Development Bank (ADB)
- Provides financing in both foreign currency and INR
- Up to 7-year term loans
- Allocated to export-oriented SMEs located in developing states
- Use of proceeds to finance eligible capital expenditures:
  - Set up new facilities
  - Expand and/or modernize existing facilities
  - Acquire manufacturing equipment, plants, and machinery
  - Construct testing/R&D facilities
  - Build captive power plants/co-generation plan
  - Improve or construct infrastructure facilities (e.g. water effluent treatment plants)
  - Build storages/warehouses

MODULE 3

Unstructured buyer credits

3 What is buyer credit?

An **ECA buyer credit** is the financing by an **ECA** (directly or indirectly) to a **foreign buyer**, for the purchase of goods and/or services exported by companies in the ECA's country

3 Unstructured buyer credits

- There are different kinds of buyer credits
- In this section we will focus on structures that rely on a creditworthy borrower
- Though we call them “unstructured,” they may have some structured elements
- Whether to pursue these structures is mostly determined by the credit quality of the borrower
- Here’s what we will review:
  - Financing structures
  - Typical term sheets
  - Benefits and drawbacks
  - Examples

3 Role of ECAs in buyer credits

Insurance

- Commercial bank lends under an ECA insurance cover
- Typical insurance coverage is less than 100%
- In case of default, ECA disburses funds, subject to approval of insurance claim
- Higher risk profile to the lender increases all-in costs to the borrower

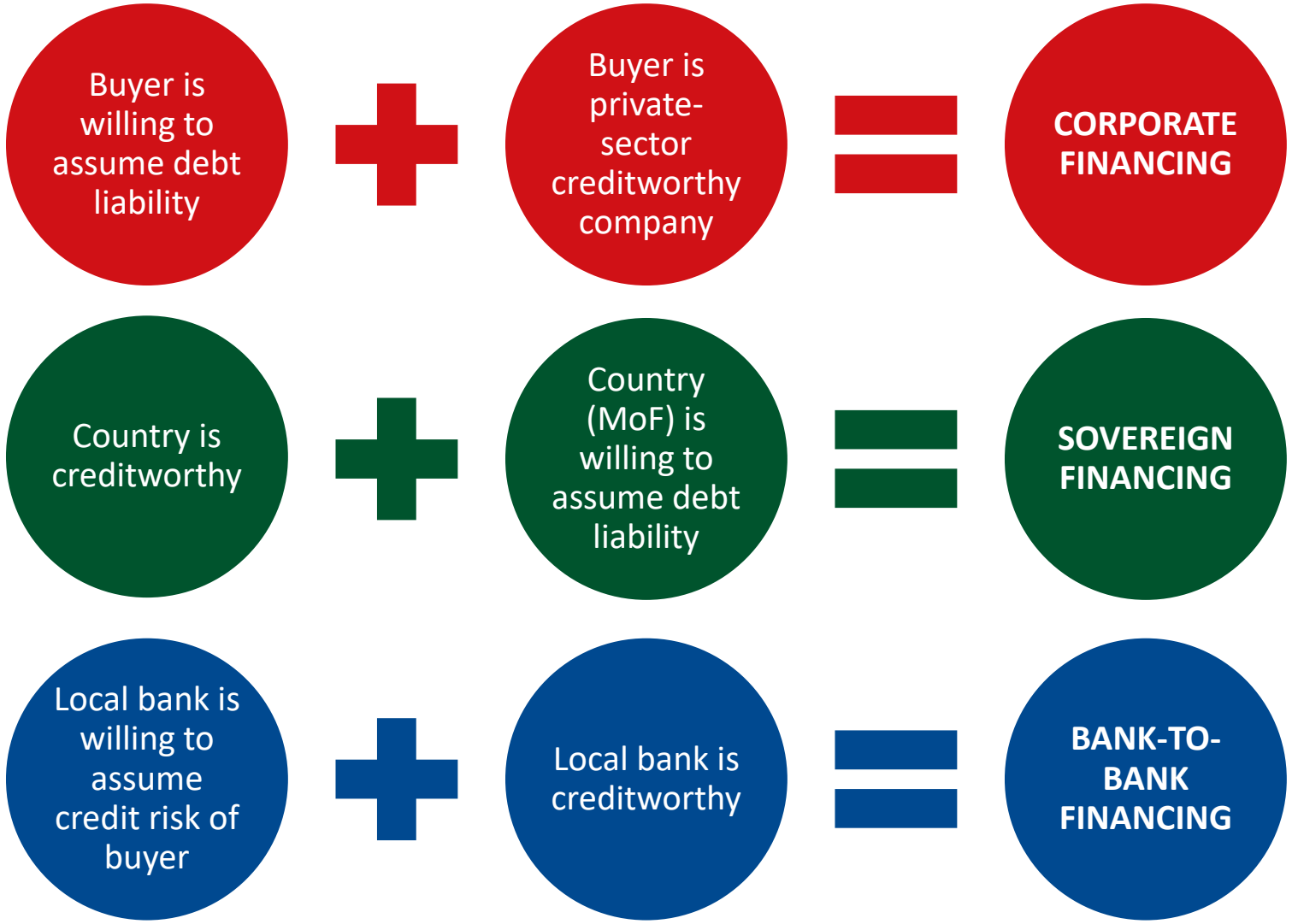
Guarantee

- Commercial bank lends under an ECA guarantee
- Typically, guarantee coverage is 100%
- In case of default, ECA disburses funds, no questions asked
- Typically, risk to lender is lower than insurance, thus all-in costs to the borrower can be lower

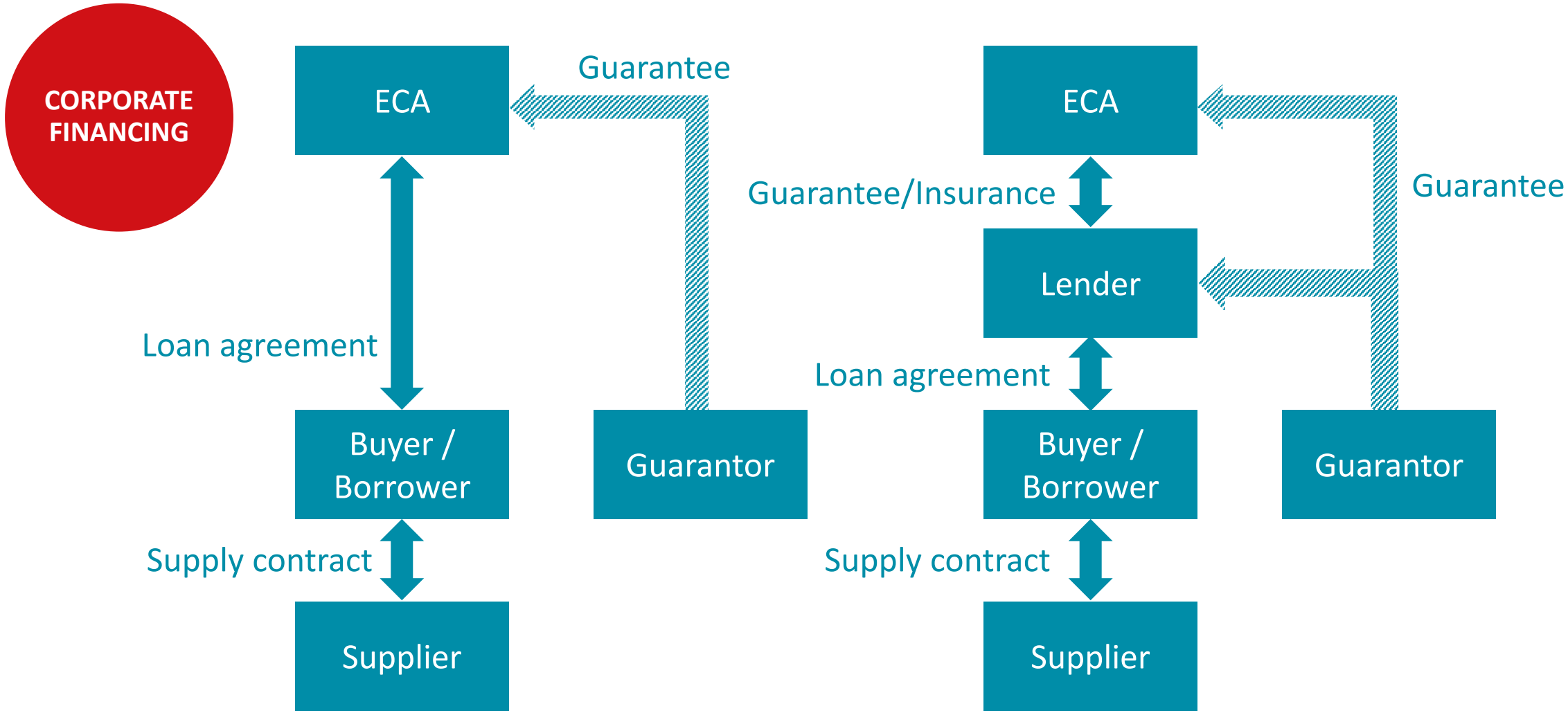
Direct loan

- ECA lends funds directly to the borrower
- In case of default ECA realizes the loss
- Because there is no commercial bank involved, all-in costs to the borrower could be the lowest
- In times of tight liquidity, direct loans fill major market gaps

3 Corporate, sovereign, and bank-to-bank

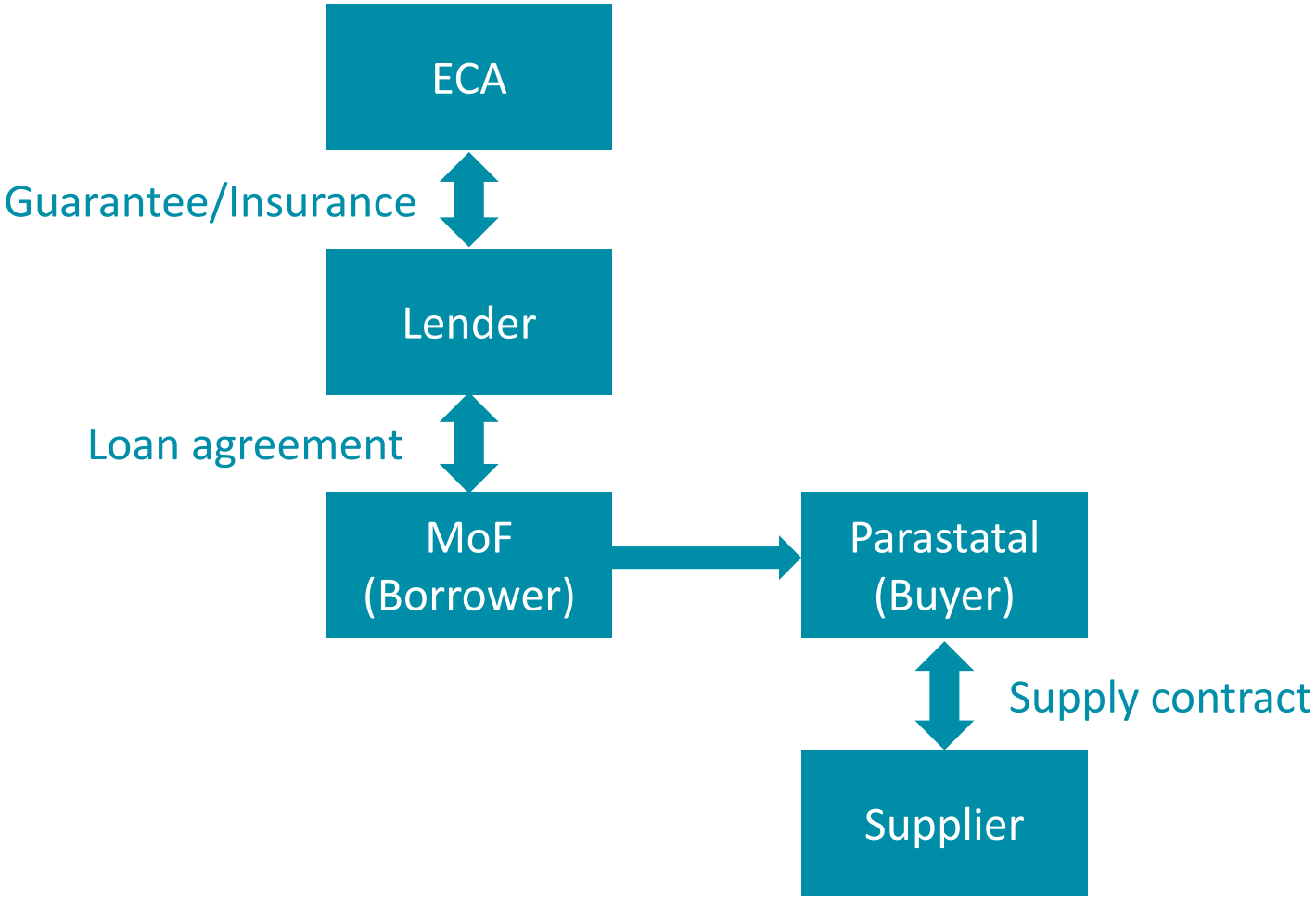


Corporate financing



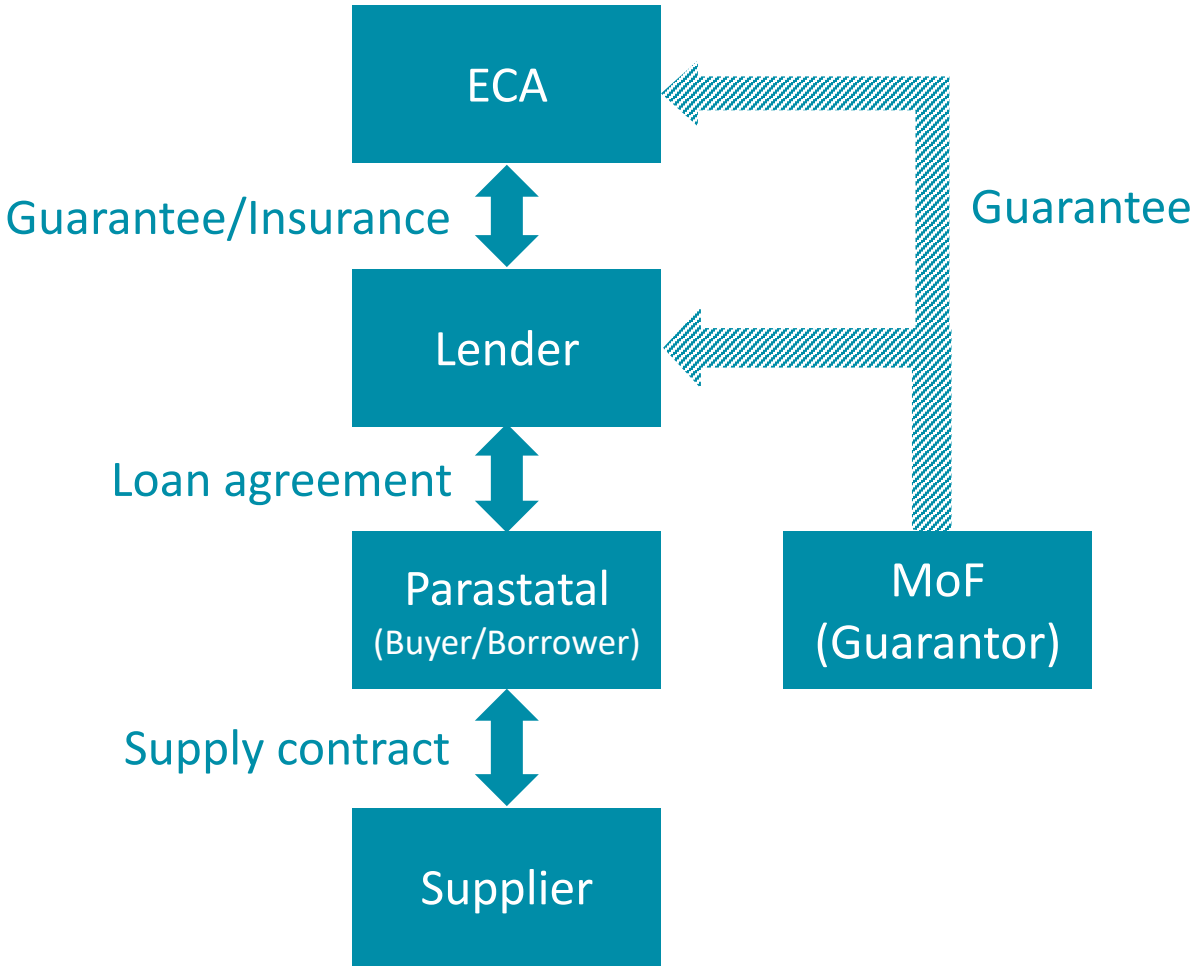
Sovereign financing (MoF borrower)

SOVEREIGN FINANCING



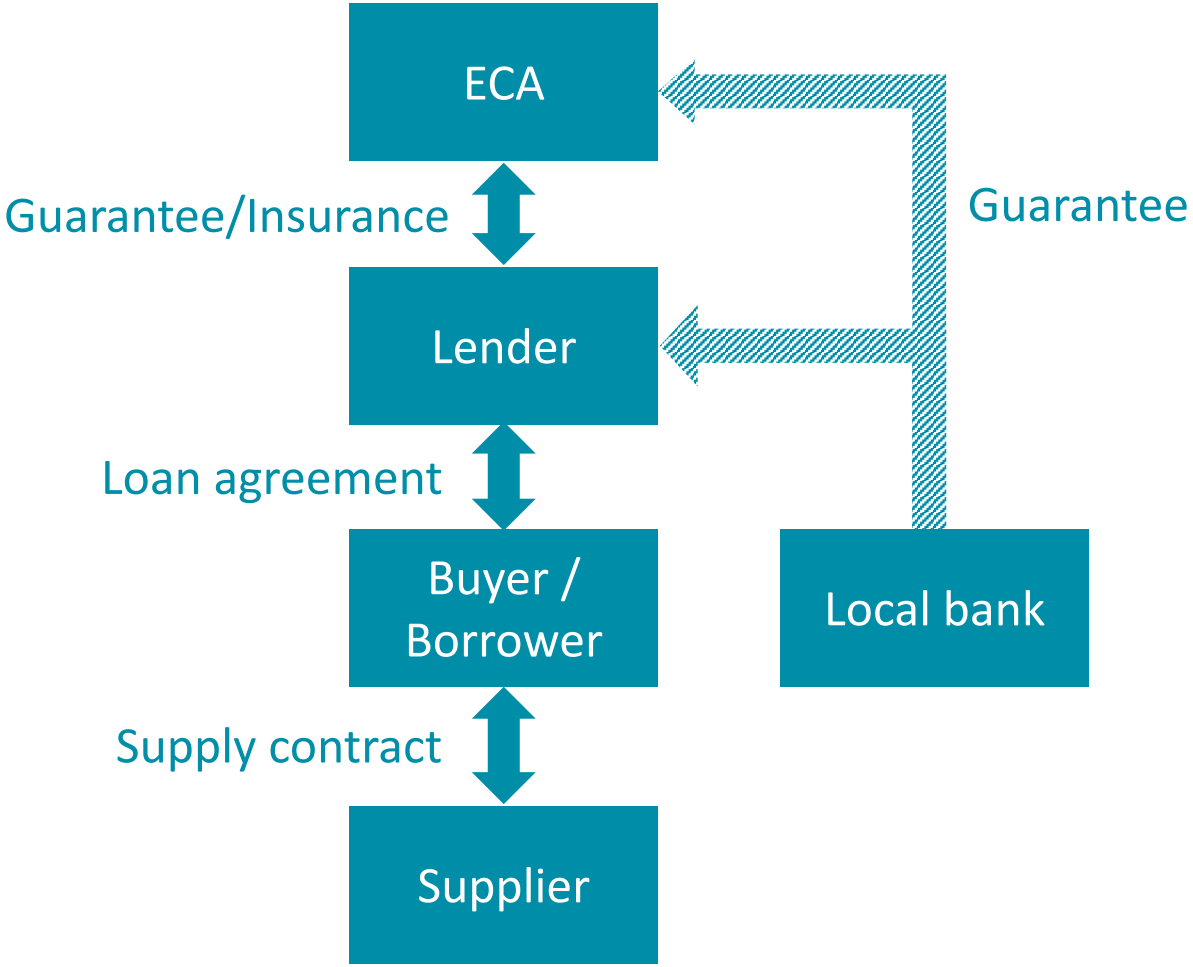
3 Sovereign financing (MoF guarantor)

SOVEREIGN FINANCING



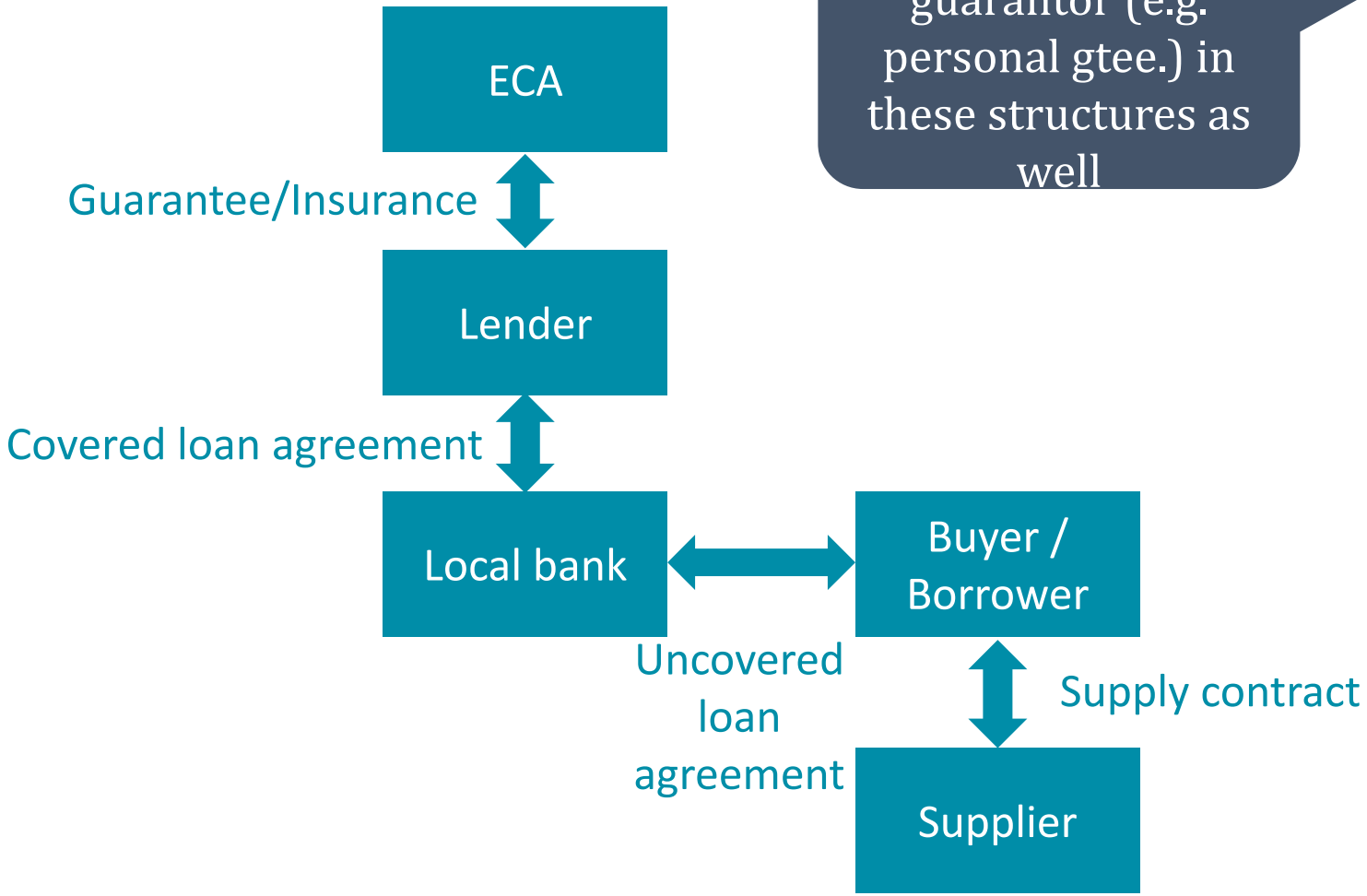
3 Bank-to-bank financing (local bank as guarantor)

BANK-TO-BANK FINANCING

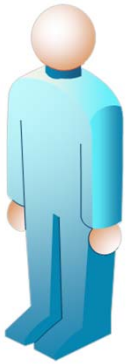


3 Bank-to-bank financing (on-lending)

BANK-TO-BANK FINANCING



There can be a guarantor (e.g. personal gtee.) in these structures as well



3 Comparing the different types of buyer credits

Criteria	Corporate financing	Sovereign financing	Bank-to-bank financing
Complexity of application	★★	★★★	★★
Time to financial closing	★★	★★★	★★
Closing costs	★★	★★★	★★★
Carrying costs	★★	★★★	★
Covenant complexity	★★	★★★	★★
Examples	• Export of grains to private-sector food distributor • Export of aircraft to large, creditworthy airline	• Public sector water distribution project • Government-sponsored hospital infrastructure development project	• Low-volume export of trucks to small company • Fund development bank for SME investment program

★ good
★★ better
★★★ best

3 Exercise: Financing structures

- Ministry of Education wants to build school buildings in the countryside
- A French manufacturer is bidding for a sales contract of instrumentation to a blue-chip Mexican automotive plant
- A small company in Angola (with no financial statements, etc.) wants to buy agriculture equipment from company in the Netherlands

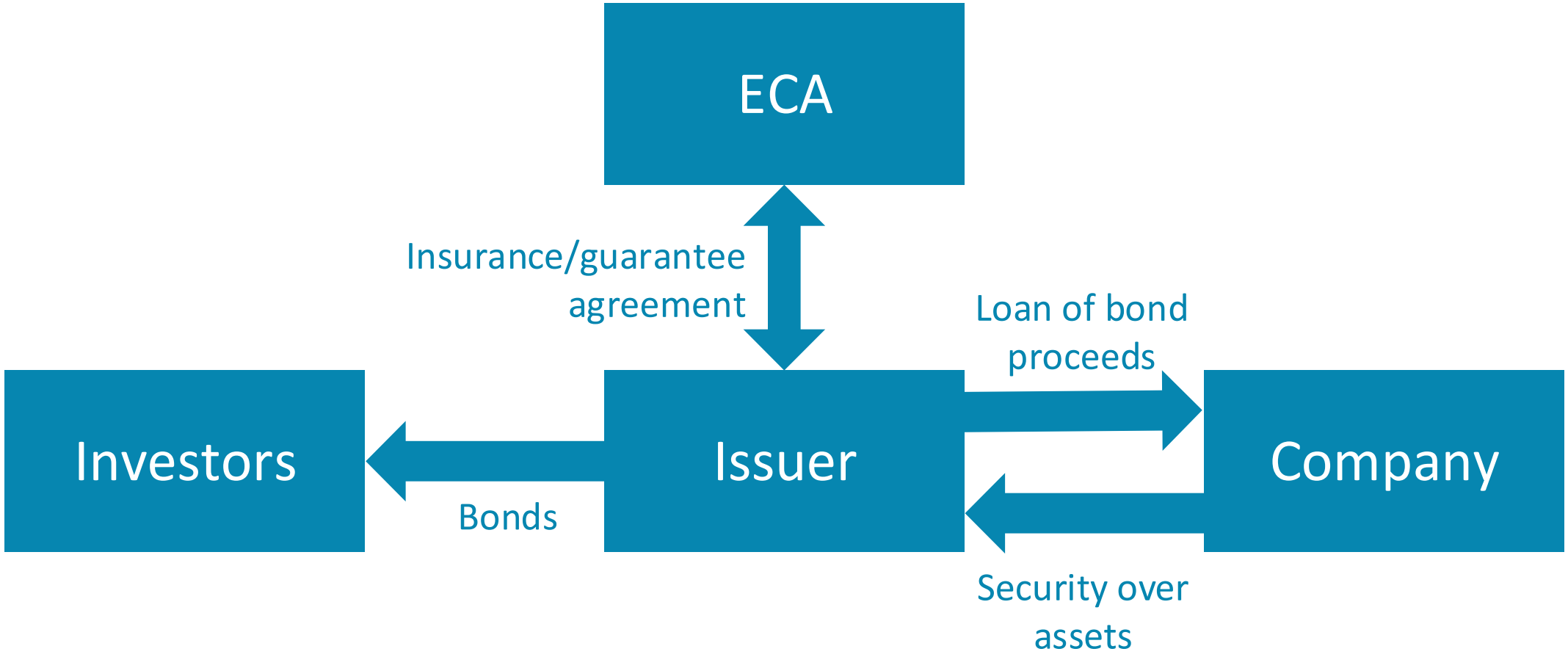
- What ECA financing structure should be pursued in each of these cases?
  - Ministry of Education: Sovereign
  - Mexico: Corporate
  - Angola: Bank-to-bank

Special issues – ECA-backed bonds

- ECA-backed bonds have become more and more popular
- Rationale: Cost of funding in capital markets-funded facilities may be low
- Careful: Bonds are drawn all upfront => Negative carry!
- Aviation sector leads the way—large value and straightforward disbursements
- Hybrid structure: Commercial bank disbursement over a period of time => Bond issued and ECA cover transferred from the bank to the bond
- Private placements (Reg D; 144A) are mostly what is supported at this time
- Credit rating of the bond is pegged to credit rating of the ECA

Special issues – ECA-backed bonds

- Structure:



MODULE 4

The buyer credit term sheet

4 Corporate financing term sheet

Parties	Fees
• ECA Guarantor / Insurer [/ Lender]	• ECA Guarantor exposure fee / risk premium
• [Guaranteed lender]	• ECA Guarantor commitment fee
• Borrower / End user	• Guaranteed lender arrangement fee
• [Guarantor]	• [Facility agent fee]
• [Facility agent]	• [Letter of credit fees]
• [Letter of credit bank(s)]	Interest rate
Facility	• Variable-rate
• Loan currency	• Reference rate
• Total export value	• Margin
• Financed amount	• Fixed-rate
Term and repayment	Other costs
• Disbursement period	Other terms
• Repayment period	• Disbursement method
• Principal repayment	• Prepayment, etc.

4 Parties

- ECA as lender vs. insurer/guarantor
- Borrower vs. Buyer vs. End user
  - One company may take all three roles
  - Some cases are more complicated – Example: Ghana water project
  - ECA financings – control of assets critical
  - Exported goods serve as collateral of financing
- Exporter vs. Supplier
  - Exporter has sales contract with Buyer
  - Supplier(s) provide goods and services to Exporter
- Facility agents (local and/or global)
  - Typically required when ECA acts as lender and/or different loan tranches
- Sovereign financing: Sovereign guarantee vs. sovereign “support”

4 The facility

- Currency
  - Typically same as the supply contract
  - If not, mitigate the currency risk!
- Facility amount
  - Primarily determined by eligibility
  - Can also be limited by other factors; e.g., creditworthiness of the borrower
- Exported amount

If the actual exports that are realized in the utilization period are less than those recorded in the term sheet, it may be impossible for the borrower to draw the full amount of the loan!

4 Term, repayment, and amount

Short-term
(0–12 months)

Long-term
(7–12 years)

Medium-term
(1–7 years)

Long-term
(environmental, nuclear)
(18 years)

- Starting point of credit
- Loan tenors are typically limited to asset life
  - Commodities and consumables are typically limited to short-term financing
  - Long-lived capital equipment can typically be financed for longer tenors
- Loan tenors are also dependent on other factors such as credit quality of the borrower and country limitations
- Recall OECD sector understandings provide limits in certain cases
- Repayment profile and frequency

Fees

- ECA Guarantor exposure fee / risk premium
  - Largely dictated by OECD guidelines
  - Depends on
    - Country / credit quality of the borrower
    - Repayment tenor
  - Most ECAs allow financing of risk premium

4 Paying the risk premium – Up-front vs. capitalized

- Four scenarios
  - Paid as a flat fee of the financed amount upfront (at financial closing)
    - Paid in cash and in full before SPOC
    - Lowest amount of risk premium
  - Paid as pro-rata flat fees of the disbursement amounts as disbursements are made
    - Paid in cash and in full before SPOC
    - Amount of risk premium slightly higher than scenario 1
  - Capitalized, “earned” upfront at financial closing (financed by ECA)
    - Interest on premium accrues starting at financial closing – paid during loan repayment period
    - Risk premium higher than above two scenarios
  - Capitalized, “earned” pro-rata as disbursements are made (financed by ECA)
    - Interest accrues starting at each disbursement – paid during loan repayment period
    - Highest amount of risk premium

Fees (examples)

EXIM Bank long-term exposure fee calculator

This is a nonbinding fee calculation provided for your convenience.
Actual fees for long-term transactions will be determined by Ex-Im Bank upon approval of a completed application.

Ex-Im Bank Exposure Fee Level (or by Country):	Papua New Guinea (6)
Percentage of Cover:	100 %
Product: MT Insurance (2) or Guarantee/Direct Loan (3)	3
Repayment Period: (Years)	5.0
Drawdown Period:(Months)	12
Financed? (Y/N)	Yes
Paid: Up Front (F) or As Drawn (D)	D

CREDIT CLASSIFICATION (%)

BTS	SOV/CC0	CC1	CC2	CC3	CC4	CC5
6.74%	7.62%	8.36%	9.55%	11.26%	NA%	NA%
Better than Sovereign	Sovereign					
	Non-Sovereign ==========>					

EKF indicative premium calculator

Indicative Premium

→ Adjust calculation

Please note that the indicative premium is merely an indication and not legally binding. The premium indicator provides an indication of the expected premium for a specific transaction, but the final premium may deviate from this indication. EKF is not legally bound by the indicative premium.

Credit amount	100.000 DKK
Premium Rate	7,7 % - 11,0 %
Premium Amount	7.690 - 10.990 DKK
Premium margin, pct. p.a.	2,8 % - 4,1 %
Country	Papua New Guinea
Draw down period (months)	12
Repayment period (months)	60

EKF's premium depends on both the buyer country and the buyer's creditworthiness. The premium is a percentage of the credit amount (the principal) and is payable up front.

For a guaranteed credit amount below DKK 25 mill. under SME Guarantees, Supplier Credit Guarantees or Financing Guarantees with a corporate risk, the premium rate is increased by a factor of 25%. This is already applied in the indicative premium.

Note that the indicative premium we provide is based on a number of assumptions about the structure of your exports.

Fees (examples)

OEKB indicative premium and interest rate calculator

Indication of premium and interest rate for a medium/long-term transaction

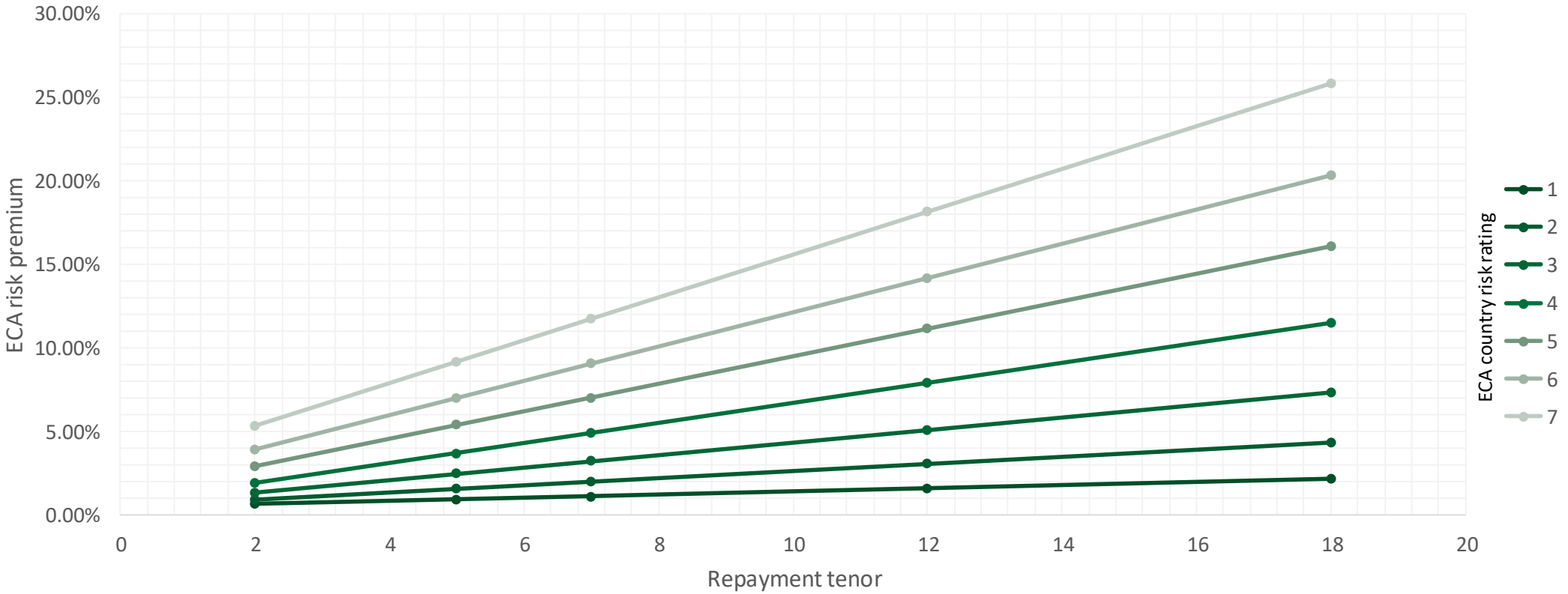
This is a non-binding premium calculation provided for your convenience. Actual premiums will be determined by OeKB upon approval of a completed application.

transaction			
country / category / pc	PAPUA NEW GUINEA / Cat. 6 / 99%	PC	%
rating of buyer / borrower / pc	central bank / ministry of finance (CC0)	PC	100 %
repayment period /instalments	5.00 years	semi-annual	
delivery / drawdown period	1.00 year(s)		
premium rate	6.85 % of the credit amount (2.28 % p.a.)		

calculate print clear

contract amount	100,000.00	in	EUR
less down-/interim payment	%		
provisional maximum guarantee			100,000.00 EUR
less interim payment covered	%		
credit amount	EUR		100,000.00 EUR
maximum manufacturing risk	EUR	covered	
manufacturing period	1.00 year(s)		
premium manufacturing			569.17 EUR
premium interim payment			0.00 EUR
premium delivery / drawdown			570.83 EUR
premium repayment			6,279.17 EUR
total premium			7,419.17 EUR

Fees – ECA risk premium examples



This chart displays the risk premiums for an EXIM-guaranteed loan with a disbursement period of one year, assuming that the risk premium is paid in cash upfront, for varying repayment tenors, and credit quality of the borrower

Fees

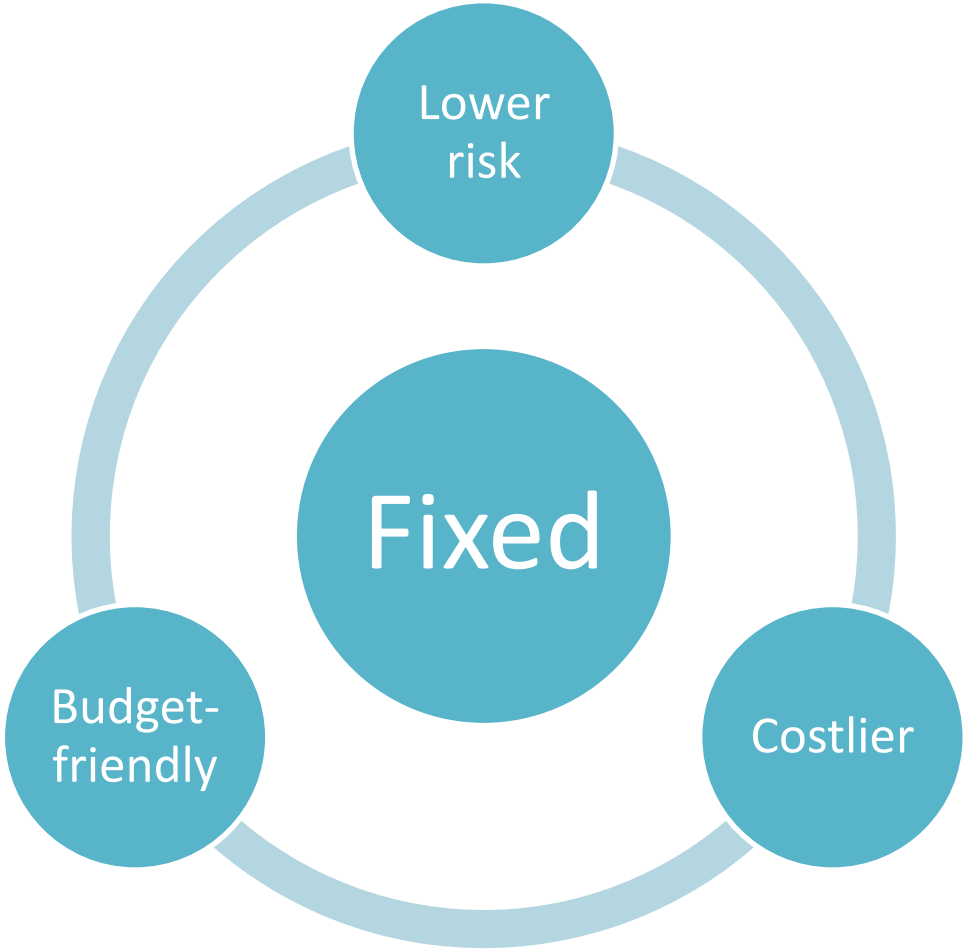
- ECA Guarantor or lender commitment fee
  - Annual fee varies widely from ECA to ECA; e.g.,
    - Korea Eximbank: Guaranteed loans: 0.75% / Direct loans: 0.50%
    - EXIM Bank: Guaranteed loans: 0.125% / Direct loans: 0.50%
    - Euler Hermes: 1.00%
  - Commitment fee typically paid semi-annually on average undrawn amount
  - Not financed by ECAs
- Guaranteed lender arrangement fee
  - Flat fee on financed amount, paid upfront
  - In some cases it may be financed by ECAs
  - Typically inversely correlated to loan size
  - Not necessarily uncorrelated to credit risk
  - Varies widely from lender to lender, typically set by business committee (0.5%–2.5%)

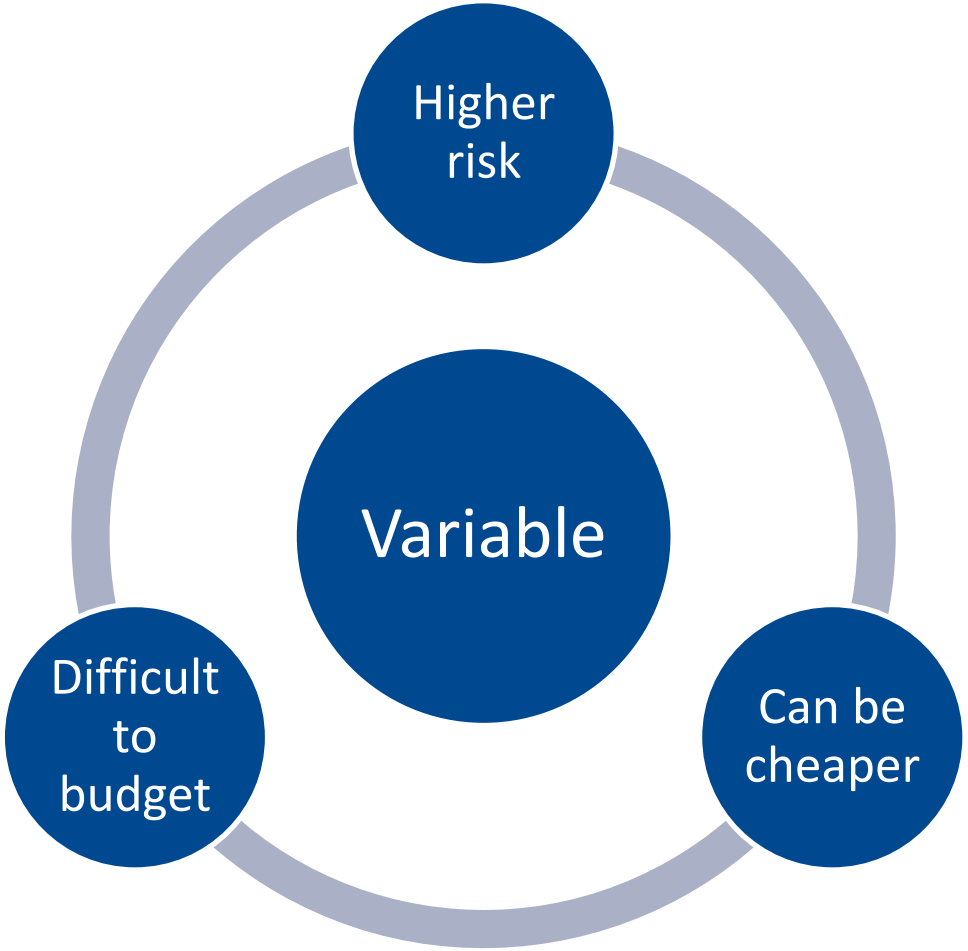
Fees

- Facility agent fee:
  - Facility agents generally face documentary risk
  - Typically it is an annual fee during disbursement period
  - Varies widely from agent to agent, can be in the USD five or six figures
  - Incurred if ECA is direct lender (typically)
- Letter of credit fees:
  - Confirmation fee (depends on issuing bank, country, and tenor): 0.50%–1.50%
  - Negotiation fee: 0.10%–0.50%
  - Advising fee: USD 50–200
  - Other fees: Amendment, discrepancy, wire transfer, etc.
  - Incurred if letter of credit disbursement method is used

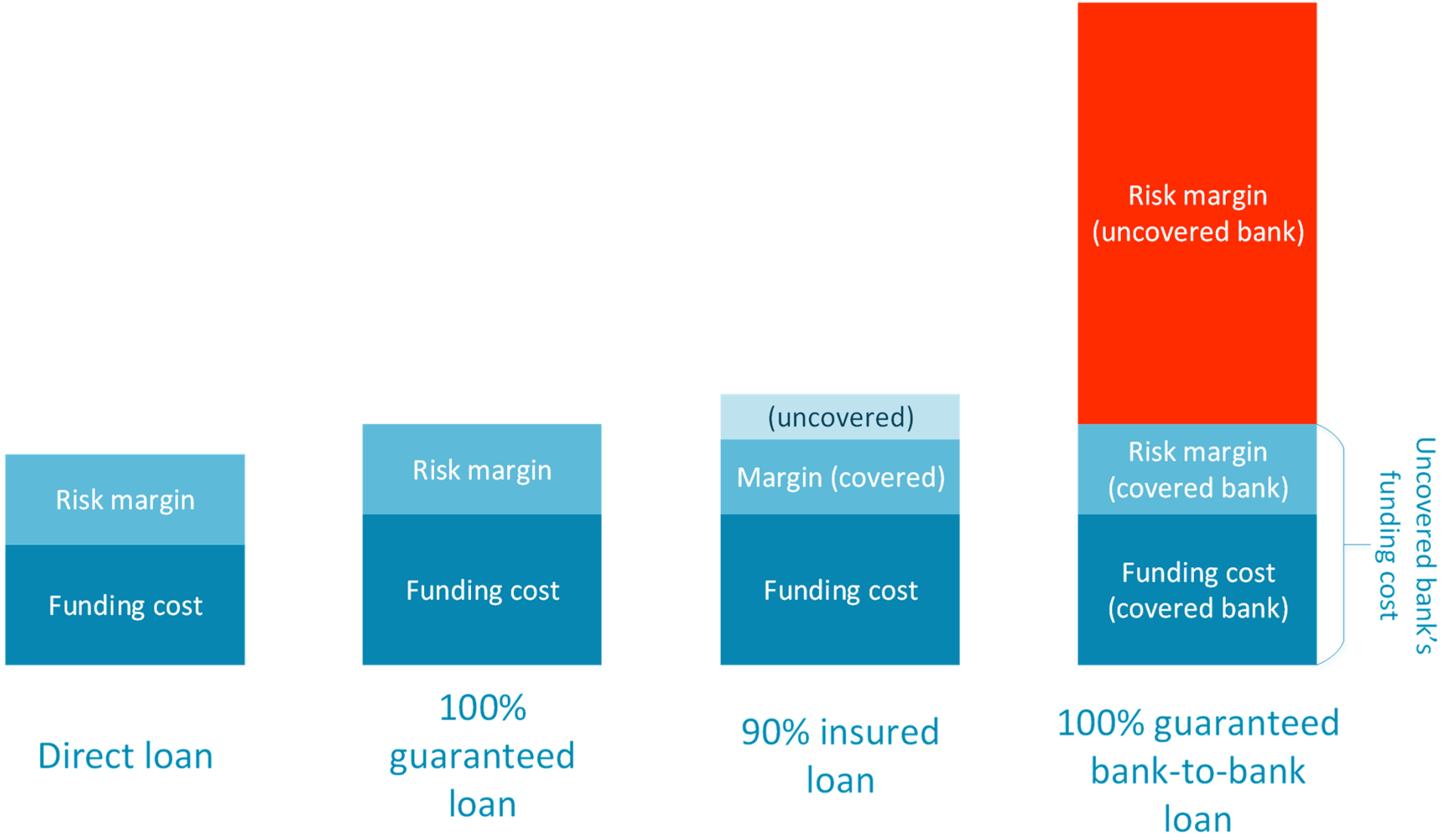
4 Interest rate

- May be fixed or variable





4 Variable interest rate



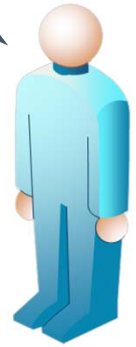
4 Interest rate

- Funding costs / reference rates in different currencies differ across financial institutions
- Basel II / III / IV implications on interest rates differ across financial institutions
- Alternative sources of funding can lower interest rates to borrowers
- In bank-to-bank structures, borrower mainly benefits from lower funding rate to uncovered lender
  - In certain markets, high concentration of possible uncovered lenders may offset benefits of ECA bank-to-bank structure
  - High credit risk may also make benefits of ECA bank-to-bank structure immaterial to the borrower

4 Other costs

- Though lower than structured buyer credits, costs for unstructured buyer credits may not be immaterial:
  - Legal costs
    - ECA advisor
    - Legal opinions
  - Financial advisors
  - Administrative agents
  - Other consultants
  - Other fees

Many times, financial closing takes longer than expected, and consultant and advisor fees are higher than targeted



4 Calculating the all-in cost of a loan

- Multiple bidders bring financing with supply contracts
- Each submit term sheets with different terms
- May be difficult to compare terms
- Important to input parameters of term sheets into all-in cost calculator
  - Calculate IRR of cash flows associated to debt service, including interest and fees

4 Putting it all together

- To compare cost of ECA facility to other financing solutions, perform an all-in cost calculation
- Let's do it:

Total project cost		USD	10,000,000		ECA fees		
Loan amount		USD	8,500,000		ECA exposure fee	%	8.00%
Disbursement period		Months	12		ECA commitment fee	%	0.125%
Repayment tenor		Years	7.00				
					Bank fees		
Interest rate, base		%	0.380%		Bank Arrangement fee	%	1.50%
Interest rate, margin		%	1.500%		Facility agent fee	USD/year	20,000
Interest rate, total		%	1.880%				
					Borrower costs		
					Legal fees	USD	50,000
Debt to capital ratio		%	85.00%		Financial advisors	USD	20,000
Cost of debt		%	**4.88%**		Engineering consultant	USD	-
					Marketing consultant	USD	-
					Insurance consultant	USD	-

4 A few pointers on the all-in cost calculation

- Include all the expected costs of the facility
- When comparing two facilities' all-in costs, make sure that both include all expected costs of the facility
- Model monthly uses and sources of funds for the entire disbursement and repayment term in one single sheet
- Aggregate monthly results in annual summary of uses and sources of funds
- The all-in cost of the loan is the IRR of:
  - Loan proceeds – loan repayment – interest payment – other loan fees and costs
  - Exclude cash outlays to exporter(s)
  - If ECA Guarantor risk premium is capitalized, do not include its accrual in the calculation

Other terms

- Collateral
  - Exported goods are typically required to serve as collateral (security) to ECA loan
- Disbursement method
  - We will review this in detail
- Prepayments are typically allowed

$$\pi = D \sum NPV_{CIRR}(P_i + I_i)$$

π	Premium (penalty)
D	Total principal
	Sum of the present values (discounted from the scheduled payment dates) of the installments of principal being prepaid plus interest which otherwise would have accrued on such principal amounts to the scheduled repayment dates

MODULE 5

Structured and project finance

5 What is structured and project finance?

Structured finance implies the use of credit enhancements to mitigate financing risk

Project finance relies on future project cash flows rather than sponsors balance sheets to underwrite financing

5 What is structured and project finance?

5 What is structured and project finance?

5 Structured buyer credits

- Project and structured financing under ECA cover is important for many borrowers
- It may enable the development of projects that otherwise would not be financeable because:
  - Borrower is not sufficiently creditworthy
  - Creditworthy sponsor does not want to incur debt
  - Sponsor wants to be insulated from project failure
  - Sponsor is constrained in its ability to borrow funds
- Structured finance therefore requires significant credit enhancements to make a non-credit worthy borrower a creditworthy borrower

Project finance structure

Sponsor is not able to assume debt liability

+

Sales contracts generate sufficient cash flow to pay debt

+

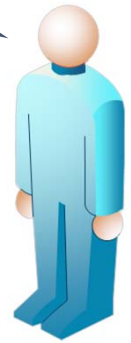
Project risks are mitigated contractually

=

PROJECT FINANCING

Whether a project is bankable (financeable) depends on the willingness of lenders to provide finance

Not as simple as it looks



5 Origins of project finance

- In ancient Rome: “Fenus nauticum”
  - Merchants and lenders shared risk of risky sea voyage
  - Loan was used to buy goods to trade
  - Loan would be repayable from proceeds of the sale of goods bought on the return trip
  - If the ship did not come back safely, the loan was not repayable
  - The lender sent agents (modern “security trustees”) to ensure that merchants didn’t cheat
- In the 19th century, London bankers financed rail projects on a limited recourse basis
- Modern project finance took off in the UK during the 1970s in the development of offshore oil and gas fields

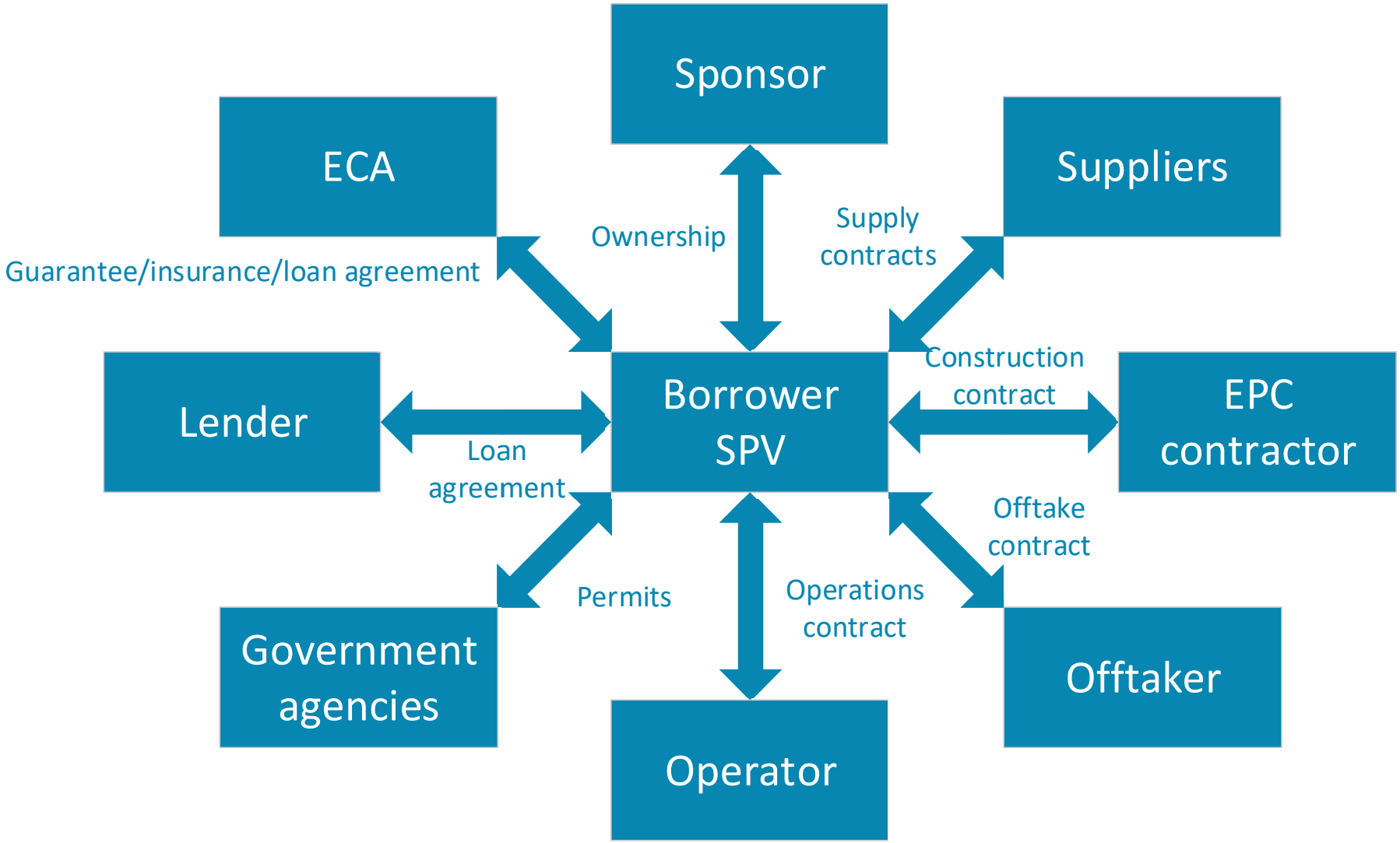
5 Formal definition

- "The financing of the development or exploitation of a right, natural resource or other asset where the bulk of the financing is to be provided by way of debt and is to be repaid principally out of the assets being financed and their revenues"
- "Non-recourse" and "limited recourse"
  - Refers to recourse to the project sponsor
  - Very few transactions are fully non-recourse
- Some examples of limited recourse:
  - Full or partial completion guarantees
  - Undertakings to cover cost overruns
- **Recourse is limited to an identifiable pool of assets**

5 The key to project finance

- Project finance is riskier than unstructured finance because:
  - There is no recourse to a creditworthy entity that will provide a source of repayment
  - Commitments from financiers and loan disbursements happen over riskier project execution period
- Project finance is for many kinds of projects, typically:
  - Single-purpose capital investment
  - Stand-alone entity
  - Finite and long life
  - Large in size
- Single-user vs. multiple-user

Project finance parties



5 Risk identification and mitigation

- The key to a project financing is a comprehensive risk analysis that identifies, quantifies, and mitigates all project risks
- All contractual documents between project parties will be based on the risk identification and mitigation process
- One of the first activities in project development is a detailed risk analysis
- The risk analysis should be continuously updated through financial closing
- Sometimes mitigating risks entails incurring new risks
- Risks should be passed to parties that can assume those risks

Risk analysis

Phase	Description	Probability	Impact	Mitigation party	Mitigation
Construction					
Construction	Cost overrun	%	Dollar amount	EPC contractor	Fixed-price contract
Operation					

The risk analysis must be as comprehensive as possible

5 Typical project risks

- Financial risks:
  - Banks: Credit agreement and security documents
  - Sponsors: Shareholder agreements
- Legal and regulatory risks:
  - Local laws: Permits
  - Host government: Concession agreements and permits
- Construction and operations risks:
  - Contractor: EPC contract
  - Operator: O&M contract
- Market risks:
  - Suppliers: Supply agreement
  - Offtakers: Offtake agreement

Risk allocation

The project finance process

- Initial development (6+ months)
  - Feasibility study
  - Appointment of legal counsel and financial advisor
  - Appointment of other advisors (engineering, environmental, market, etc.)
  - Determine borrowing structure
  - Determine/negotiate project equity
  - Establish project vehicle
- Development (12+ months)
  - Develop term sheet
  - Negotiate project documents
  - Prepare information memorandum
  - Select arrangers/banks

The project finance process

- Development (12+ months) (cont.)
  - Develop loan documentation
  - Develop security documentation
  - Obtain permits and licenses
  - Obtain equity sponsor approvals
  - Obtain approval from lenders' independent engineer
  - Obtain approval from lenders' insurance advisor
  - Finalize financial model
  - Finalize legal opinions
  - Finalize conditions precedent
  - Financial closing

Project finance terms and pricing

- ECAs typically have dedicated teams to work on project financings
- The interest rate for a project financing is similar to a comparable unstructured financing
- Term sheets are similar to unstructured term sheets except for some key items:
  - Parties: Project financings typically require collateral agents and other parties which are not required in unstructured financings
  - Debt to equity ratio
  - Debt service coverage ratio (DSCR) – Financial model
    - For a given year, DSCR = cash available for debt service / principal and interest
  - Security arrangements
  - Financial covenants
  - Cash waterfalls
  - Conditions precedent

5 Costs to financial closing in project finance

- Costs to financial closing are typically substantially higher than for unstructured financings
- Costs frequently run in the USD millions (5%–10% of project costs) and though usually financeable after financial closing, they must be borne by the sponsor before then, and are not recouped if project does not happen
- ECAs hire their own advisors (which are paid by the sponsors) to perform extensive due diligence:
  - Financial advisor
  - Financial model reviewer
  - Legal counsel (international and local)
  - Independent engineer
  - Market advisor
  - Environmental advisor

The project finance market

Year	No. of deals	Value, USD millions
2005	222	76,319
2006	211	100,784
2007	332	153,311
2008	535	214,201
2009	468	166,510
2010	597	203,790
2011	609	218,654
2012	537	195,143
2013	588	221,861
2014	620	259,904

- Between 2000 and 2014:
  - Utilities 30%
  - Construction 14%
  - Manufacturing 13%
  - Mining 11%
  - Transportation 11%
  - Agriculture 9%

5 Case study: Sponsor runs out of cash

- Sponsor budgets equity and bridge loan to comfortably cover expected costs of project finance due diligence and documentation up to financial closing
- ECA takes longer than expected in the due diligence of the project finance transaction
- Advisors and legal counsel costs escalate as financial closing is delayed several months
- Just before financial closing, the parties realize that because of cost overruns by ECA advisors before financial closing there will be a funding shortfall for the project
- The sponsor runs out of cash just as the ECA refuse to relax the debt-equity ratio
- The sponsor must secure very costly additional equity in a very short time so that the project shortfall may be covered
- How could this have been prevented?

5 Current project finance trends

- IFRS 10 (2013) mandates that sponsors must show debt financing of project company in balance sheet if they own majority of shares in SPV
- Banking regulations mandate higher equity requirements
- More mistrust of forecasts
- Complex project finance structures
- Lower debt-equity ratios
- More limited-recourse financing
- Increased interest in project bonds

5 Exercise: Project finance

- Should equity be allowed to fund after debt is funded in full?
  - Yes
  - No
- Is shareholder subordinated debt acceptable as equity?
  - Yes
  - No
- A startup with no prior experience is hired as the technology contractor. In one word: How can this be mitigated?

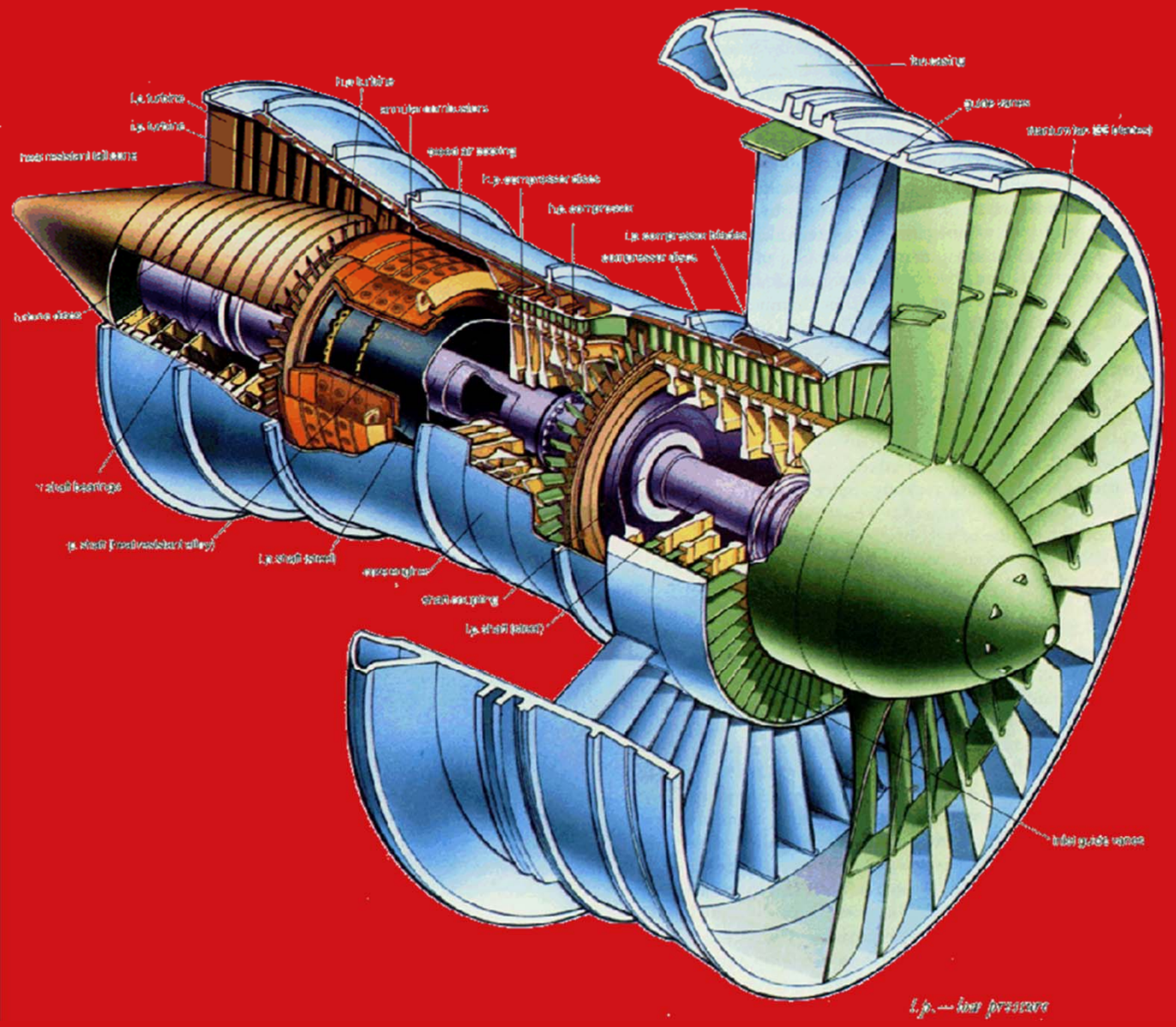
5 Additional thoughts on project finance

- Achieving financial closing for an ECA project finance transaction will take longer than you think
- ECAs typically set the pace of the financing effort
- The more ECAs are involved the longer it will take and the more complicated the process to achieve financial closing
- Have all ECAs and lender share counsel and advisors
- Make a complete application to the ECA
- Stress the financial model
- Political issues and other externalities may appear when least expected
- Address issues that arise due to early procurement of long-lead items

MODULE 6

Content eligibility

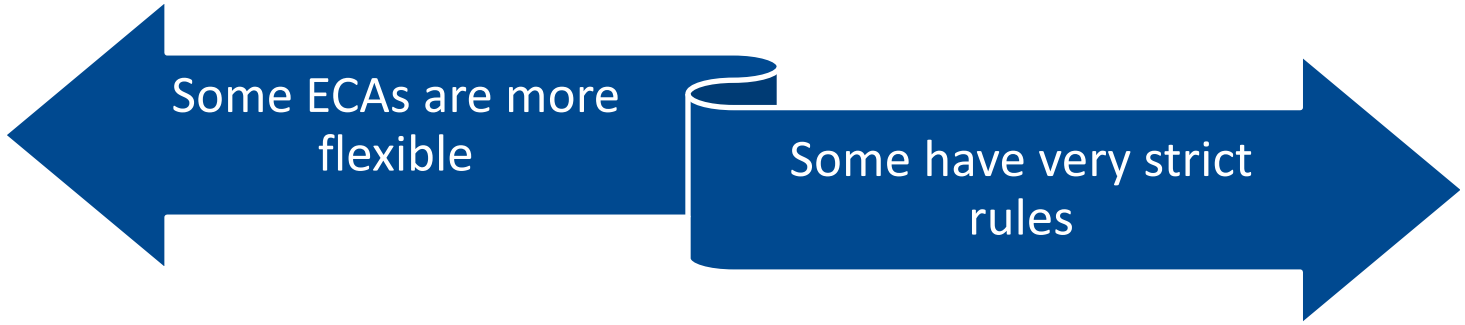
6 What is content eligibility?



Content eligibility comprises the set of rules that determine how much financing can an ECA cover or provide for a given amount of in-country sourcing

6 Calculation of eligibility

- Content eligibility rules vary widely from ECA to ECA



- Eligibility rules for each ECA also vary according to product
- Good eligibility calculations are critical at the beginning of the financing process
  - If eligibility is overestimated, financing may not be fully drawn after closing
  - If eligibility is underestimated, the borrower doesn't maximize the ECA financing
- After financial closing, the content eligibility rules for the transaction are set
- In this section we will review eligibility rules for some ECAs

6 Eligibility – Definitions

- Some definitions:
  - ECA country / home country
  - Local country
  - Foreign country / third country
  - Supply contract
  - Ancillary service
  - Down payment
  - Interest during construction (IDC)
  - Exported value
  - Exposure fee / risk premium
- And (for the most part) common rules:
  - Minimum 15% of exported value as down payment
  - Maximum 30% of exported value to finance local costs

Eligibility – Definitions

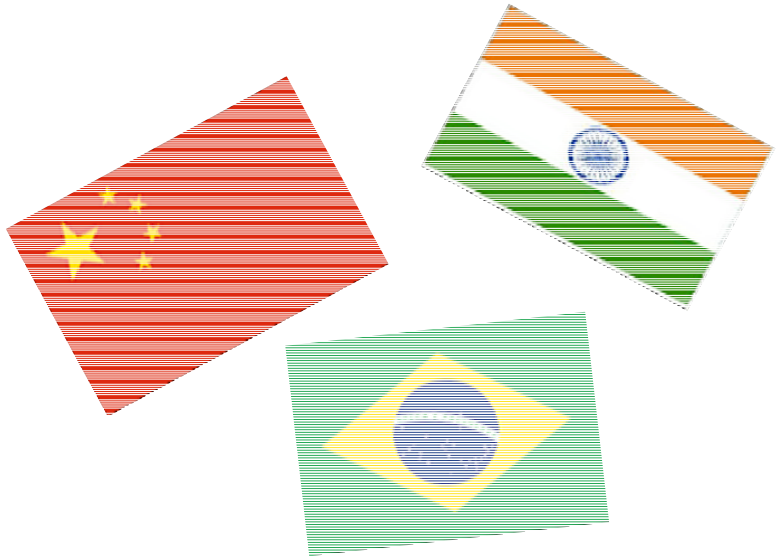
Exporter

Buyer

Export

Home country

Local country



Foreign country

Eligibility – Definitions

Exporter

Home country

Export
EUR 10 million

Buyer

Local country

Supply contract = EUR 10 million

Eligibility – Definitions

time

Financial closing

USD 100 million draw

Month 6

~~Interest due = 2% * USD 100 million / 2 = USD 1 million~~

Outstanding principal =USD 100 million

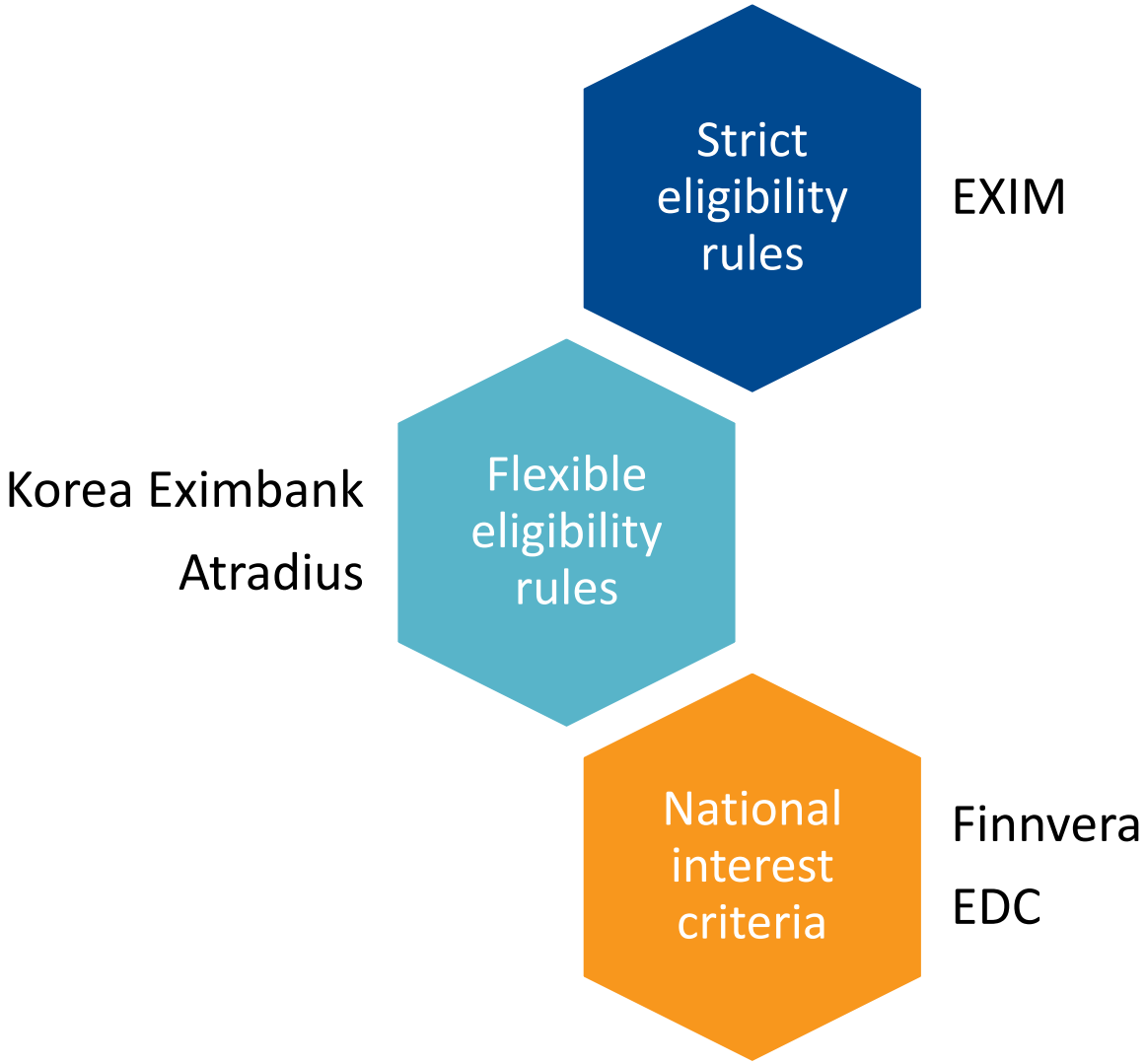
Interest during construction = USD 1 million

Eligibility – Definitions

Supply contract = EUR 10 million

Local content = EUR 1 million
Exported value = EUR 10 million – EUR 1 million
Exported value = EUR 9 million

Eligibility – Types of ECAs



Calculation of eligibility – Korea Eximbank

Korean supply contract

- The following pages illustrate how Korea Eximbank eligibility is calculated for long-term products
- Generally only one aggregated contract
- This process is done for the total of the Korean supply contract by the Korean aggregator goods and services

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Flexible content rules

Calculation of eligibility – Korea Eximbank

- Origin of goods and services is based on country of "manufacture or origin"
- Sub-suppliers generally do not need to certify origin of their content
- Only the aggregator certifies origin of content

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THE EXPORT-IMPORT BANK OF KOREA

Flexible content rules

6 Calculation of eligibility – Korea Eximbank

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

100% Korean content

Because last step of manufacturing happened in Korea

6 Calculation of eligibility – Korea Eximbank

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

USD 100 Korean content

Box

USD 10

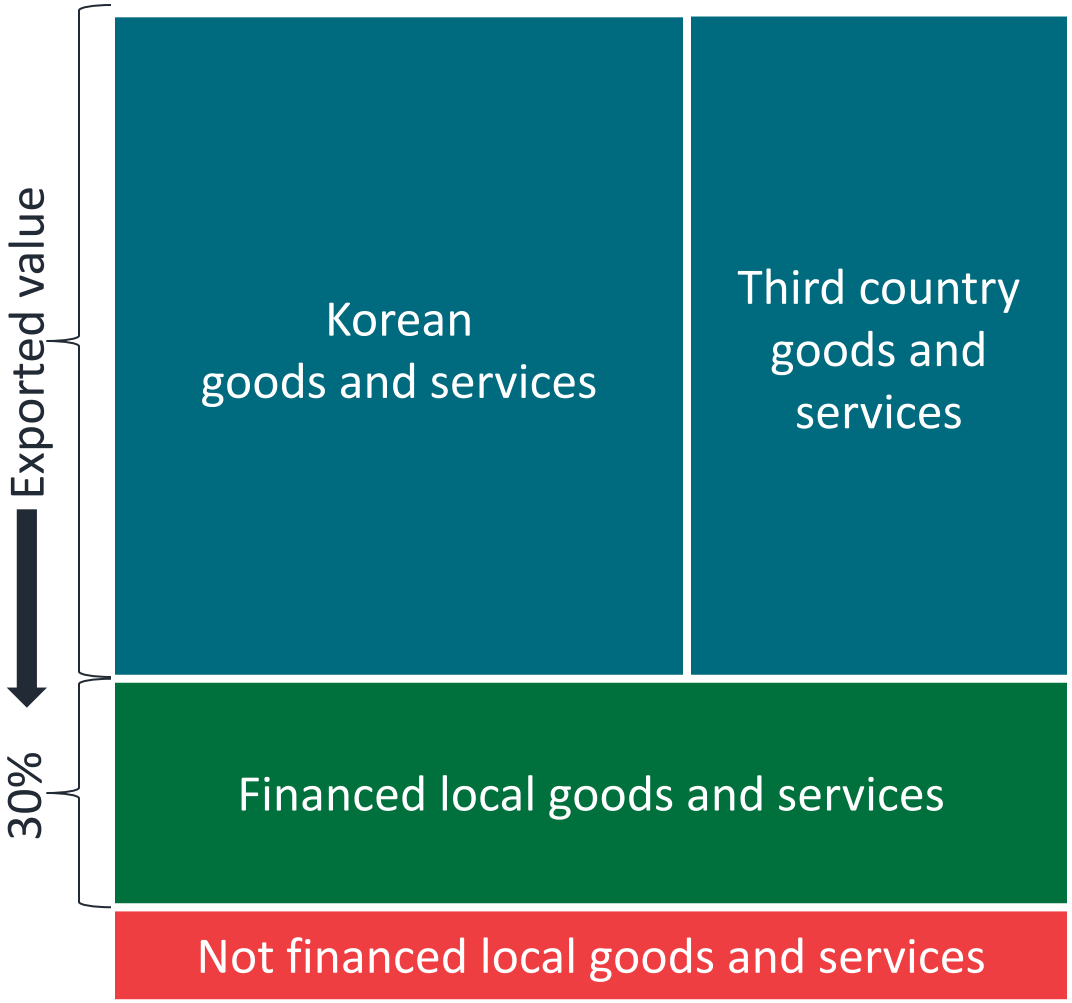
USD 10 foreign content

Packing

USD 20

USD 20 local content

Calculation of eligibility – Korea Eximbank



- Korea Eximbank will only finance up to a certain amount of local goods and services, which is the lower of:
  - 30% of the sum of the total Korean goods and services
  - The value of the local goods and services

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Flexible content rules

6 Calculation of eligibility – Korea Eximbank

Glasses

USD 100 Korean

Box

USD 10 Foreign

Packing

USD 20 Local

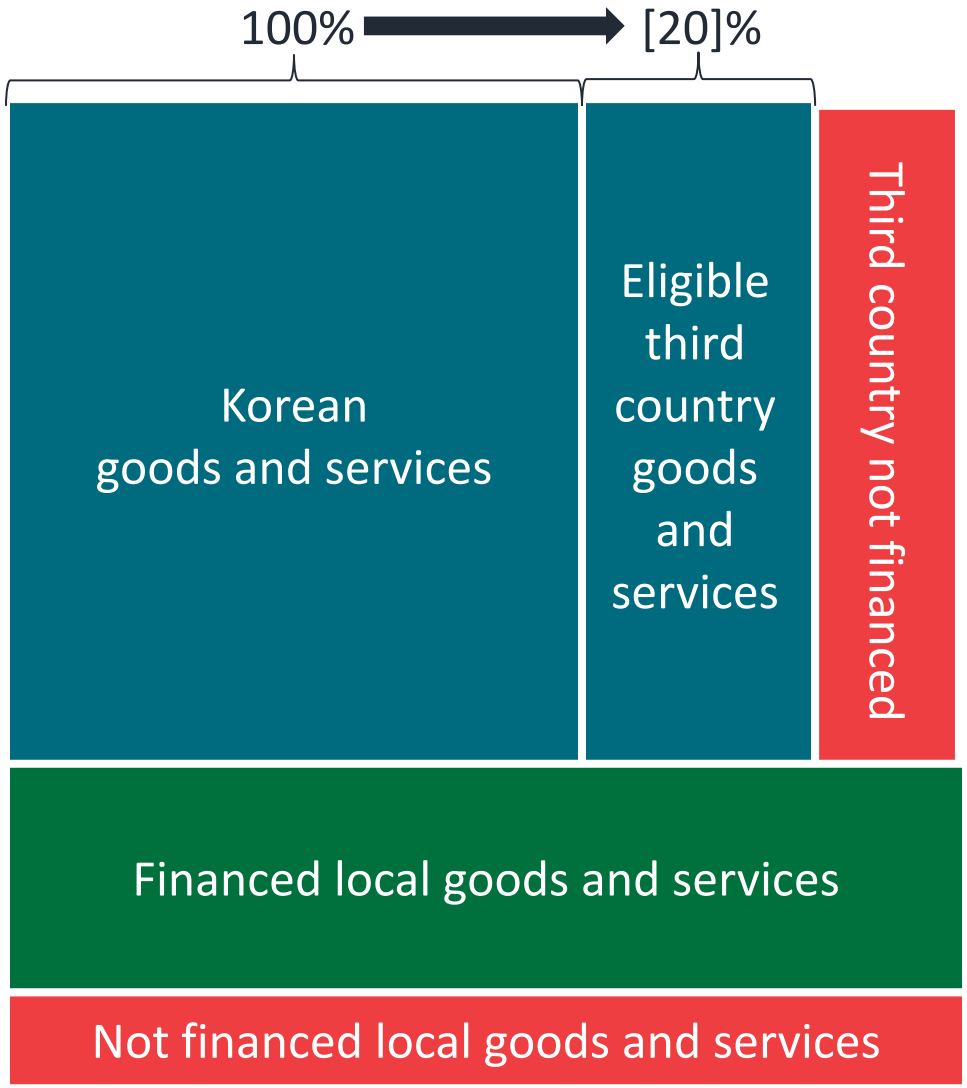
Exported value = USD 110

Maximum amount covered of local content is lower of:

(a) 30% of exported value = USD 33
(b) Actual local content = USD 20

Because last step of manufacturing happened in Korea

6 Calculation of eligibility – Korea Eximbank



- K-Exim will only finance up to a certain amount of third country goods and services
- Typically, the third country financed amount is limited to a certain percentage of Korean goods and services
- In this example, we use 20% (varies from deal to deal)

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THE EXPORT-IMPORT BANK OF KOREA

Flexible content rules

6 Calculation of eligibility – Korea Eximbank

Glasses

USD 100 Korean

Box

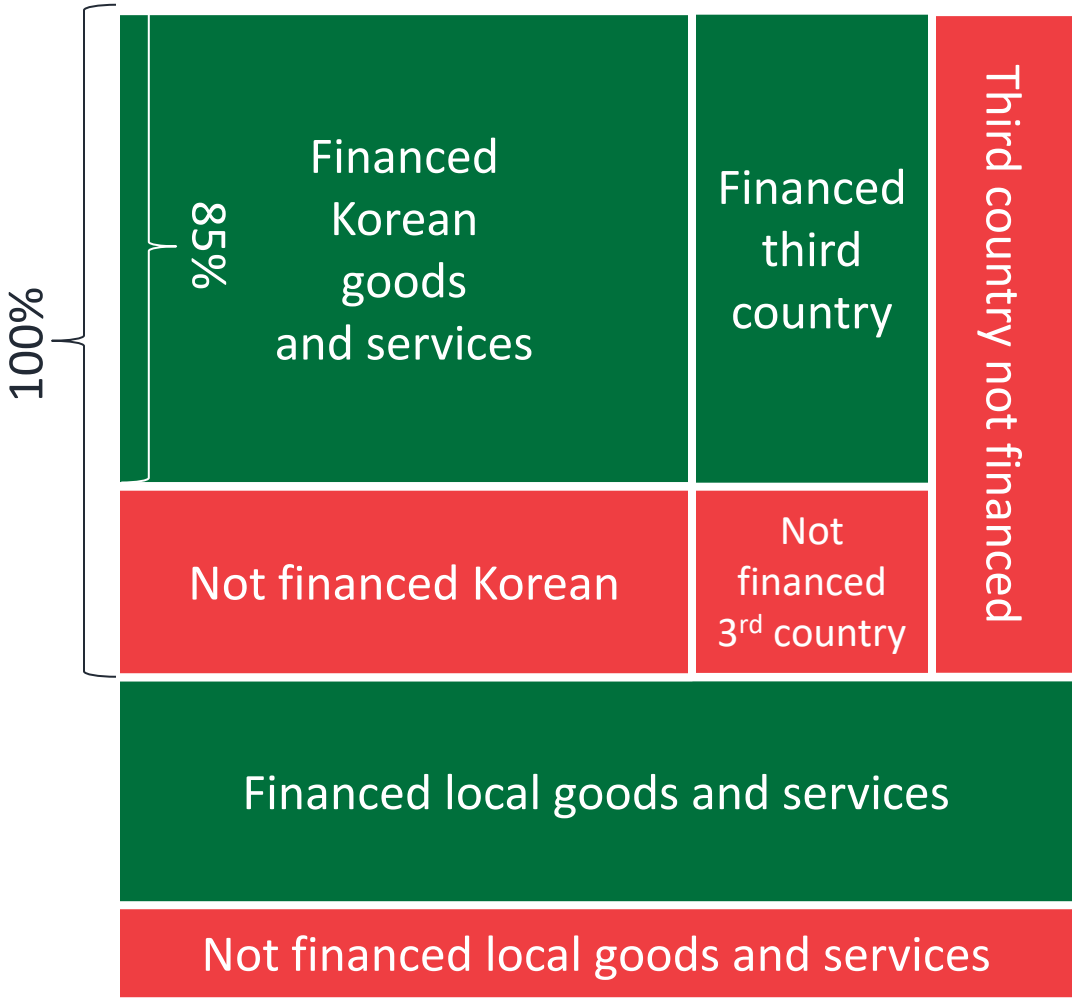
USD 10 Foreign

Exported value = USD 110

Eligible foreign content is the lower of:

(a) 20% of Korean = USD 20
(b) Actual foreign content = USD 10

6 Calculation of eligibility – Korea Eximbank



- Korea Eximbank will finance 85% of the remaining Korean and eligible third-country goods and services
- The amount not financed by Korea Eximbank must be funded by buyer equity [and subordinated debt]

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Flexible content rules

6 Calculation of eligibility – Korea Eximbank

Glasses

USD 100 Korean

Box

USD 10 Foreign

Packing

USD 20 Local

Exported value = USD 110

Eligible exported value = Korean content + Eligible foreign content = USD 110
Covered exported value = 85% of eligible content value = USD 93.5
Covered local content = USD 20

Total amount covered = Covered exported value + covered local content =USD 113.5

6 Exercise: Calculation K-EXIM eligibility

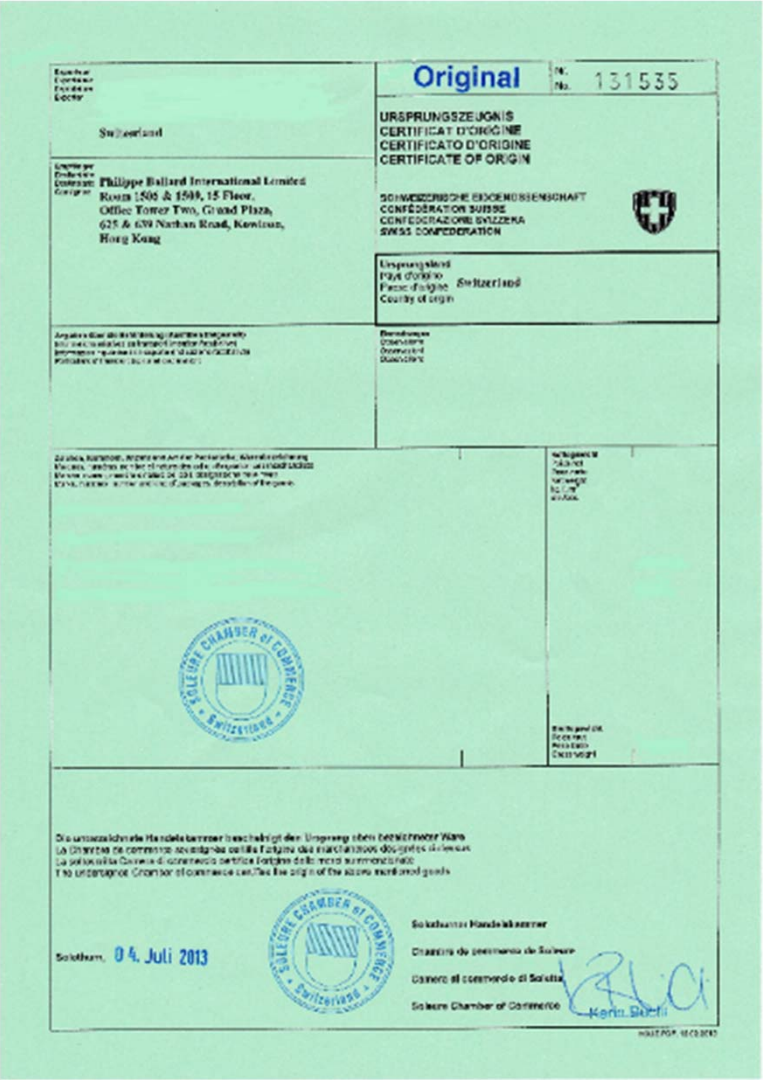
- A Malaysian company plans to build a new steel mill and hires a Korean contractor
- The contractor's supply contract is for USD 100 million
- The contractor will buy goods worth USD 25 million in Europe
- The contractor will buy and supply goods and services worth USD 60 million in Korea
- The contractor will build the mill under an onshore contract in Malaysia at a price of USD 15 million
- Korea Eximbank will finance USD 25 of third country goods and services for each USD 100 of Korean goods and services

QUESTIONS

- How much can Korea Eximbank finance for this procurement?
- What happens if a European supplier goes out of business and an additional USD 5 million is bought in Korea?

6 Other ECAs with somewhat flexible rules

- Many other ECAs have similar content eligibility rules or procedures as Korea Eximbank
- Details vary widely, for example:
  - UKEF may allow an 80:20 ratio for third-country content to UK content
  - SERV, Atradius, and Euler Hermes may allow, for example, a 50:50 ratio (sometimes more if it serves national interests)
- Most European ECAs require a certificate of origin to demonstrate content eligibility
  - Certificates of origin are usually granted for 100% of the value of the supplied goods even if they have foreign components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Office Tower Two, Grand Plaza,
625 & 639 Nathan Road, Kowloon,
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Pays d'origine
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Switzerland
Solothurn, 04. Juli 2013
Solothurner Handelskammer
Chambre de commerce de Soleure
Camera di commercio di Soletta
Soleure Chamber of Commerce

6 How some flexible eligibility ECAs look at this

- Some ECAs look at eligibility a little differently:
  - If the supply content has a minimum home country content …
  - … and a maximum local content …
  - … the 85% of the supply contract is covered by the ECA …
  - … if not, the supply contract is not covered at all!
- If, for example, the home country content is less than the ECA requires, then the supply contract can be split into two separate contracts:
  - One supply contract containing all the home country content and as much foreign and local content so that
    - The home country content is the minimum home country content and
    - The local content is at most the maximum local content allowed
  - Another contract containing the remaining foreign and local content
  - In this case, the ECA will be able to cover 85% of the first contract

Calculation of eligibility – EXIM Bank

- The following pages illustrate how EXIM eligibility is calculated for long-term products
- This process is done for every U.S. supply contract:
  - Goods
  - Services
- Financed = EXIM financing
- Not Financed = Buyer equity [and subordinated debt]

Strict content rules

Calculation of eligibility – EXIM Bank

US content

- US content = All goods produced in the US and shipped in US flag vessels + all services provided by US companies

Foreign content

- Foreign content = All goods produced + all services provided by non-US, non-local companies

Local content

- Local content = All goods produced + services provided by local companies

Strict content rules

6 Calculation of eligibility – EXIM Bank

- Identify excluded content:
  - Goods not shipped from the US
  - Goods not shipped on US-flag vessels
  - Services not provided from the US
- Excluded content is not financeable
- Eligible content are non-US goods and services that are shipped from the US

Strict content rules

6 Calculation of eligibility – EXIM

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

USD 20 U.S. content
USD 80 eligible foreign content

6 Calculation of eligibility – EXIM

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

USD 20 U.S. content
USD 80 eligible foreign content

Net contract price = USD 100

Box

USD 10

USD 10 excluded (ineligible foreign) content

Packing

USD 20

USD 20 local content

6 Calculation of eligibility – EXIM Bank

- Net contract price =
  - Eligible US content +
  - Eligible foreign content
- Eligible local content = 30% of net contract price
- In this example total local content exceeds 30% of net contract price; therefore some local content is not financeable
- If local content were lower than 30% of net contract price, all local content would be financeable

Strict content rules

6 Calculation of eligibility – EXIM

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

Packing

USD 20

USD 20 U.S. content
USD 80 eligible foreign content

Net contract price = USD 100

USD 20 local content

Financed local content is lower of:

(i) 30% of net contract price = USD 30

(ii) Actual local content = USD 20

6 Calculation of eligibility – EXIM

Frames

USD 40

Lenses

USD 40

Assembly

USD 20

USD 20 U.S. content
USD 80 eligible foreign content

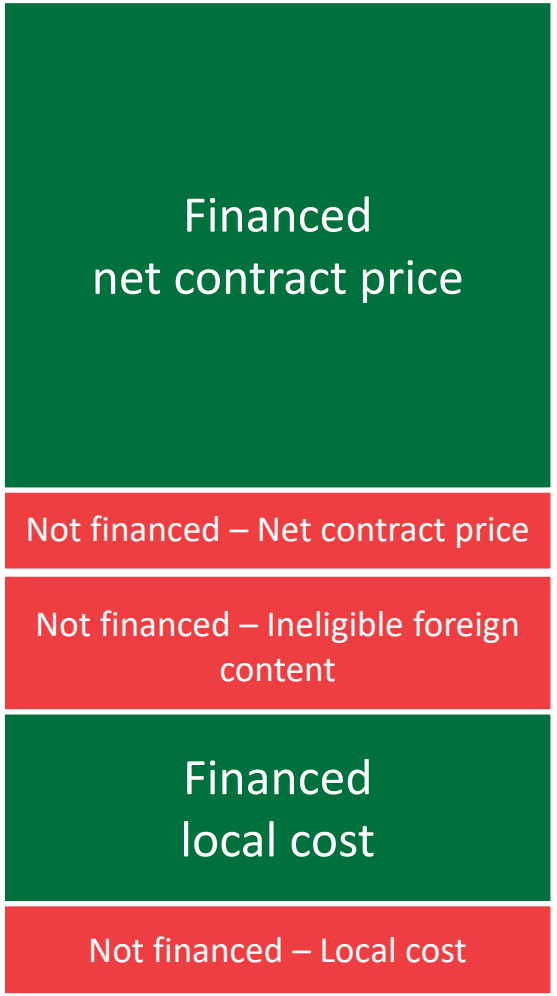
Net contract price = USD 100

Financed net contract price is lower of:

(i) 100% of US content = USD 20
(ii) 85% of net contract price = USD 85

Total financed = net contract price financed + local cost financed = USD 40

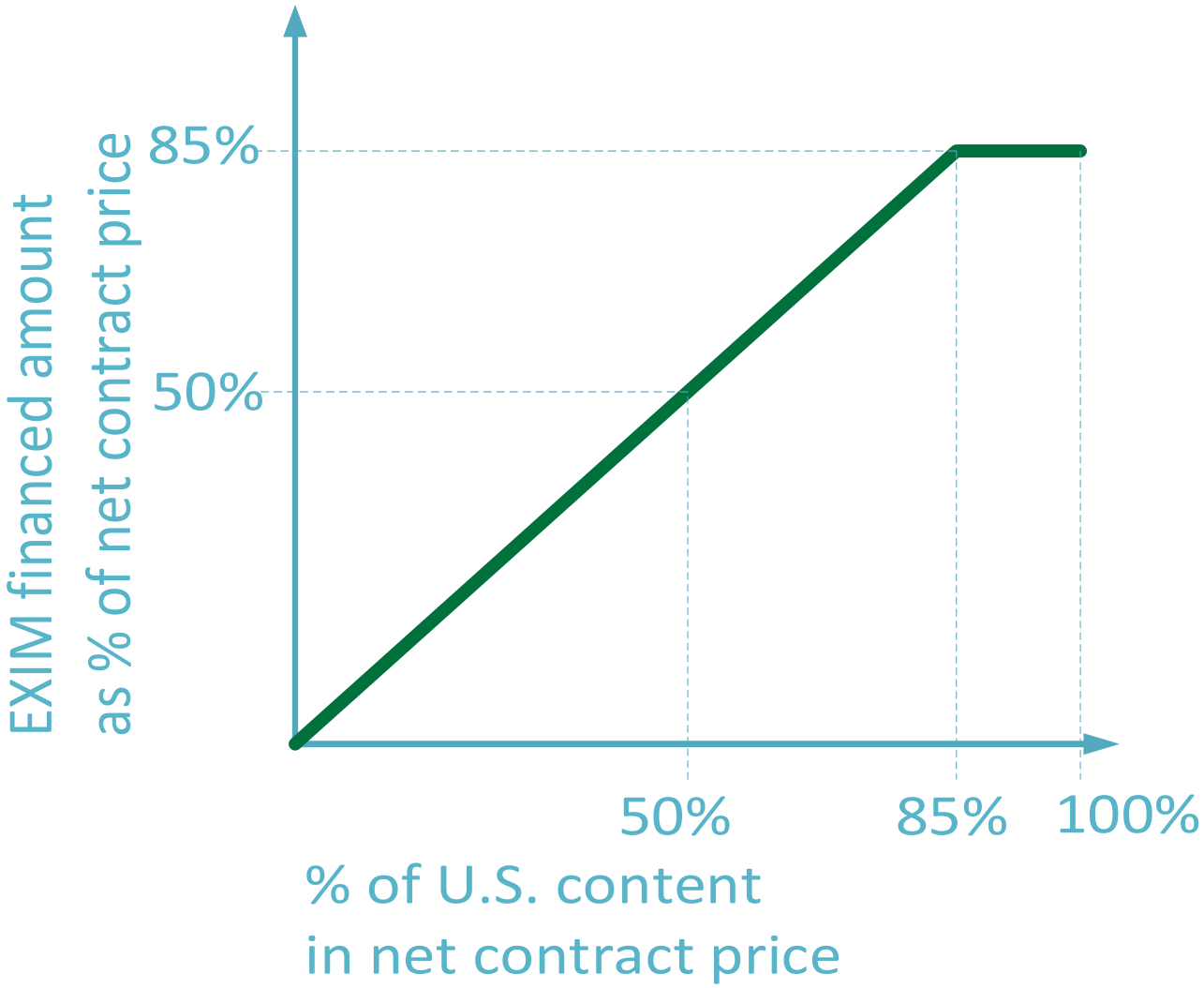
6 Calculation of eligibility – EXIM Bank



- Financed portion of net contract price is lower of:
  - 85% of net contract price
  - % US content in net contract price
- Financed portion of US supply contract =
  - Financed net contract price +
  - Financed local cost
- Financed local cost is calculated on the aggregate net contract price (not as the sum of the derived financed local cost for each supply contract)

Strict content rules

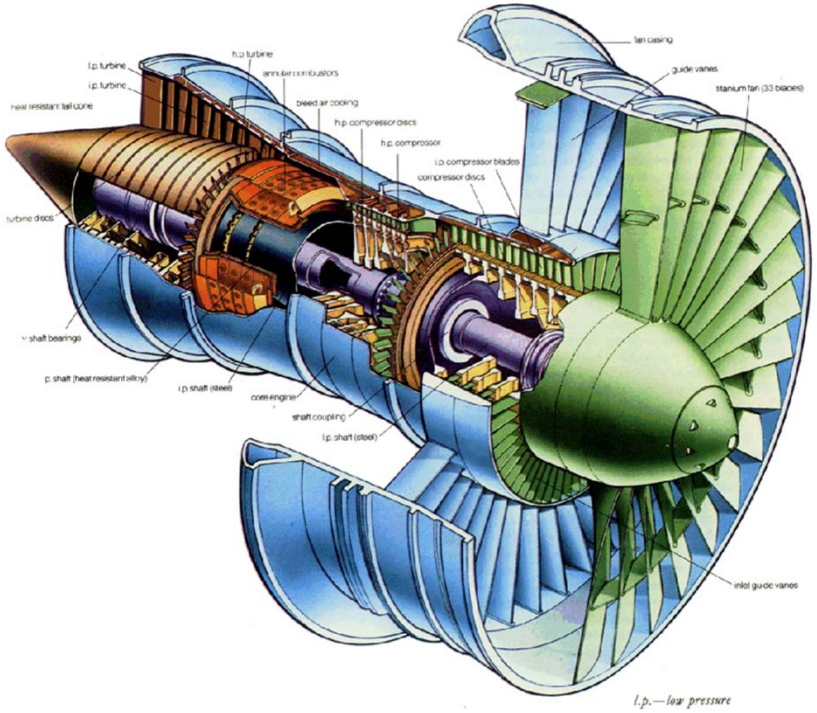
6 EXIM – Eligibility limits



Strict content rules

6 What is US content?

- U.S. content is a calculated amount =
  - + Contract value
  - - Ineligible content
  - - Local content
  - - Eligible foreign content
- For goods, it is the value of all US components of goods, including assembly costs, overheads, and profits
- For services, it is the value of all work performed in the US
- Rely on your suppliers to provide accurate calculation of US content



6 Exercise: Calculation EXIM eligibility

- A Turkish power plant buys a gas turbine from a US supplier
- The supply contract is for USD 13 million
- The supplier will buy instrumentation worth USD 1 million in France and will ship it directly from there to Turkey
- The supplier estimates that parts made in Mexico worth USD 2.5 million will be incorporated in the turbine during assembly
- Under its contract, the supplier will install and test the turbine on site, for which scope it will hire a Turkish firm and pay them USD 2 million

QUESTIONS

- How much can EXIM finance for this procurement?
- What happens if the U.S. content of the turbine is restated to be USD 7 million during construction?

6 Calculation of eligibility – EXIM Bank

- EXIM financed amount may also include:
  - 100% of EXIM exposure fee
  - 100% of interest during construction (IDC)
  - Ancillary services: EXIM's advisors, regardless of origin
- A few caveats:
  - For all products except project financings, eligible foreign content and local cost must be directly related to exported goods and services
  - The calculation of local cost may be based on the net contract price minus the cost of ancillary services

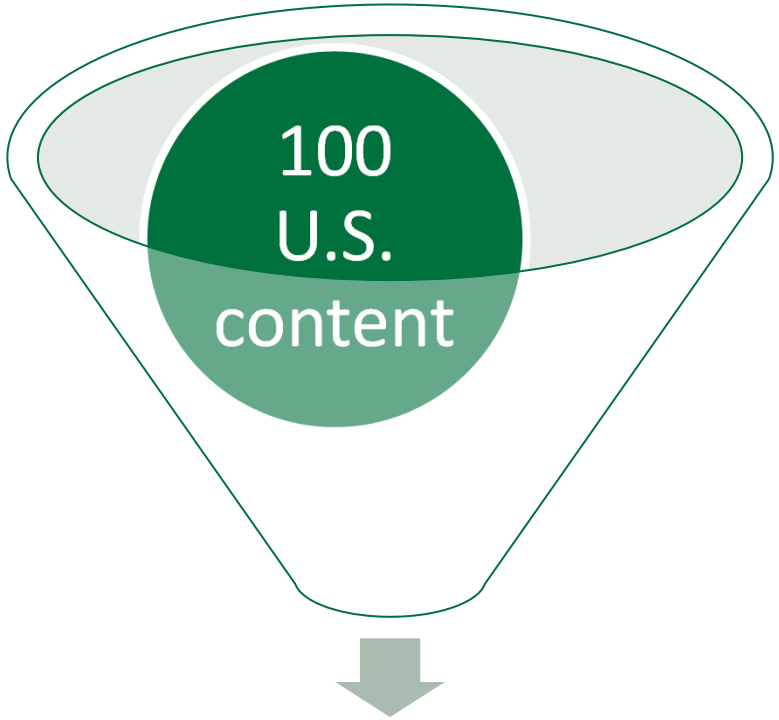
Strict content rules

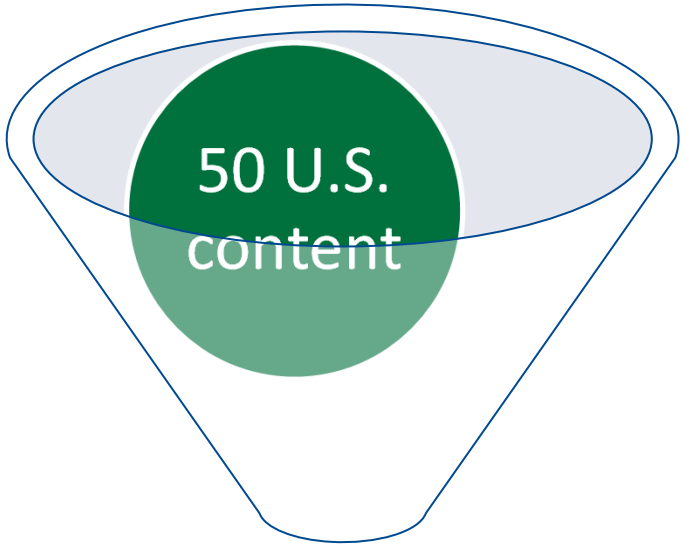
6 Consolidating content – EXIM Bank

- In some cases it may be possible to increase the content eligibility for EXIM by appointing a “consolidator”
- One US company acts as consolidator of all US procurement
- All other US exporters appoint the consolidator in writing
- This approach should be disclosed to and approved by EXIM early
- Consolidator presents one Exporter’s Certificate which aggregates all US supply
- This appraoach is advantageous when the US content of some suppliers is greater than 85% and the US content of other suppliers is less than 85%

Strict content rules

6 Consolidating two contracts worth USD 100 each





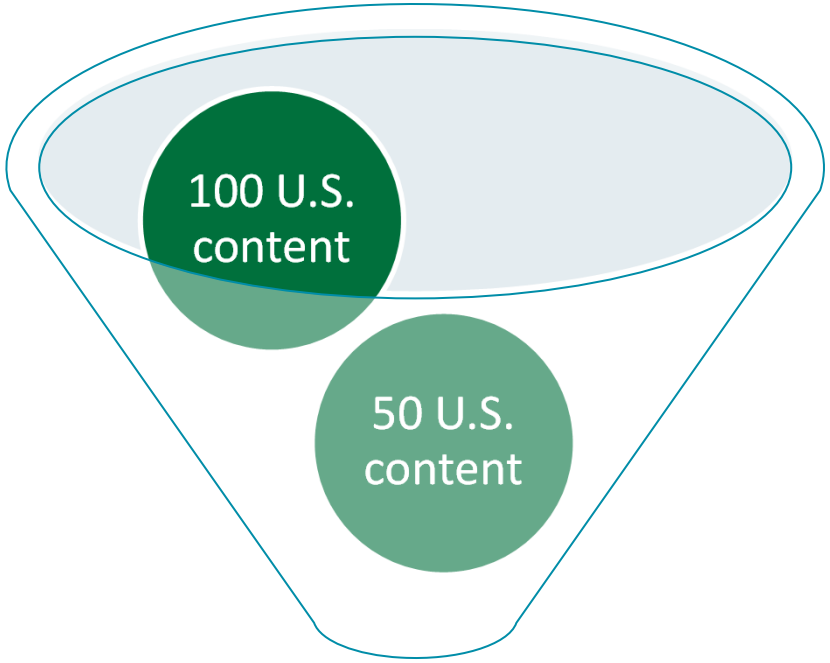
85% financed

50% financed

Financing of USD 135

Strict content rules

6 Consolidating two contracts worth USD 100 each



75% U.S. content

Financing of USD 150 !

Strict content rules

6 Consolidating content – EXIM Bank

	US supply contract	Excluded content	Local content	Net contract price	Eligible foreign content	U.S. content	Financed amount U.S.	Financed amount local	Total financed amount
Exporter 1	1,000	-	(10)	990	-	990	842	10	852
Exporter 2	1,000	-	-	1,000	(600)	400	400	-	400
Unconsolidated	**2,000**	**-**	**(10)**	**1,990**	**(600)**	**1,390**	**1,242**	**10**	**1,252**

	US supply contract	Excluded content	Local content	Net contract price	Eligible foreign content	U.S. content	Financed amount U.S.	Financed amount local	Total financed amount
Exporter 1	1,000	-	(10)		-				
Exporter 2	1,000	-	-		(600)				
Consolidated	**2,000**	**-**	**(10)**	**1,990**	**(600)**	**1,390**	**1,390**	**10**	**1,400**

Increase in financed amount due to consolidation 11.87%

6 Other EXIM content eligibility issues

- For short-term financings, 100% is eligible if over 50% is U.S. content
- Used equipment may be financeable
- Reachback costs are financeable
  - Reachback costs are those incurred one year before EXIM application was submitted
- Interest during construction may be 100% financeable for projects
- Military and defense goods and services are not eligible for financing
- Take heed:
  - Have suppliers estimate content conservatively
  - Content eligibility definitions and examples should be included in requests for proposals to suppliers
  - Obligate suppliers contractually to buy certain amount of U.S. content (focus on amounts, not percentages)

6 ECAs with national interest criteria

- Some ECAs have a “national interest” policy rather than firm content eligibility rules
- These ECAs may still have a content eligibility policy
  - For example, Finnvera has a minimum level of between 10% and 33% depending on the borrower’s country
- If content eligibility is not met, “national interest” may still allow the transaction to happen
- National interest policy may entail:
  - Large contracts (with little national content) with home country companies
  - Parent company of suppliers is from the ECA’s country
  - Supplies are based on ECA country’s know-how or planning
  - There are economic or other benefits to the ECA country
- Some ECAs in this category include EDC, Finnvera, and SACE

National interest criteria

6 Eligible foreign and local cost

- Foreign content:
  - Typically must be part of the supply contract
  - There is typically little flexibility
- Local content:
  - Corporate financing: Part of the supply contract
  - Project financing: Part of the project
  - There may be some flexibility

6 Exercise: Working with multiple ECAs

- A hydroelectric dam project is looking to obtain financing from two ECAs, Bpifrance and EXIM
- The EPC contractor is French
- The turbine supplier is from the U.S.
- The EPC contract includes the supply of advanced instrumentation from a U.S. company
- The turbines include some French-made components
- The Bpifrance all-in cost is higher than the EXIM cost

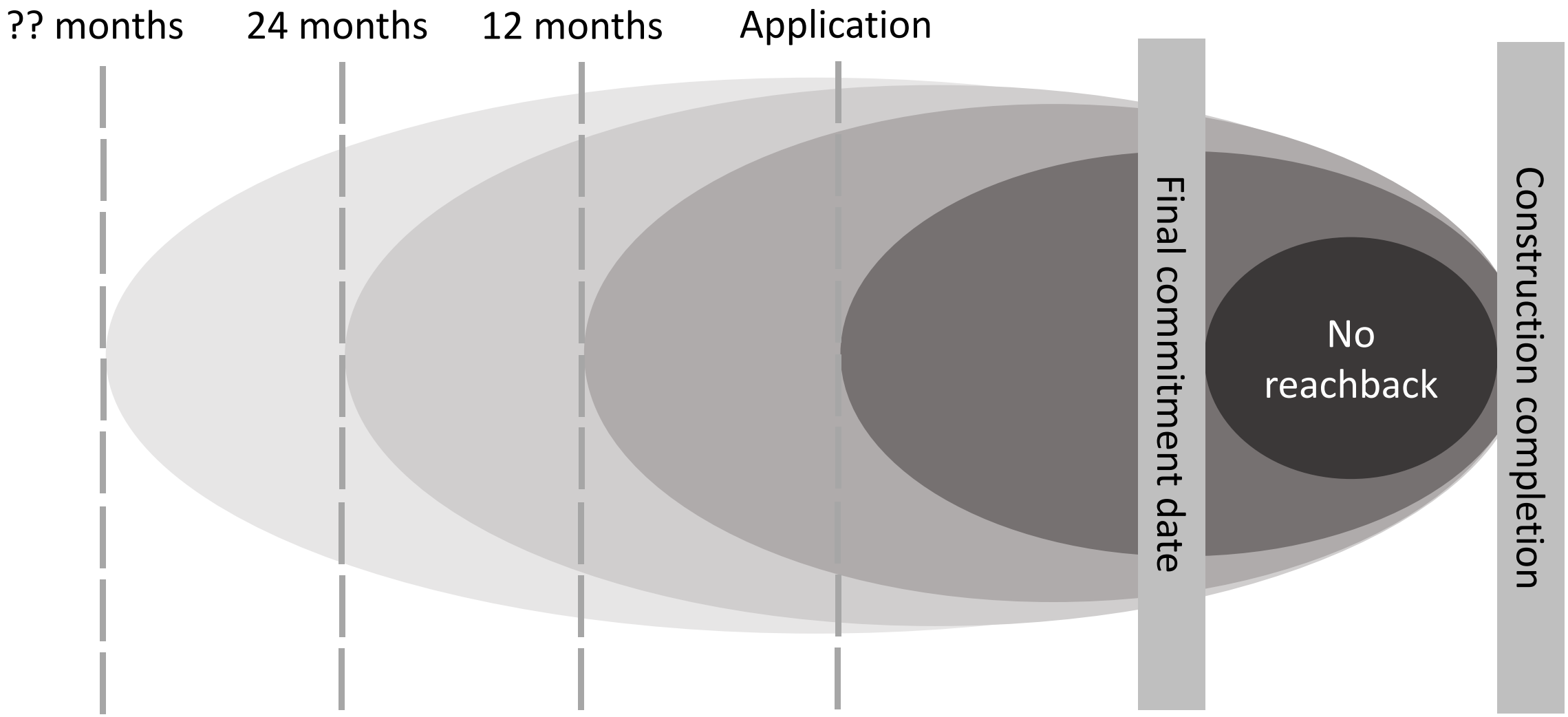
QUESTIONS

- Can the French component of the turbines be included in the Bpifrance tranche?
- Should the instrumentation be included in the EXIM tranche?

6 A word about reachback

- Determines whether prior procurement spend is eligible for ECA financing
- Significant variation between ECAs
- Some publish policy; others do not
- Definition of time is important to start the reachback clock
  - Pre-letter of intent
  - Pre-application
  - Pre-financial closing

6 A word about reachback



MODULE 7

ECA policies

7 Credit standards

- All ECAs, like all financial institutions, have credit standards
- Credit standards are used to determine financeability, financing tenor, and some costs
- Credit standards are seldom published
- When applying for term financing, ask ECA for its credit standards
- Credit standards apply to the primary source of repayment (PSOR)
  - Buyer
  - Borrower
  - Guarantor
- Some transactions have higher risk profiles
  - Will require additional information
  - Longer processing time

Credit standards – Key criteria

- Three years of audited financial statements (ideally in IFRS or GAAP)
- Domicile acceptable to the ECA
- Not suspended or barred from doing business with ECA country
- No unresolved payment issues concerning debts to or guaranteed/insured by the ECA (or other lenders)
- Credit reports contain no material adverse information
- Interim statements disclose no material adverse change in financial condition
- Auditor's opinion is unqualified (can be qualified with respect to amounts and circumstances not considered material to creditworthiness)
- ECA exposure does not exceed 40% of shareholders' equity at end of last fiscal year

Credit standards – Performance criteria

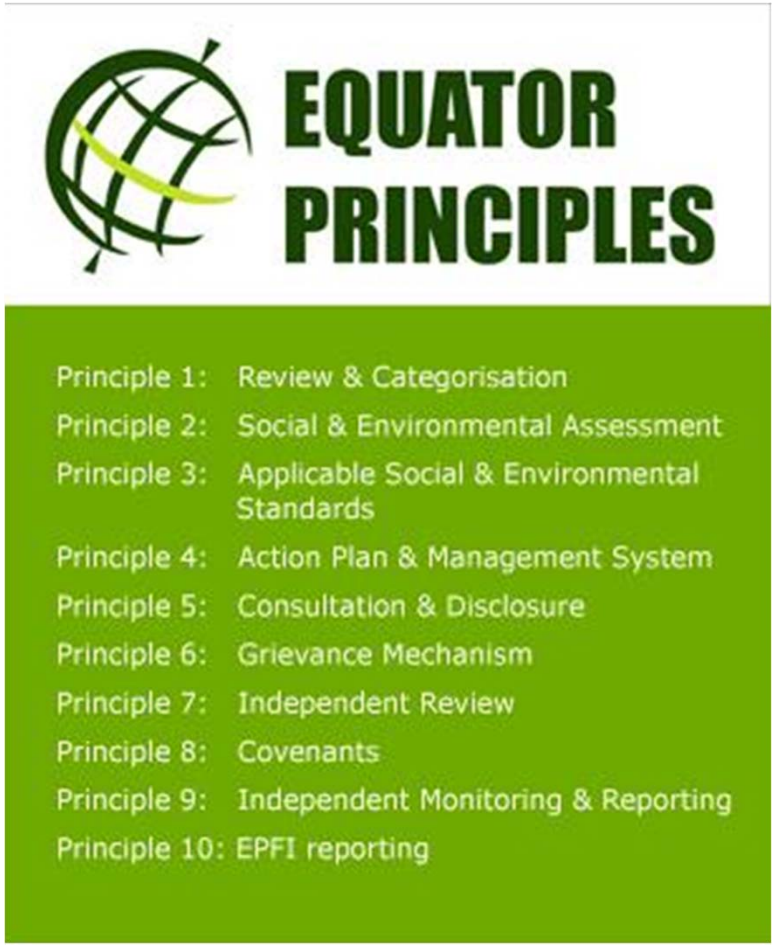
- Financial institutions:
  - Net income is at least 1% of average total assets at the end of the last two fiscal years
  - Liquid assets are at least 10% of total assets at the end of the last fiscal year
  - Loan loss reserves are at least 80% of non-performing loans at end of last fiscal year
  - Non-performing loans less than 7% of gross loans at end of last fiscal year
  - Net loans are less than 100% of customer deposits at end of last fiscal year
  - Tier-1 ratio of at least 8.5% at end of last fiscal year
- Non-financial institutions:
  - Positive operating profit and net income in each of last 2 fiscal years
  - Positive cash from operations in last fiscal year
  - EBITDA/debt service is at least 1.5 for last fiscal year
  - Total liabilities (excluding ECA debt) do not exceed 1.75 times tangible net worth at end of last fiscal year

7 Credit standards – Additional requirements

- Supplemental information such as business plan, feasibility study, technical information, and financial projections with assumptions and sensitivity analyses
- If more than [25]% of sales of primary source of repayment in last fiscal year were to a related or commonly owned company, a guarantee of the related or commonly owned company may be required
- If more than [25]% percent of purchases of primary source of repayment in last fiscal year were from a related or commonly owned company, a guarantee of the related or commonly owned company may be required
- Personal guarantees may be required for entities with less than USD [50 million] in annual sales
- Explain material year-on-year changes to lines in the balance sheet and income statements
- Disclose details of on- and off-balance sheet liabilities

Equator Principles

- Responsible risk management framework to determine, assess, and manage environmental and social risks
- IFC performance standards on social and environmental sustainability
- World Bank environmental, health, and safety guidelines
- Adopted by 87 private banks in 36 countries
- Establishes minimum standard of due diligence
- Equator Principles Financial Institutions (EPFIs)
  - Commit to implement standards
  - Agree to not transact with entities who will not or cannot comply



7 Environmental impact assessments

- New capital facilities > USD 10 million
- Major expansions where scale or scope can create significant social or environmental impact
- Across all industry sectors
- Global standard for project finance
- Encompasses 70% of international project finance debt (including ECAs) in the emerging markets

http://www.equator-principles.com/resources/equator_principles_III.pdf

7 EIAs may be published online

PENDING & APPROVED PROJECTS & TRANSACTIONS

PENDING TRANSACTIONS

CATEGORY A APPROVED TRANSACTIONS

CATEGORY B APPROVED TRANSACTIONS

This page contains links to documents which may not be fully accessible to visually impaired visitors yet. We are currently performing site-wide accessibility remediation. You may request accessible versions of specific documents or report issues here.

Availability of Environmental and Social Information

In order to foster transparency and elicit useful information concerning the environmental and social impacts of projects, EXIM makes available certain environmental and social information provided by the borrower on projects that are currently under consideration for financing. **Interested parties may request a copy of the Environmental and Social Impact Assessment (ESIA) (or other publicly disclosable supplemental environmental reports) for a specific transaction, or provide pertinent information to EXIM on environmental and social issues related to a project, through the Bank's** Environmental and Social Project Information and Concerns **page. In addition, EXIM maintains a** Public Registry **of received complaints and concerns.**

All pending projects required by EXIM to produce environmental and social information are listed below.

Environmental and social project information is not always immediately available; please view the "How a Deal Gets Done" diagram to learn more about the EXIM Bank transaction review process.

U.S. EXIM

Euler Hermes

AGAPORTAL.DE | EXPORTS | INVESTMENTS | RAW MATERIALS | INFO CENTRE | QUICK LINKS

Hermes Cover

Project Information

Category A projects before final commitment 2018

Category A projects, i.e. projects which may have serious environmental, social or human rights impacts, are published no later than 30 days before a final decision on the granting of export credit cover is taken. Subsequent firm commitments for cover are not recorded in this list.

Information on Category A projects covered in previous years can be found in the project archive (German version).

13.9.2018, Construction of a new paper mill, China

28.08.2018, Construction and operation of an electric-scooter and car manufacturing plant, Vietnam

24.8.2018, Construction and operation of a gas pipeline from Russia to Germany

Supported projects

If the contract value of a project exceeds EUR 15 million, basic project data are published after a final commitment for cover has been made provided that the exporter has given its consent. This information is brought up to date at the beginning of each month however with a time-lag of three months.

The order values are divided into the following categories:

- Category 1: up to Euro 15 million
- Category 2: up to Euro 50 million
- Category 3: up to Euro 100 million
- Category 4: up to Euro 200 million
- Category 5: above Euro 200 million

Projects supported in previous years can be found in the project archive (German version).

OECD environmental standards

- ECA environmental review
  - Typically consistent with Equator principles
  - Performed at time of application
- Environmental impact categorizations and required reporting

Category A	Category B	Category C
Significant environmental impact	Small environmental impact	Discrete pieces of equipment
e.g., new oil and gas, mining, power facilities	e.g., some upgrades of existing facilities	e.g., aircraft, satellites
Require full EIA and review	Require environmental questionnaire	Do not require environmental disclosure

OECD analysis of environmental compliance

- The OECD reviewed the environmental and social due diligence reports for Category A and B projects for 2015

Cat. A # projects	Cat. A volume USD	Cat. B # projects	Cat. B volume USD	Total # projects	Total volume USD
50	9.7 billion	67	3.6 billion	117	13.3 billion

- Germany, Denmark, and Italy led with 54% of all Category A and B transactions
- Project locations in 26 countries (9 are OECD countries)
- Main project destinations: Turkey (7), Azerbaijan (3), Brazil (3), China (3)

UKEF environmental process

UK Export Finance

2012 REVISED (2016) OECD COMMON APPROACHES & 2013 EQUATOR PRINCIPLES

Process to consider environmental, health, safety, social and human rights (ESHR) impacts in respect of projects for which UKEF support is sought.

Disclaimer: Requirements exclusive to Common Approaches and Equator Principles are coloured Blue or Green respectively. All others are common requirements and coloured black.

STAGE 1: SCOPING

Any case that falls within the scope of either Stage 1A or 1B is to be sent to the EAU.

STAGE 1A: COMMON APPROACHES (CAs)

Does the application relate to products where the risk is on the exporter e.g. Bond Support, Export Working Capital or does not involve a risk of non-payment by the buyer e.g. BIP?

- Yes → No further action required
- No ↓

Is the application in respect of military equipment?

- Yes → No further action required
- No ↓

Is the application in respect of agricultural commodities?

- Yes → No further action required
- No ↓

Does the application relate to exports of capital goods and/or services?

- No → No further action required
- Yes ↓

Does the application relate to a repayment term of 2 years or more?

- No → No further action required
- Yes ↓

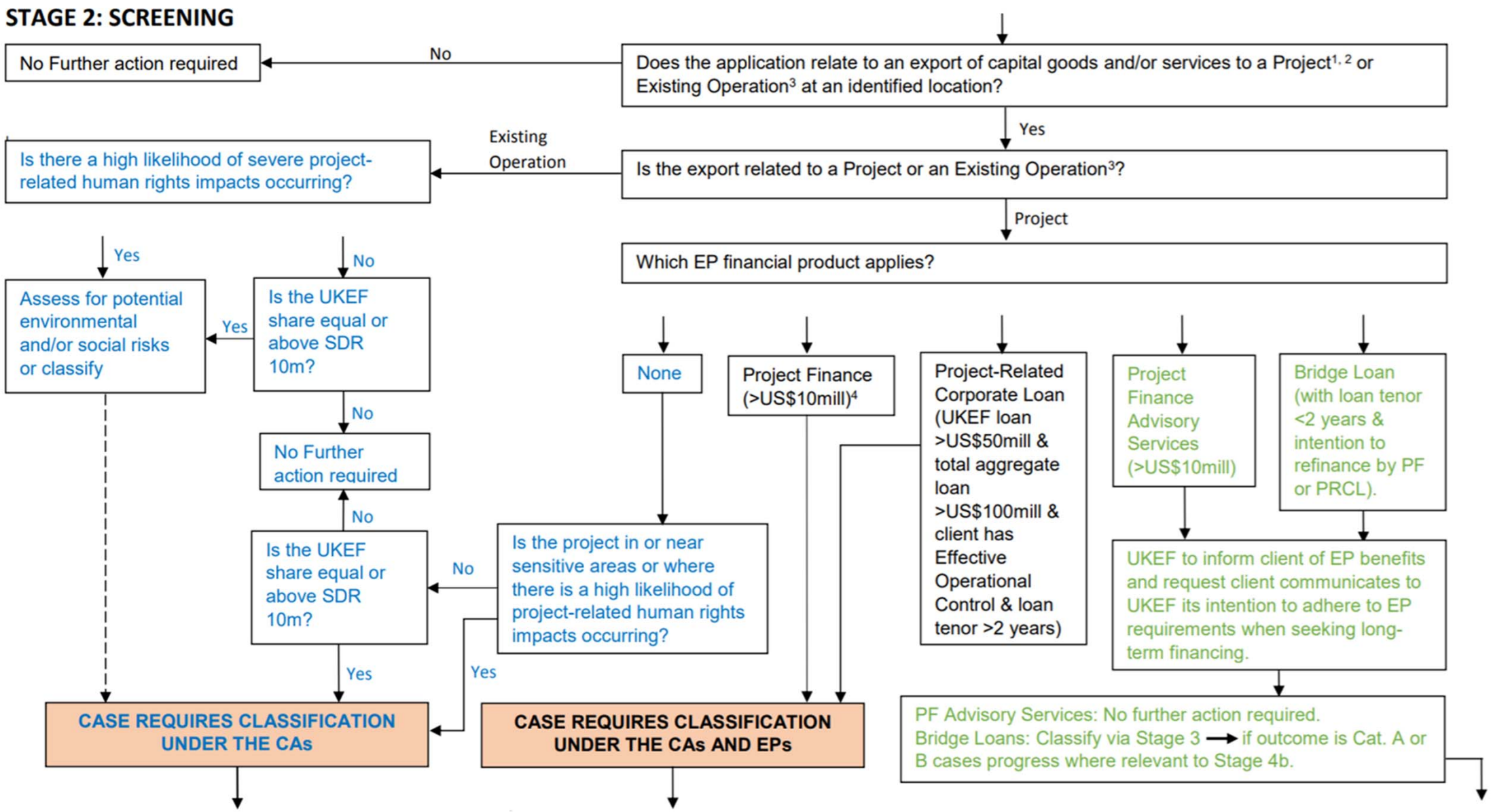
STAGE 1B: EQUATOR PRINCIPLES (EPs)

Is the application related to any of the below?

i) Project Finance;
ii) Project-related corporate loans with a repayment period of 2 years or more (e.g. Buyer Credit, Direct Lending);
iii) Project Finance Advisory Services;
iv) Bridge Loans.

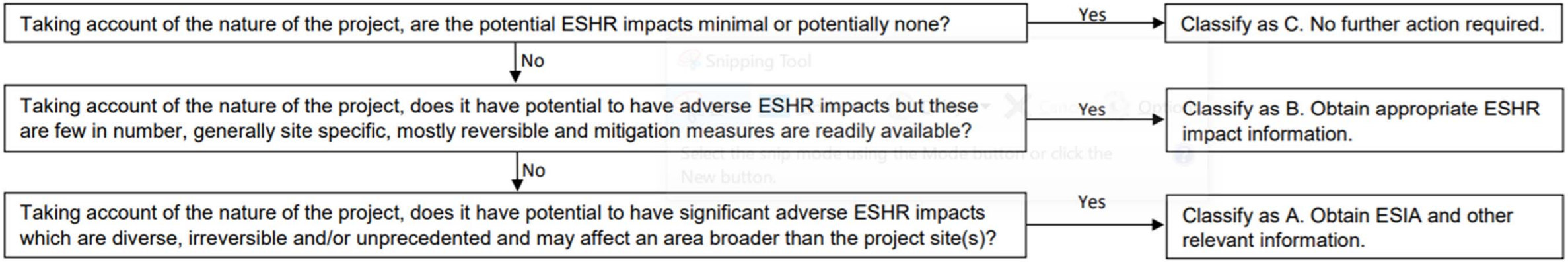
- No → No further action required
- Yes ↓

UKEF environmental process



UKEF environmental process

STAGE 3: CLASSIFICATION (CAs Section IV and/or EP 1)



UKEF environmental process

STAGE 4a: ESHR REVIEW OF APPLICATIONS CATEGORISED AS A & B (CAs Sections V, VI, VII and/or EPs 2-8)

If only OECD Common Approaches, decide on applicable international standards to benchmark against, e.g. IFC, World Bank, etc. plus relevant aspects of EHS Guidelines (and/or other applicable international standards). Where EPs apply then must benchmark against the IFC Performance Standards, plus EHS Guidelines

Where appropriate take into account ESHR impacts of Associated Facilities & public information from NCPs.

For Category A, and Category B projects as appropriate, an IESC is required to undertake an independent review (EP7).

Review the project against international standards and determine if the project will meet international standards.

Decide whether to include conditions of support e.g. Action Plan, post issue monitoring, etc.

For Category A projects, publish on UKEF's website the project and environmental and social impact information at least 30 days prior to final commitment to grant support.

Obtain approval for recommendations on whether UKEF support should be provided.

For decisions to support Category A projects, publish notice of decision on UKEF's website[5]. For Category A, and as appropriate Category B EP projects, the client will ensure a summary of the ESIA is accessible and available on line.

STAGE 4b: BRIDGE LOAN APPLICATIONS CATEGORISED AS A & B (EPs Approach)

Project in feasibility phase & no impacts anticipated during loan tenor: UKEF will confirm that client will undertake an Environmental and Social Assessment.

Project development anticipated during loan tenor AND Environmental and Social Assessment Documentation has been prepared: UKEF to work with client to identify, where appropriate, an IESC to undertake a review (EP7).

UKEF environmental process

STAGE 5: MONITORING (CAs Section VIII and/or EPs 9 & 10).

All Category A projects

- Regular *ex post* monitoring reports required from the Project Sponsor on how the project is addressing ESHR impacts.
- Encourage Project Sponsors to make ex post monitoring reports and relevant information on ESHR impacts publicly available.
- Appropriate procedures in place for monitoring the alignment with international ESHR standards and any ESHR conditions of official support determined from the outcomes of ESHR due diligence – Independent environmental and social consultant (IESC) required where a cat A or relevant cat B (EP 9) EP project. IESC monitoring typically involves 2 or 4 site visits per year during construction and 1 visit per year during operation following receipt of self-monitoring reports. Reports of all IESC visits to lender group.
- UKEF will consider accompanying the IESC in undertaking independent monitoring visits and will require or undertake additional post issue monitoring in the event of significant ESHR incident(s).
- The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 emissions) during the operational phase for projects emitting ≥100,000 tonnes of CO_2 equivalent.

Category B projects

- Regular *ex post* monitoring reports required from the Project Sponsor on how the project is addressing ESHR impacts..
- Appropriate procedures in place for monitoring the alignment with international ESHR standards and any ESHR conditions of official support determined from the outcomes of ESHR due diligence.
- *Ex* post monitoring to be undertaken by UKEF or locally engaged ESHR consultant or IESC (only for higher risk cat B cases).
- UKEF will undertake or require an IESC to undertake additional post issue monitoring in the event of significant ESHR incident(s).
- The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 emissions) during the operational phase for projects emitting ≥100,000 tonnes of CO_2 equivalent.

Category C projects

No post issue monitoring normally required. No other visits usually undertaken.

CO_2 emissions

- JBIC's "Global Action for Reconciling Economic Growth and ENvironmental Preservation (GREEN)"
- Intends to:
  - Support the efforts of developing countries through financing emission reduction projects aiming to prevent global warming
  - Emission reduction projects to be accelerated and scaled up globally
  - JBIC intends that measurement, reporting, and verification (J-MRV) would be used internationally to promote emission reduction projects (internationally acceptable)
- JBIC will require measurement, reporting, and verification of the GHG emission reductions in the projects in order to assess eligibility

OECD coal-fired power plants

- Effective January 2017
- Allows financing for certain categories of coal-fired power plants
- ECAs given flexibility to develop their own guidelines
- The weighted average life of the repayment period supported shall not exceed half of the repayment period plus one quarter of a year

Plant unit size (gross installed capacity)	Unit > 500MW	Unit ≥ 300MW to 500MW	Unit < 300 MW
Ultra-supercritical	12 years	12 years	12 years
Supercritical	Ineligible	10 years and only in IDA-eligible countries	10 years and only in IDA-eligible countries
Subcritical	Ineligible	Ineligible	10 years and only in IDA-eligible countries

Poseidon Principles

- Establishes a framework for integrating climate and environmental considerations when assessing lending decisions to the international shipping sector
- Promotes the decarbonization of shipping
- Adopted by 17 financial institutions (two of which are ECAs: Bpifrance and Export Credit Norway)
- Total bank loan portfolio of USD 140 billion
- Principles:
  - Assessment of climate alignment
  - Accountability
  - Enforcement
  - Transparency

POSEIDON PRINCIPLES

7 USA and France military exports

- USA
  - EXIM does not finance military exports unless dual-use—items used for border security, drug interdiction, and humanitarian aid can be covered
  - World's largest defense exporter saw another 20 percent increase in exports from 2016 to 2017, bringing the total to USD 23 billion
- France
  - Doubled military backlog from USD 36 billion in 2014 to USD 55 billion in 2015
  - In 2016, secured the record-breaking USD 38.7 billion Australian submarine order
  - Other sales include Rafale multi-role fighter aircraft, submarines, and helicopters
- China:
  - CETC obtained credit for USD 5.6 billion with China Eximbank
  - CASIC obtained credit for USD 3.2 billion from China Construction Bank

Russia's Rosoboronexport

- Agency responsible for selling military goods globally
- Distribution of buyers
- 42% Asia Pacific
- 36% MENA
- 9% LatAm
- 9% CIS
- Total military exports 2015 exceeded USD 15 billion; expecting same in 2016
- Ranked 4th largest military exporting country in 2015

Other policies

- Foreign corrupt practices and anti-bribery measures
- Conflict zones off-cover for all ECAs in OECD
- Russia
  - EU: No lending to state-owned banks, energy companies, or defense companies
  - U.S. and Canada: Prohibition on all financing
  - Japan: Russian banks cannot issue securities in Japan
  - Hungary: EXIM approved > USD 200 million to Russian private sector borrower
  - China, Korea, and India: Open
- Cuba—a mixed bag
  - U.S.: Closed
  - Italy (SACE): Increased lending limit to USD 100 million
  - China: Cover available

7 Iran sanctions

- ECAs opening to Iran – SACE started process, agreed to EU 564 million in claims settlement; UKEF and Bpifrance working to open; EXIM remains closed
- Major sectors that will be affected by this initial phase of sanctions relief include:
  - Financial, banking, and insurance
  - Oil, gas, and petrochemicals
  - Shipping, shipbuilding, and transport
  - Gold and other precious metals
  - Banknotes and coinage
- Sanctions remain on military goods and services
- US sanctions remain

IMF restrictions

- Several African countries are subject to limits on new debt:
  - CAT I – Zero non-concessional debt:
    - Burundi
    - Central African Republic
    - Chad
    - The Gambia
    - Malawi
    - Mozambique
    - São Tomé & Príncipe
    - Sierra Leone
    - Somalia
    - South Sudan
    - Togo
    - Tonga
  - CAT II – Non-zero non-concessional debt:
    - Benin
    - Burkina Faso
    - Cameroon
    - Côte d'Ivoire
    - Guinea
    - Guinea Bissau
    - Liberia
    - Madagascar
    - Mali
    - Mauritania
    - Niger
    - Vanuatu

IMF restrictions

List of IDA-only and PRGT-eligible Countries Subject to IMF/World Bank Group Debt Limits Conditionality 1/ 2/
Last update: September 30, 2019 (unless otherwise indicated)

I. Zero-NCB Limit Countries

Country	Guiding debt limit policy	Other limits (test date) 3/			Utilized (as of date) 4/	
Afghanistan	IMF & WBG	CB limit: US$ 205M	(Jun-19)	8/ 10/	US$ 73M	(Mar-19)
Chad	IMF & WBG	CB limit: US$ 127M CB limit: US$ 28M	(Dec-19) (Mar-20)	8/ 8/	US$ 23M	(Mar-19)
Congo, Republic	IMF	Debt contracted/grntee w/ future nat. res. deliveries: zero CB limit: CFAF 114B	(Dec-19)			
		Debt contracted/grntee w/ future nat. res. deliveries: zero CB limit: CFAF 62B	(Jun-20)			
Malawi	IMF & WBG	CB limit: US$ 53M CB limit: US$ 105M	(Dec-18) (Jun-19)	8/ 11/ 8/ 11/		
Sierra Leone	IMF & WBG	CB limit: US$ 100M CB limit: US$ 100M	(Dec-19) (Mar-20)		US$ 42M	(Mar-19)
Togo	IMF & WBG	CB limit: CFAF 78.3B Debt mgmt: NPV CFAF 260.3B	(Dec-19)	8/	CB: CFAF 58.2B Debt mgmt: zero	(Dec-18)

IMF Staff-Monitored Programs (SMPs) with zero-NCB limits 9/

Gambia, The	IMF & WBG			10/		
Somalia	IMF	CB limit: zero CB limit: zero	(Dec-19) (May-20)	8/ 8/	zero	(Mar-19)
Zimbabwe	IMF					

Burundi	WBG
Central African Republic	WBG
Congo, Dem. Rep.	WBG
Ethiopia	WBG
Haiti	WBG
Kiribati	WBG
Maldives	WBG
Marshall Islands	WBG
Micronesia	WBG
Mozambique	WBG
Samoa	WBG
São Tomé & Príncipe	WBG
South Sudan	WBG
Tajikistan	WBG
Tonga	WBG
Tuvalu	WBG
Yemen, Republic of	WBG

II. Non-zero NCB Limit Countries

Country	Guiding debt limit policy	Type of debt limit (test date) 3/			Utilized (as of date) 4/	
Benin	IMF & WBG	PV limit: CFAF 797B	(Dec-19)		CFAF 379.2B (PV)	(Dec-18)
Burkina Faso	IMF & WBG	PV limit: CFAF 370B PV limit: CFAF 410B	(Dec-19) (Jun-20)		CFAF 6B (PV)	(Mar-19)
Comoros	WBG	NCB limit: EUR 25M	(Dec-19)			
Côte d'Ivoire	IMF	PV limit: US$ 3480.5M	(Dec-19)		x	
Guinea	IMF & WBG	NCB limit: US$ 650M CB limit: US$ 505M	(Dec-19)	8/ 12/	NCB: US$ 650M CB: US$ 405M	(Mar-19)
		NCB limit: US$ 650M CB limit: US$ 530M	(Jun-20)	8/ 12/		
Madagascar	IMF & WBG	PV limit: US$ 900M	(Jun-19)		US$ 370M (PV)	(Mar-19)
Mali	IMF & WBG	PV limit: CFAF 329B PV limit: CFAF 444B	(Dec-19) (Jun-20)	12/		
Niger	IMF & WBG	PV Limit: CFAF 225B	(Dec-19)		CFAF 11.9B	(Mar-19)

Non-zero NCB on exceptional basis 5/
(high risk of debt distress countries)

Cameroon	IMF	NCB disbmt: CFAF 588B NCB contract: CFAF 500B CB limit: CFAF 318B	(Dec-19)	8/ 11/	NCB disbmt: CFAF 79B NCB contract: zero CB: CFAF 110B	(Mar-19)
Mauritania	IMF & WBG	MLT NCB limit: US$ 307M ST NCB limit: zero CB limit: US$ 200M	(Jun-19)	8/ 12/	MLT NCB: US$ 307M ST NCB: zero CB: US$ 13.2M	(Dec-18)
		MLT NCB limit: US$ 307M ST NCB limit: zero CB limit: US$ 200M	(Dec-19)	8/ 12/		

Non-zero limit 7/

Guinea-Bissau	WBG	Loan-by-loan exception
Kyrgyz Republic	WBG	Loan-by-loan exception
Liberia	WBG	Loan-by-loan exception
Mali	WBG	Loan-by-loan exception
Solomon Islands	WBG	Loan-by-loan exception
Vanuatu	WBG	Loan-by-loan exception

III. Other Debt Limits (No debt limits/Targeted debt limits) 6/

Country	Guiding debt limit policy	Limits (test date) 3/			Utilized (as of date) 4/	
A) No debt limits						
Honduras	IMF	no limits			n/a	
Moldova	IMF	no limits			n/a	
B) Targeted debt limits						
Rwanda	IMF & WBG	Contract/grntee of new ext. debt by NFPEs: US$ 700m Contract/grntee of new ext. debt by NFPEs: US$ 700m	(Dec-19) (Jun-20)	8/ 8/		
C) Option to request ceiling *(If no ceiling requested, loan-by-loan exception applies)*						
Tanzania	WBG					
Senegal	WBG					
Uganda	WBG					
C) Debt limits in GRA arrangements *(For reference only)*						
Angola	IMF	Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: US$ 2,843M Gross debt of CG and Sonangol: Kz 28,011B	(Dec-19)		Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: n/a Gross debt of CG and Sonangol: Kz 28,011B	(Mar-19)
		Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: US$ 669M Gross debt of CG and Sonangol: Kz 29,642B	(Jun-20)			
Armenia	IMF	New gov. grnteed ext. debt: US$100M Avg. concessionality of new ext. debt: 30%	(Dec-19)		n/a	
		New gov. grnteed ext. debt: US$100M Avg. concessionality of new ext. debt: 30%	(Jun-20)			
Barbados	IMF	Gross public debt (dom. + ext.): BRB$ 12,853M Gross public debt (dom. + ext.): BRB$ 12,390M	(Dec-19) (Mar-20)		BRB$ 12,853M	(Mar-19)
Bosnia & Herzegovina	IMF	Contract/grntee of ST NC ext. debt by GG/CBBH: zero	(Dec-18)		n/a	
Egypt	IMF	Gross debt of the budget sector: E£ 400B	(Mar-19)	11/	n/a	
Gabon	IMF	Contract/grntee of ext. debt: CFAF 412.2B	(Jun-19)		n/a	
		Contract/grntee of ext. debt: CFAF 585.0B	(Dec-19)			
Georgia	IMF	New public grntees: zero	(Dec-19)		zero	(Dec-18)
Jamaica	IMF	Net increase in the CG grnteed debt: zero Net increase in the public-sector non-grnteed debt: JAM$ 22B	(Jun-19)		n/a	
Jordan	IMF	Gross public debt (dom. + ext.): JD 29,223M ST debt (dom. + ext.): JD 1,000M	(Jun-19)		n/a	
		Gross public debt (dom. + ext.): JD 29,625M ST debt (dom. + ext.): JD 1,000M	(Dec-19)			
Mongolia	IMF	Net contract/grntee of NC debt by GG/BOM: US$ 20M Net contract/grntee of ST NC debt by GG/BOM: zero Grntees on ext. debt by GG/BOM: US$ 750M	(Jun-19)		n/a	
Sri Lanka	IMF	Treasury guarantees: LKR 838B	(Dec-19)		n/a	
Ukraine	IMF	New public grntees: UAH 20B Net issuance of CG dom. FX debt: UAH -356M	(Jun-19)		n/a	
		New public grntees: UAH 20B Net issuance of CG dom. FX debt: UAH -479M	(Dec-19)			

7 IMF restrictions

- These limits on new debt are imposed by the IMF and/or the World Bank
- These limits are typically imposed for a period of two years or more
- Concessional debt is defined as a loan on which the interest is reduced by an explicit or hidden subsidy and/or loan tenor exceeds 20 years
- In CAT I countries the sovereign is forbidden from obtaining financing at non-concessional terms
  - Furthermore, new concessional loans may have limits as well
- In CAT II countries, the sovereign is limited as to how much non-concessional financing it can obtain
  - The process to approve a new non-concessional financing within the limit is typically very strict and monitored by international agencies
- ECAs rarely provide concessional financing, and when they do, there are strict stipulations and procedures that must be obeyed

7 EXIM shipping requirements

U.S. flag shipping vessels are required to transport EXIM-financed goods under certain conditions

7 U.S. flag shipping requirements

- Shipments of EXIM-financed goods may have to be transported on U.S. flag vessels
- U.S. flag vessels required for EXIM transactions which are:
  - Direct loans regardless of term or amount
  - Guarantees valued over USD 20 million or with repayment terms over seven years
- The following transaction types are exempt from the requirements:
  - Credit guarantee facilities (regardless of amount)
  - Short-term and medium-term insurance (regardless of amount)
  - Guarantees of up to USD 20 million with a repayment period of seven years or less
- U.S. flag shipping costs are eligible for EXIM support as a U.S. services export
- Ship 100% of EXIM-financed seaborne cargo listed in the Summary Acquisition List in privately owned U.S. flag vessels
- These seaborne goods are referred to as impelled cargo

7 U.S. flag shipping requirements

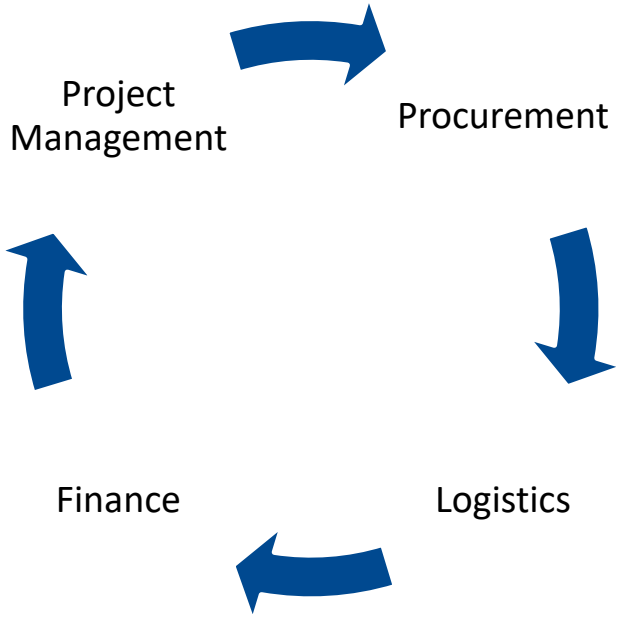
- Borrowers and suppliers often unaware of MARAD requirements
- Procurement and logistics teams often misinformed or misunderstand the rules
- Compliance is essential
- Early start can reduce costs
- Late start can permanently reduce financing
  - Lost banking fees
  - Lost client funding
  - Increased project costs

U.S. Maritime Administration

- U.S. Maritime Administration (MARAD) is responsible for managing the Cargo Preference Program in accordance with Public Resolution 17, 73rd Congress
  - It can assist exporters and foreign buyers in arranging shipments
- U.S. flag carriers should be contacted as early as possible in the process to obtain bids for the most favorable rates and schedules
  - The current fleet has a limited number of ships and availability
- Approved carriers and vessels can be found at:
  - http://www.marad.dot.gov/ships_shipping_landing_page/cargo_preference/cargo_us_flag_services/U_S_Flag_Services.htm
- Ports of call and vessel flags may not be in countries where the US has sanctions:
  - http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

7 Compliance is essential

- Profound impact for non-compliance
- Goods will be ineligible for EXIM financing
- We repeat … Goods will be ineligible for EXIM financing
- Funding shortfall for project
- Unable to use entire approved financing amount
- Start early in project cycle
- Multi-department engagement
- Meet project schedule with U.S. ships
- Minimize shipping cost



7 Intent to comply

- MARAD encourages borrower meeting
  - Review project scope
  - Demonstrate procurement linked to U.S. shipping plan
- After obtaining U.S. flag carrier proposals
- Before EXIM-financed goods ship
- Significant benefit to developing a relationship with MARAD
  - Understanding of shipping plan
  - Confidence in shipper's intent to comply with U.S. flag
  - Facilitate determinations when unusual situations arise

Form F

- MARAD requires monthly submission of Form F
- Tracks shipment of EXIM-financed goods in U.S. flag vessels
- Required once loan is operative and continues through final disbursement
- Submit even if no shipments occurred

DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION

APPENDIX F

ortation

(OMB No. 2133-0013 applies to this collection of information)

REPORT OF OCEAN SHIPMENTS MOVING UNDER EXPORT-IMPORT BANK FINANCING

OMB NO. 2133-0013
Expiration Date: 2/26/2016

A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a current valid OMB Control Number. The OMB Control Number for this information collection is 2133-0013. Public reporting for this collection of information is estimated to be approximately 30 minutes per response, including the time for reviewing instructions, completing and reviewing the collection of information. All responses to this collection of information are voluntary. Send comments regarding this burden estimate or any

MONTHLY REPORT FOR	
SHIPMENTS TO: (Name of Country)	
Compensatory shipment (Yes or No)	No
EXPORT-IMPORT CREDIT NO: AP	
DATE OF THIS REPORT:	
FROM: (Company name)	
DATE SUBMITTED:	

STATUS OF SHIPMENTS TO DATE

	UNITED STATES FLAG (1)			RECIPIENT FLAG (2)			THIRD FLAG (3)		
	Value of Cargo ($US)	Revenue Tons	Ocean Freight Charges ($US)	Value of Cargo ($US)	Revenue Tons	Ocean Freight Charges ($US)	Value of Cargo ($US)	Revenue Tons	Ocean Freight Charges ($US)
Cumulative Totals									
This Report	$0.00	0.00	$0.00	$0.00	0.00	$0.00	$0.00	0.00	$0.00
Grand Total	$0.00	0.00	$0.00	$0.00	0.00	$0.00	$0.00	0.00	$0.00

This Month's Shipment

Vessel Name	Vessel Flag	BL Date	Load Port	Discharge Port	BL Number	Ocean Freight Charges ($US)	KG	Commercial Value ($US)	Cubic Meters	Revenue Tons	Brief D

MARAD waivers

- Under limited circumstances, certain requirements may be waived:
  - **Compensatory commitment**: If some portion of the cargo was shipped on non-U.S. flag vessels before obtaining EXIM financing, under certain circumstances, the shipper may commit to ship an equivalent amount of future cargo using U.S. flag vessels
  - **Vessel non-availability**: MARAD can certify (after investigation) that a U.S. flag vessel was not available "in sufficient tonnage capacity, on necessary schedules, or at reasonable rates"
  - **Reachback determination**: If cargo was shipped on non-U.S. flag vessels within one year before the date of submission of the EXIM application, up to 10% of the value of the total cargo shipped may be eligible for EXIM financing, but at a lower rate
  - **General arrangement**: Requirements can be adjusted by up to 50% of total cargo volume to be carried on vessel of the purchaser's nation

MODULE 8

Workshop 1: Three export finance cases

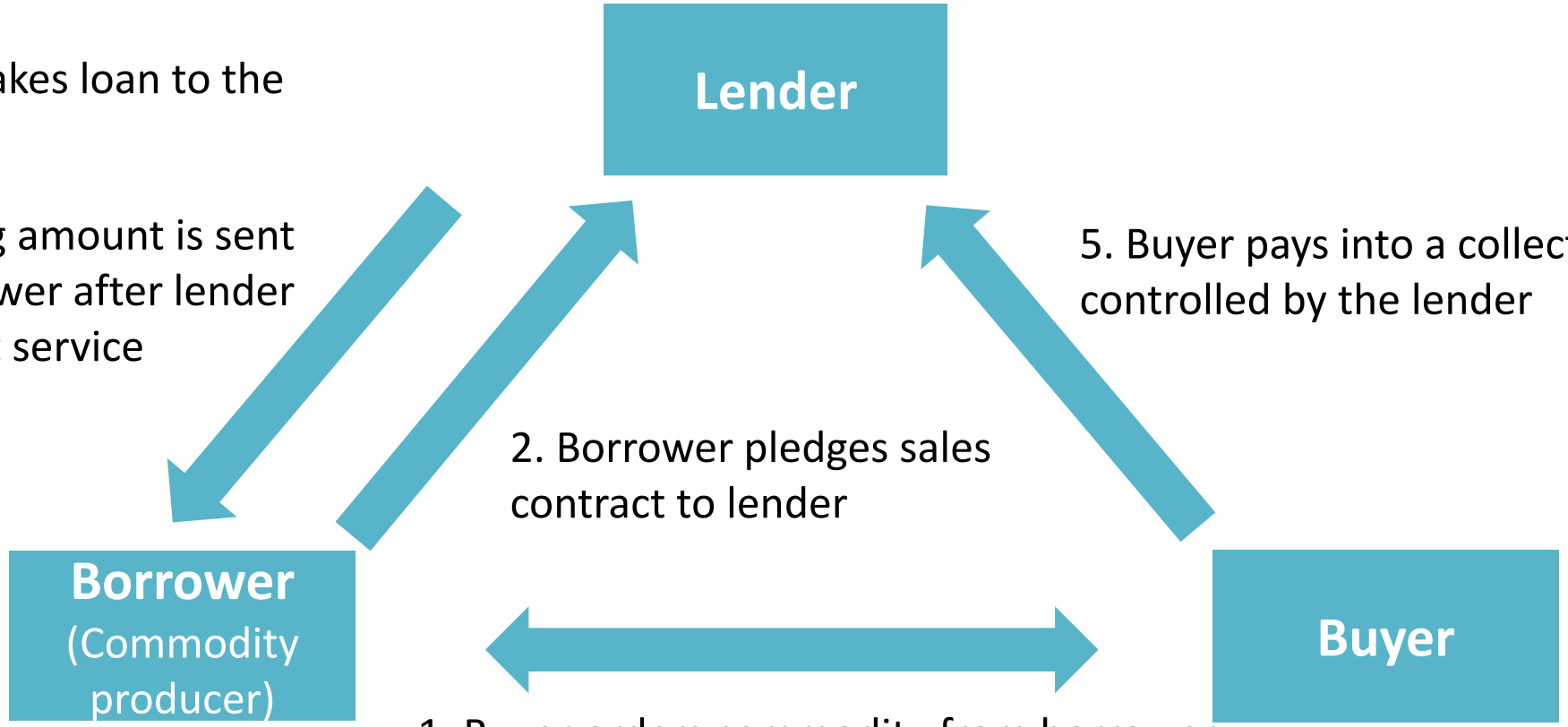
Case 1 – Scenario

- Canad'Or, one of Canada's largest mining companies is looking to buy mechanical equipment from MINECO, a German company
- MINECO is a recently-established company; this is the largest order they have had
- The MINECO contract is for goods worth EUR 25 million
- Goods will be delivered in equal installments between six and 18 months after contract signing
- MINECO estimates that the contract will be 80% German content, the rest being Chinese content as well as a small amount of testing work performed in Canada
- The equipment will be part of the procurement undertaken in the construction of a brand-new gold mine
- The useful life of the equipment is 20 years
- Canad'Or would like long-term financing of 20 years for 100% of the value of the equipment

Case 1 – Scenario

- Canad'Or has presented unaudited financial statements for the past three years
- These are some highlights of Canad'Or's financial statements:
  - 2018 revenue of EUR 150 million (down from EUR 160 million in 2017)
  - 2018 COGS of EUR 105 million (up from EUR 96 million in 2017)
  - 2018 SG&A of EUR 30 million (down from EUR 35 million in 2017)
  - 2018 net income of EUR 2.73 million (down from EUR 12.53 million in 2017)
  - 2018 total assets of EUR 43 million (up from EUR 42 million in 2017)
  - 2018 long term debt of EUR 10 million (down from EUR 21 million in 2017)
  - 2018 total equity of EUR 30 million (down from EUR 35 million in 2017)
- The Canadian government has provided a letter of support for the project – No additional support is expected from the government

Case 1 – Off tangent: Pre-export financing



3. Lender makes loan to the borrower

6. Remaining amount is sent to the borrower after lender collects debt service

5. Buyer pays into a collection account controlled by the lender

2. Borrower pledges sales contract to lender

1. Buyer orders commodity from borrower

4. Borrower ships commodity to buyer

Case 1 – Questions

- What kind of unstructured buyer credit would be the best fit for Canad'Or?
- Do you have any concerns about MINECO's qualifications?
  - Do you have some ideas on how these concerns can be mitigated?
- Based on Canad'Or's financials and assuming that there is no additional credit support, what is the largest amount of ECA financing that will likely be available to Canad'Or?
- Discuss some positive and negative aspects of Canad'Or's financial statements
- Now, assume that Canad'Or can obtain third-party credit support to maximize the amount of ECA financing
- Also assume that Canad'Or can obtain commercial financing for the value of the contract not financed by the ECA
- What environmental category will this be? What will Canad'Or need to do about it?
- Can you think of anything else the ECA could do to help the exporter?

Case 1 – Questions

Enter some possible financing terms for each facility:

	ECA facility	Commercial facility
Disbursement period, months	12 months	12 months
Grace period, months	6 months	6 months
Repayment period, years	8.5 years	3-5 years?
Repayment terms	Equal semi-annual principal	TBD
Fees	(1) Risk premium (2) Commitment fee ~ 1%? (3) Arrangement fee ~ 1-1.5%	(1) Insurance premium (2) Commitment fee (3) Arrangement fee
Interest rate (variable)	Euribor + 150-200 bps?	Euribor + TBD
Other costs	Application fee, local counsel?	TBD
Security	Exported goods, parent co. gtee.	Any, deeply subordinated to ECA

Case 2 – Scenario

- Ukrelec, the Ukrainian power distribution authority is looking to buy electrical transmission equipment from KOPO, a Korean company, worth EUR 50 million
- In addition, the contract calls for the delivery of a small corporate jet
- KOPO is a well-established, high-quality manufacturer of electrical equipment
- The contract calls for buying:
  - Goods manufactured in KOPO's Korean factory worth EUR 20 million
  - Goods manufactured in KOPO's factory in China worth EUR 18 million
  - Corporate jet manufactured in Canada worth EUR 2 million
  - Services provided in Ukraine by KOPO's personnel based in Germany worth EUR 10 million
- Korea Eximbank has said that it will only finance EUR 2 of third country content to every EUR 10 of Korean content

Case 2 – Scenario

- The equipment will be used in the refurbishment of an existing high voltage transmission line
- The useful life of the equipment is 30 years
- Ukrelec's financial statements show consistent losses and very little equity
- Ukrelec is fully owned by Ukraine
- KOPO has found an agent in Ukraine that promises to obtain a sovereign guarantee in as little as one month
- The agent asks KOPO for a payment worth 20% of the value of the export contract

Case 2 – Questions

- What kind of buyer credit financing would be the best fit for Ukrelec?
- Do you have any concerns about the KOPO contract?
- Describe your concerns (if any) about the proposed scheme to obtain the sovereign guarantee – Discuss what you expect to be the correct procedure for obtaining a sovereign guarantee.

Case 2 – Off tangent: FCPA

- Anti-bribery provisions
  - Unlawful to make, offer, promise, gifts to foreign officials, political parties, intermediaries, with the purpose of winning government business
  - Some facilitation payments allowed
- Accounting provision
- Civil and criminal penalties

Case 2 – Questions

Supply contract	**EUR 48 million**
(excluding corporate jet)	
- Korean content	EUR 20 million
- Foreign content	EUR 18 million
- Local content	EUR 10 million
Exported value (EV) = Korean + foreign	**EUR 38 million**
Eligible foreign (EF) = 20% * Korean	EUR 4 million
Eligible exported value (EEV) = Korean+EF	**EUR 24 million**
Financed EV (FEC) = 0.85 * EEV	EUR 20.4 million
Financed local content (FLC)= MIN(Local,0.3*EV)	EUR 10 million
Total financed	**EUR 30.4 million**

Case 2 – Questions

Enter some thoughts on possible financing terms for each facility:

	ECA facility	Commercial facility
Disbursement period, months	End of contractor scope	End of contractor scope
Grace period, months	6 months	6 months
Repayment period, years	10 years	TBD
Repayment terms	Equal semi-annual principal	TBD
Fees	(1) Risk premium (per OECD) (2) Commitment fee ~.25-.5%+ (3) Arrangement fee TBD	(1) Insurance premium (2) Commitment fee (3) Arrangement fee
Interest rate (variable)	Euribor + 150+ bps?	Euribor + TBD
Other costs	Legal, agent cost	TBD
Security	Sovereign gtee., exported goods	Any, deeply subordinated to ECA

MODULE 9

ECA application process and review of eligibility

Case 3 – Scenario

- PortuAg, a small Brazilian distributor of agricultural equipment, is looking to buy agricultural equipment and related services worth EUR 2.5 million from DAGRO, a French exporter
- DAGRO is a well-established, high-quality manufacturer in France
- The contract calls for buying:
  - Goods manufactured in DAGRO's French factory worth EUR 1.30 million
  - Goods manufactured in DAGRO's factory in India worth EUR 0.20 million
  - Services provided in Brazil by DAGRO personnel based in Brazil worth EUR 1 million
- The goods will be delivered six months after signing, and all services will be delivered nine months after signing
- The equipment will be used in existing farms
- The useful life of the equipment is 20 years

Case 3 – Scenario

- PortuAg has presented audited financial statements for the past two years
- These are some highlights of PortuAg's financial statements:
  - 2018 revenue of EUR 2 million (up from EUR 1.8 million in 2017)
  - 2018 COGS of EUR 1.5 million (up from EUR 1.4 million in 2017)
  - 2018 SG&A of EUR 0.5 million (up from EUR 0.4 million in 2017)
  - 2018 net loss of EUR 0.50 million (down from EUR 0.40 million in 2017)
  - 2018 total assets of EUR 4 million (up from EUR 3.9 million in 2017)
  - 2018 long term debt of EUR 0.20 million (up from EUR 0.19 million in 2017)
  - 2018 total equity of EUR 1.0 million (down from EUR 1.3 million in 2017)
- The Brazilian government is not expected to provide any support for the transaction

Case 3 – Questions

- What kind of buyer credit financing would be the best fit for PortuAg?
- Based on PortuAg's financials and assuming that there is no additional credit support, what is the largest amount of ECA financing that will likely be available to PortuAg as a corporate financing?
- Discuss some positive and negative aspects of PortuAg's financial statements
- Do you have any concerns about DAGRO's qualifications?
- What environmental category will this be? What will PortuAg need to do about it?
- Now, assume that a Brazilian bank is willing to extend credit to PortuAg for the entire value of the contract:
  - Describe the key parameters of the Brazilian bank's financial statements in order for it to be eligible to be deemed creditworthy by the ECA
- How much can Bpifrance cover?

Case 3 – Questions

Supply contract	**EUR 2.5 million**
- French content	EUR 1.3 million
- Local content	EUR 1.0 million
- Foreign content	EUR 0.2 million
Exported value (EV) = French + foreign	**EUR 1.5 million**
At least 50% French content?	Yes!
Maximum local content eligible = 30%*EV	EUR 0.45 million
Financed EV (FEC) = 0.85 * EV	EUR 1.275 million
Financed local content (FLC)= MIN(Local,0.3*EV)	EUR 0.45 million
Total financed	**EUR 1.725 million**

Case 3 – Questions

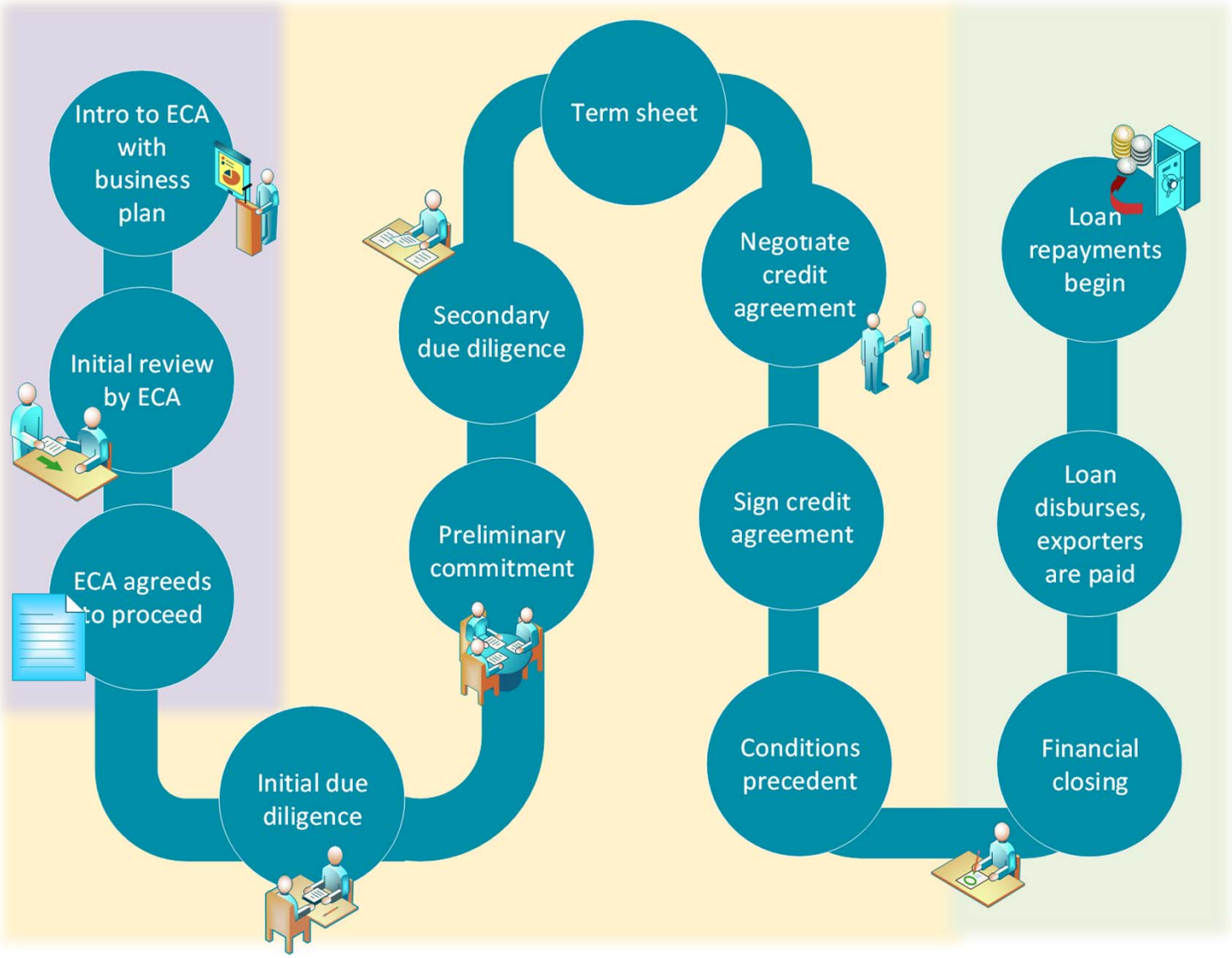
Enter some thoughts on possible financing terms for each facility (to PortuAg):

	ECA facility	Commercial facility
Disbursement period, months	9 months	9 months
Grace period, months	6 months	6 months
Repayment period, years	10 years	TBD
Repayment terms	Equal semi-annual principal	TBD
Fees	(1) Risk premium (per OECD) (2) Commitment fee ~.5% (3) Arrangement fee TBD	(1) Insurance premium (2) Commitment fee (3) Arrangement fee
Interest rate (variable)	Euribor + 200+ bps?	Euribor + TBD
Other costs	Legal	TBD
Security	Exported goods	Any, deeply subordinated to ECA

9 ECA application process

- Process varies by ECA
- Some more transparent than others
- Centralized versus regional credit process
  - Exporter size (SME vs. multinational)
  - Transaction size and tenor
- An indication of likely exports is typically required at the application stage:
  - Home country content
  - Foreign country content
  - Local country content
  - List of goods and services
  - List of possible suppliers

ECA application process



9 Exercise: Calculating Korea Eximbank eligibility

- A Malaysian company plans to build a new steel mill and hires a Korean contractor
- The contractor's supply contract is for USD 100 million
- The contractor will buy goods worth USD 25 million in Europe
- The contractor will buy and supply goods and services worth USD 60 million in Korea
- The contractor will build the mill under an onshore contract in Malaysia at a price of USD 15 million
- Korea Eximbank will finance USD 25 of third country goods and services for each USD 100 of Korean goods and services

QUESTIONS

- How much can Korea Eximbank finance for this procurement?
- What happens if a European supplier goes out of business and an additional USD 5 million is bought in Korea?

9 Exercise: Calculation K-EXIM eligibility

SOLUTION

- Fill out the table to calculate the financed amounts

- Watch out for:
  - Contractor Korean content calculation should be based on price (not cost), as contractor profit is Korean content
  - Calculate methodically to ensure that the financing limits per category are maintained
  - With financial closing, the financed amounts are fixed and an amendment to the loan agreement would be required to increase the financed amount

Supply contract	**USD100 million**
- Korean content	USD 60 million
- Local content	USD 15 million
- Foreign content	USD 25 million
Exported value (EV)	
= Korean + foreign	**USD 85 million**
Eligible foreign (EF)	
= 25% * Korean	USD 15 million
Eligible exported value (EEV)	
= Korean+EF	**USD 75 million**
Financed EV (FEC)	
= 0.85 * EEV	USD 63.75 million
Financed local content (FLC)	
= MIN(Local,0.3*EV)	USD 15 million
Total financed	**USD 78.75 million**

9 Exercise: Calculation EXIM eligibility

- A Turkish power plant buys a gas turbine from a US supplier
- The supply contract is for USD 13 million
- The supplier will buy instrumentation worth USD 1 million in France and will ship it directly from there to Turkey
- The supplier estimates that parts made in Mexico worth USD 2.5 million will be incorporated in the turbine during assembly
- Under its contract, the supplier will install and test the turbine on site, for which scope it will hire a Turkish firm and pay them USD 2 million

QUESTIONS

- How much can EXIM finance for this procurement?
- What happens if the U.S. content of the turbine is restated to be USD 7 million during construction?

9 Exercise: Calculation EXIM eligibility

SOLUTION

- Fill out the table to calculate:
  - Net contract price
  - U.S. Content
  - Financed amounts
  - Down payment

- Watch out for:
  - Supplier U.S. content calculation should be based on price (not cost), as supplier profit is U.S. content
  - Is U.S. supplier really accounting for all the eligible foreign content?
  - With financial closing, the U.S. and local financed amounts are fixed and independent

Supply contract	**13.0 million**
Excluded content	**1.0 million**
Local cost	**2.0 million**
Net contract price	**10.0 million**
Eligible foreign content	**2.5 million**
U.S content	**7.5 million**
U.S content %	**75%** (of NPC)
Disbursement %	**75%** (of NPC)

Financed amount, U.S.	**7.5 million**
Financed amount, local	**2.0 million**
Total financed amount	**9.5 million**
Down payment	**3.5 million**

All amounts in USD

9 Exercise: Calculating Korea Eximbank eligibility

- A Malaysian company plans to build a new steel mill and hires a Korean contractor
- The contractor's supply contract is for USD 100 million
- The contractor will buy goods worth USD 25 million in Europe
- The contractor will buy and supply goods and services worth USD 60 million in Korea
- The contractor will build the mill under an onshore contract in Malaysia at a price of USD 15 million
- Korea Eximbank will finance USD 25 of third country goods and services for each USD 100 of Korean goods and services

QUESTIONS

- How much can Korea Eximbank finance for this procurement?
- What happens if a European supplier goes out of business and an additional USD 5 million is bought in Korea?

9 Exercise: Comparing eligibility rules

- An Omani company wants to expand its manufacturing plant
- The supply contract is EUR 100 million
- The buyer has good credit history and debt capacity
- The CFO wants to maximize long term ECA financing
- Procurement can buy goods from either Germany or the UK
- Assume home country amount is EUR 40 million
- Assume local content is EUR 30 million

QUESTIONS

- How much can the CFO finance for this procurement if it is purchased in:
  - Germany?
  - UK?

9 Exercise: Comparing eligibility rules

SOLUTION

- Fill out the table to determine:
  - Home country content
  - Eligibility percent (%) according to ECA's rules
  - Foreign country content
  - Financed home country amount
  - Financed foreign country amount
  - Total financed amount

BONUS QUESTIONS

- Which country will have the higher EUR amount of local content financing? Why?
- The procurement manager says she can buy from Finland at the same price from a leading Finnish supplier. Should they shift procurement? Why or why not?

	UK	Germany
Home content	40	40
Min home content?	20% - Yes!	50% - No!
	Exported value 70	Restated cont. 80
	Fin. exported 59.5	Restated EV 59.5
	Financed local 21	Restated LC 18.4
Total financed amt.	80.5	68

MODULE 10

Disbursing ECA loans

10 Why focus on disbursements?

Disbursing ECA loans effectively helps maintain a timely and cost-effective project execution

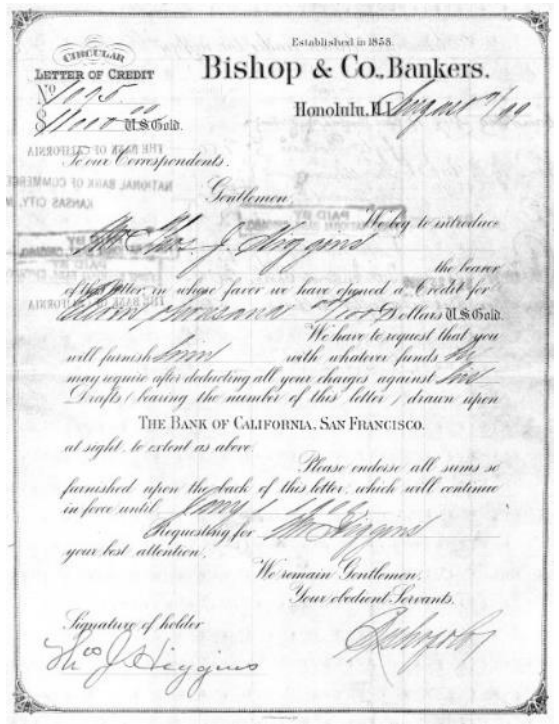
10 Disbursement requirements across ECAs

- Specific ECA disbursement processes and requirements vary widely
  - But the spirit of the obligations is the same:
    - Prove the origin of goods and services purchased
    - Present invoices and proofs of payment for purchases
    - Present verification of shipment of goods
    - Contractors, consultants, and suppliers need to verify compliance with ECA policies
- In this section we will discuss:
  - Different disbursement methods
  - The disbursement process
  - Disbursement constraints
  - Disbursement specifics for different ECAs

Disbursement methods

- There are three disbursement methodologies:

Reimbursement



Established in 1853.

CIRCULAR LETTER OF CREDIT

Bishop & Co., Bankers.

Honolulu, H.I.

U.S. Gold.

To our Correspondents.

Gentlemen,

We beg to introduce the bearer of this letter in whose favor we have opened a Credit for Dollars U.S. Gold.

We have to request that you will furnish him with whatever funds he may require after deducting all your charges against his Drafts, bearing the number of this letter, drawn upon

THE BANK OF CALIFORNIA, SAN FRANCISCO.

at sight, to extent as above.

Please endorse all sums so furnished upon the back of this letter, which will continue in force until

Requesting for your best attention.

We remain Gentlemen,

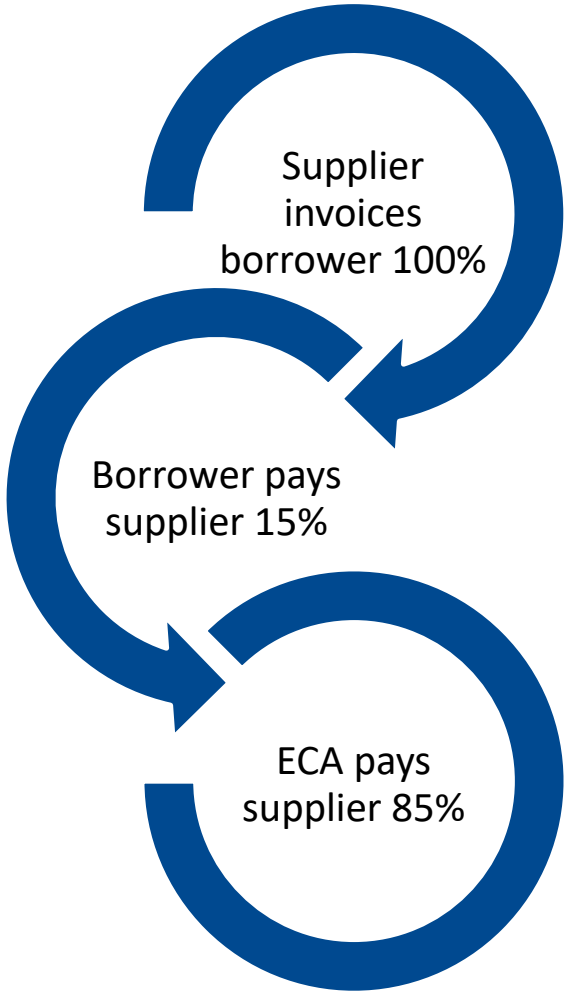
Your obedient Servants.

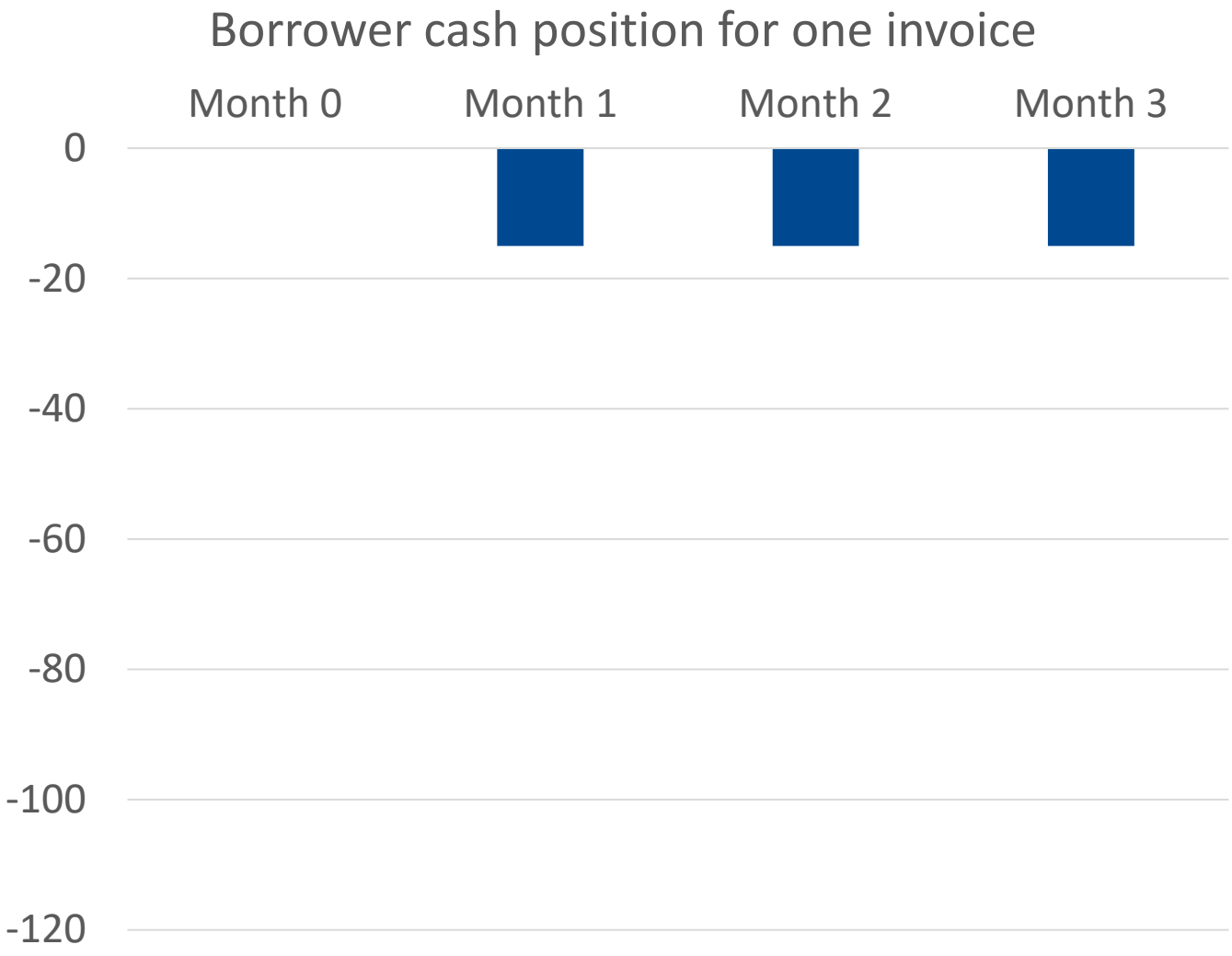
Signature of holder

Letter of credit

Direct

10 Direct disbursement

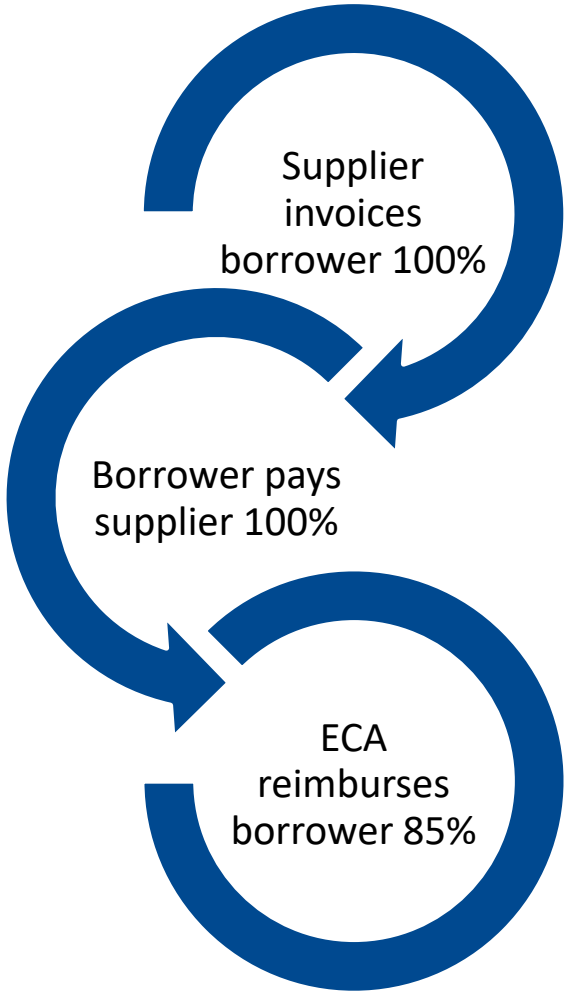


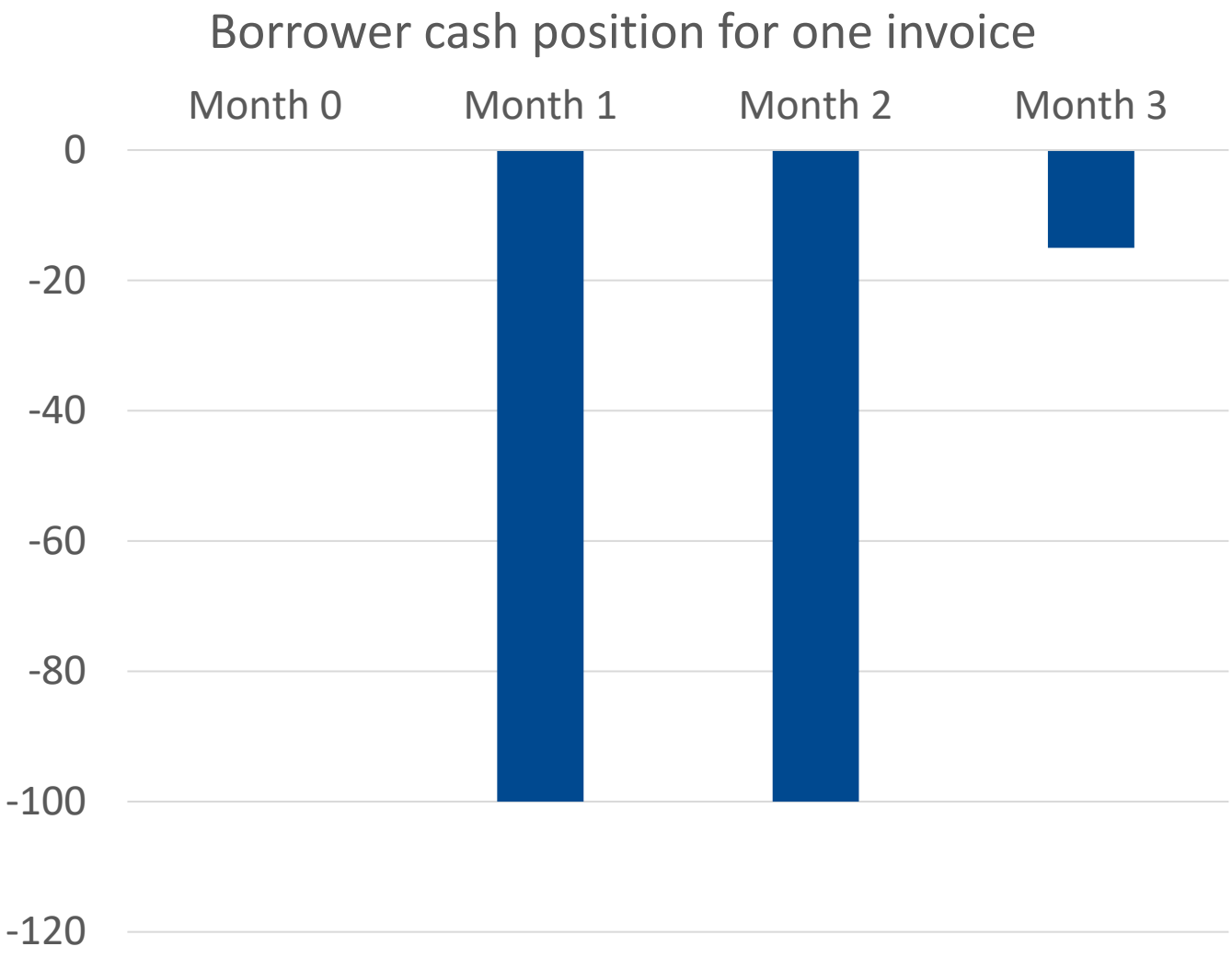


10 Direct disbursement

- Upon presentation of documents:
  - Buyer pays contractor down payment
  - Bank pays contractor financed amount
- EXIM – Direct disbursement method restricted to shorter-term, single-supplier financings
- Low working capital requirements
- Low set up and transaction costs
- Payment terms must be reviewed by all parties
- Document packages must be complete

10 Reimbursement

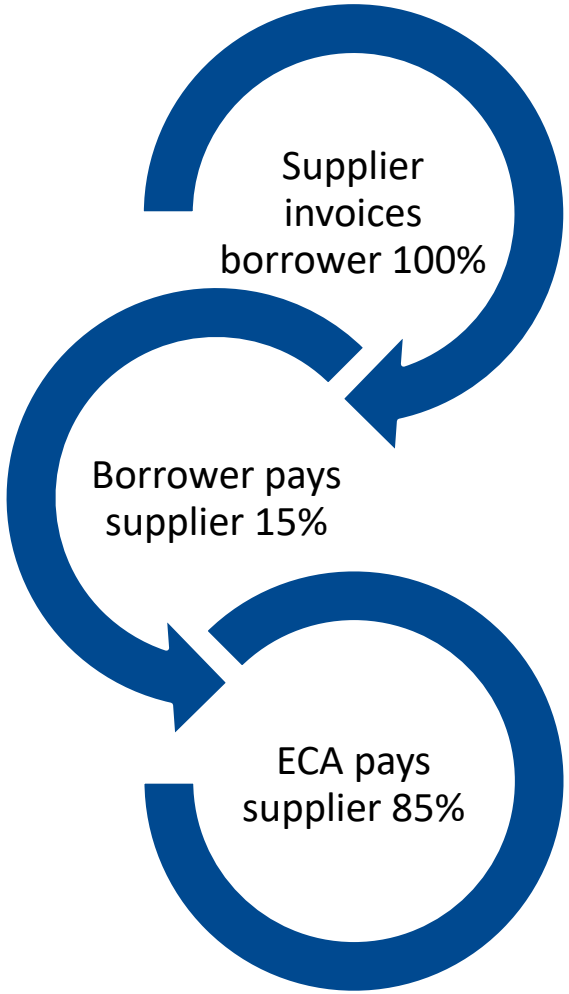


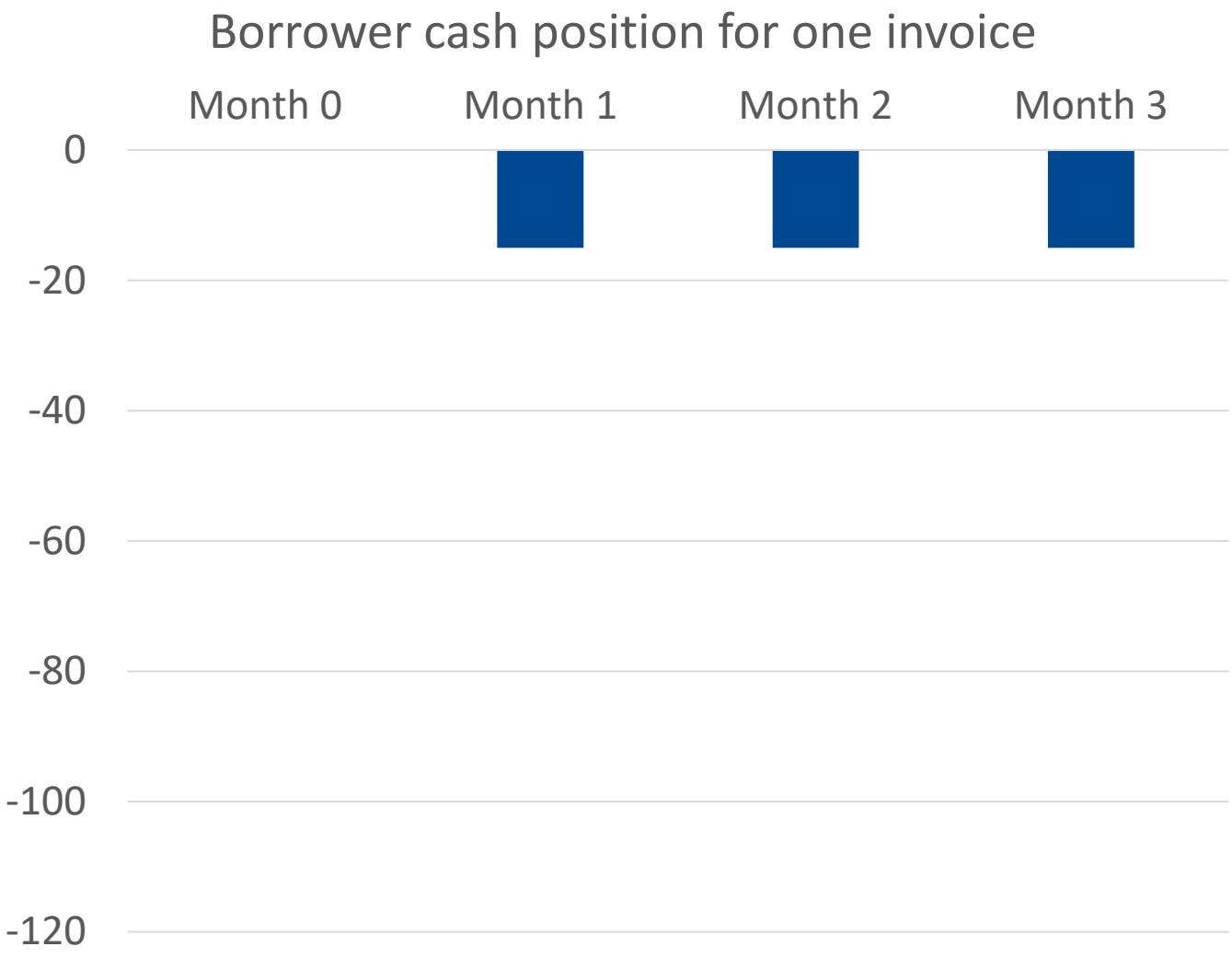


10 Reimbursement

- Buyer pays contractor with its own working capital
- Buyer then receives reimbursement from lender for part or all of payments to contractor
- Common across ECAs, widely used in the U.S. for project finance
- High working capital requirements
- Low set up and transaction costs
- Payment terms at the discretion of buyer and seller
- Timing of reimbursements subject to ECA rules
- Reimbursement packages must be complete
- Facility agent (direct loan)/guaranteed lender have documentary risk

10 Letter of credit

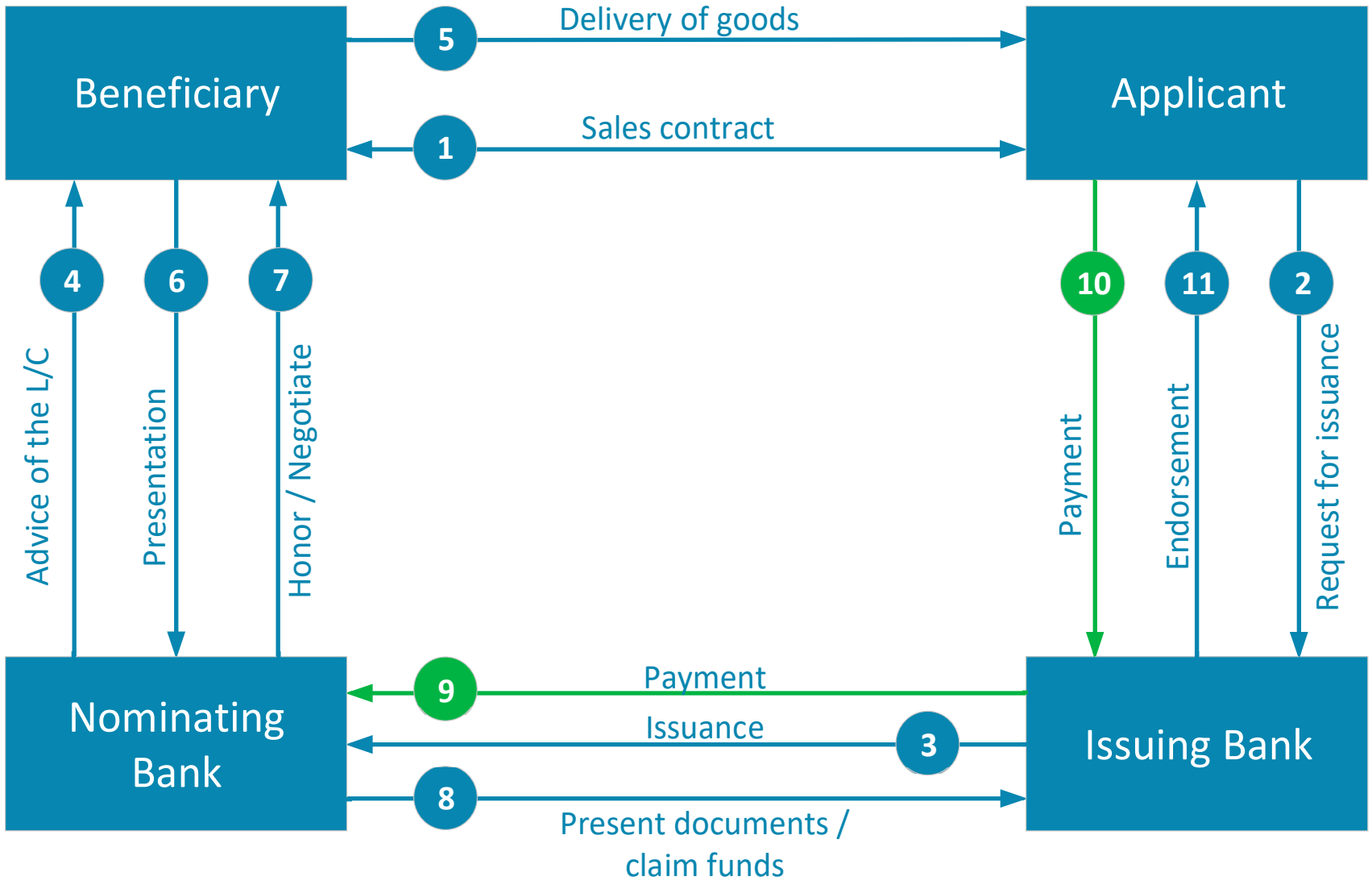




10 Letter of credit

- Upon presentation of documents:
  - Buyer pays contractor down payment
  - Bank pays contractor financed amount
- Very common disbursement method, especially for corporate and single-supplier financings
- Low working capital requirements
- Higher set up and transaction costs
- Payment terms must be reviewed by all parties
- Document packages must be complete
- Banks have documentary risk

Letter of credit

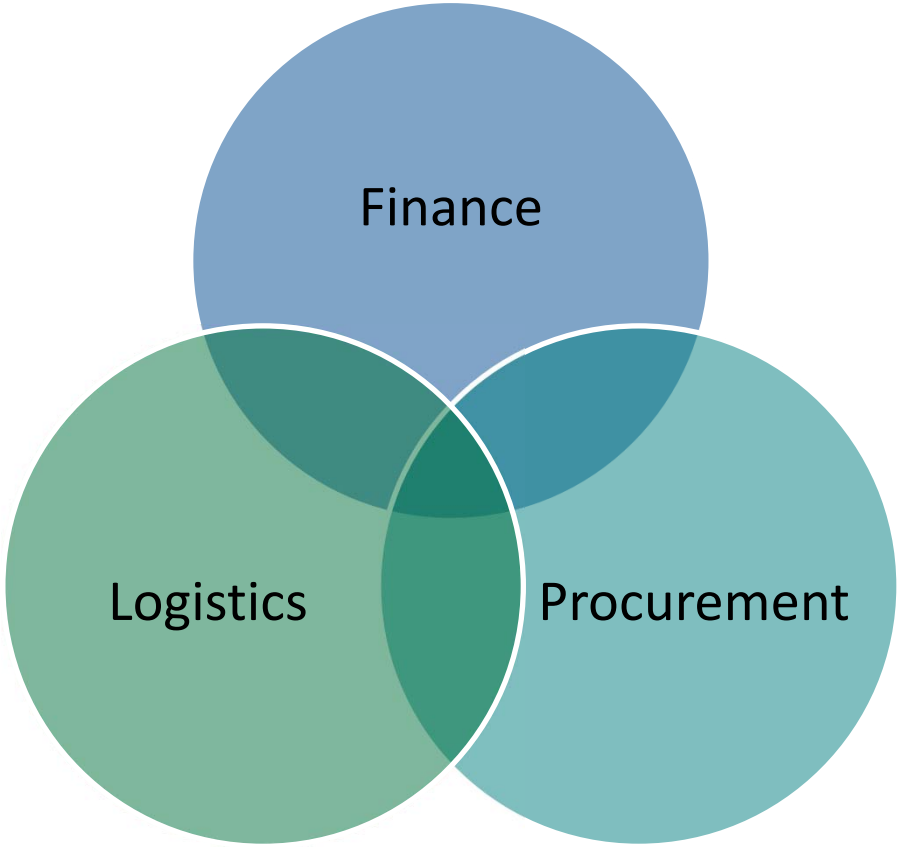


10 Comparing disbursement methods

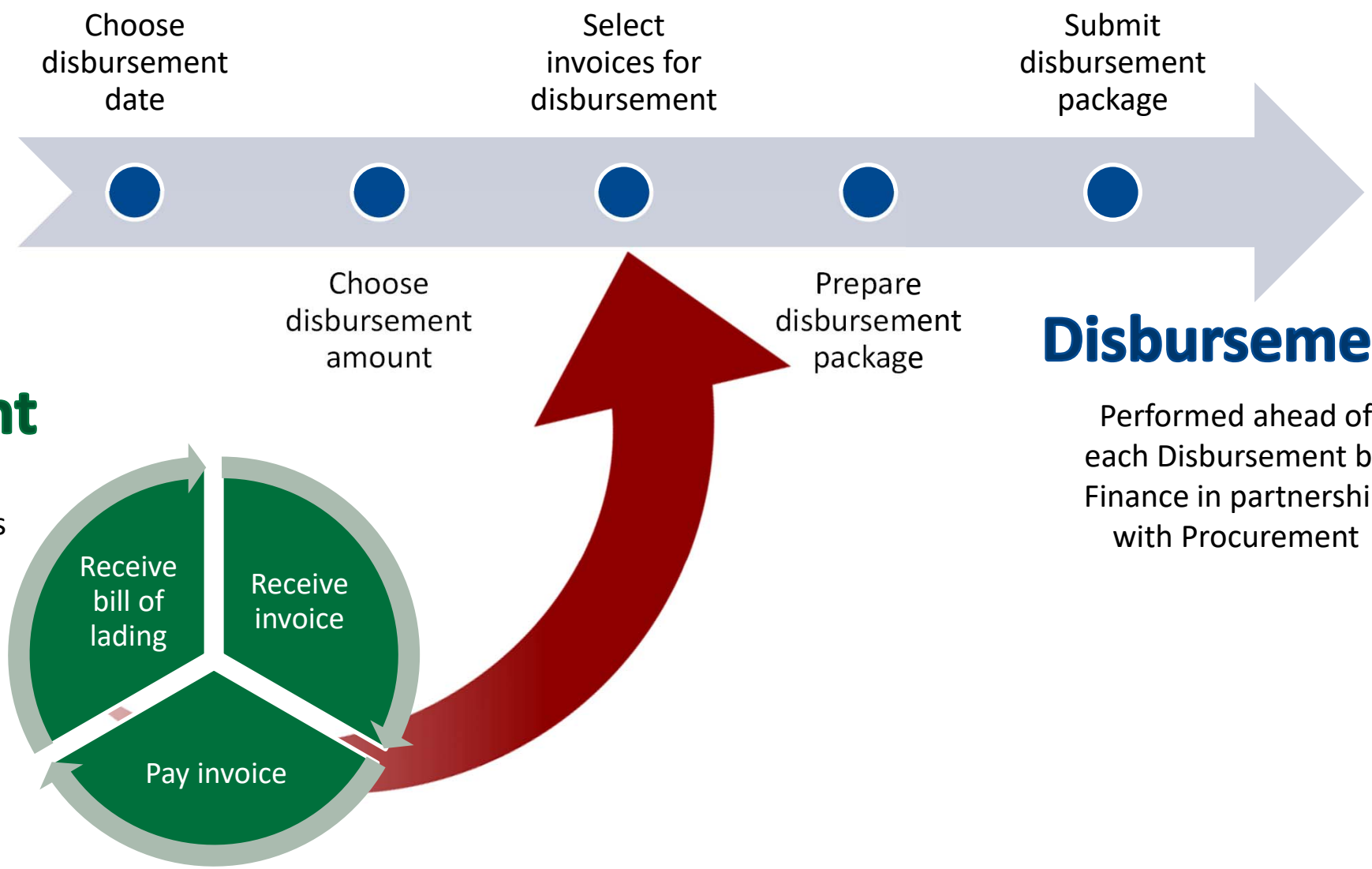
Criteria	Reimbursement	Letter of credit	Direct
Level of trust			
Speed			
Set-up cost			
Transaction cost			
Working capital			
Parties involved			
Restrictions			

10 The disbursement process

- ECA administration requires coordination among disciplines
- The next series of slides explains how to set up a disbursement process that works



Disbursement: Two separate processes



Procurement

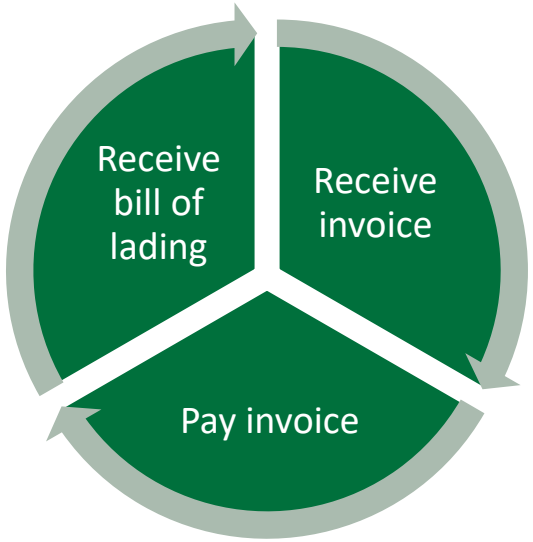
Information recorded continuously as goods and services are purchased, paid, and delivered

Disbursement

Performed ahead of each Disbursement by Finance in partnership with Procurement

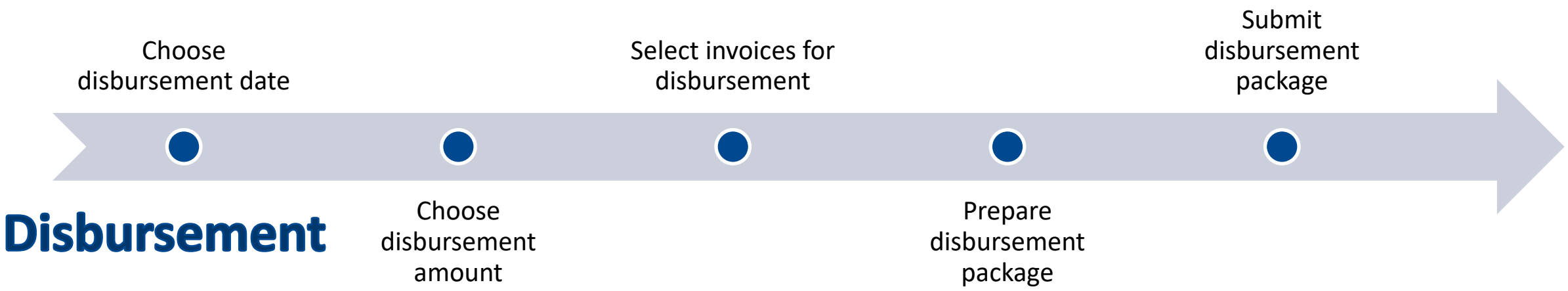
10 Procurement as it relates to disbursements

Procurement



- It is crucial to set up a procurement process that is consistent with ECA financing obligations
- The procurement team should provide the following data and documents:
  - Purchase orders (including description of goods and services and commitment amounts)
  - Countries of origin of goods and services
  - [Certificates of origin of goods and services]
  - Invoices
  - Proofs of payment
  - Bills of lading for all shipments (freighted for marine shipments)
  - Customs documentation
- Procurement team gives data over to finance team monthly

10 Procurement as it relates to disbursements



- Disbursement date selected may be based on:
  - ECA processing period (10–15 business days for JBIC/NEXI; 20 business days for EXIM)
  - Simultaneous draws with other debt tranches
- Disbursement amount may be:
  - Highest amount possible
  - Minimum required to maintain borrower positive cash flow
- Data and documents submitted by Procurement must be turned into disbursement package for ECAs

Disbursement

- Preparing a disbursement package can take as little as one day or as long as a month, depending on the complexity of the procurement
- Disbursement package preparation process depends on the ECA, but typically comprises the following steps:

Obtain data and documents

Prepare disbursement package

Send disbursement package to ECA

Disbursement constraints – Invoice types

- Some paid invoices can be disbursed at any time, some can't …

Services invoices …

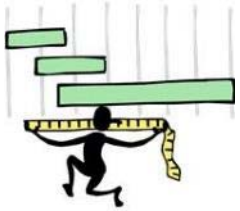
- can be disbursed at any time

Invoices for shipped goods …

- can be disbursed at any time

Milestone payment invoices …

- dated after the Operative Date can be disbursed at any time
- dated in the Reachback period can only be disbursed when the goods are shipped

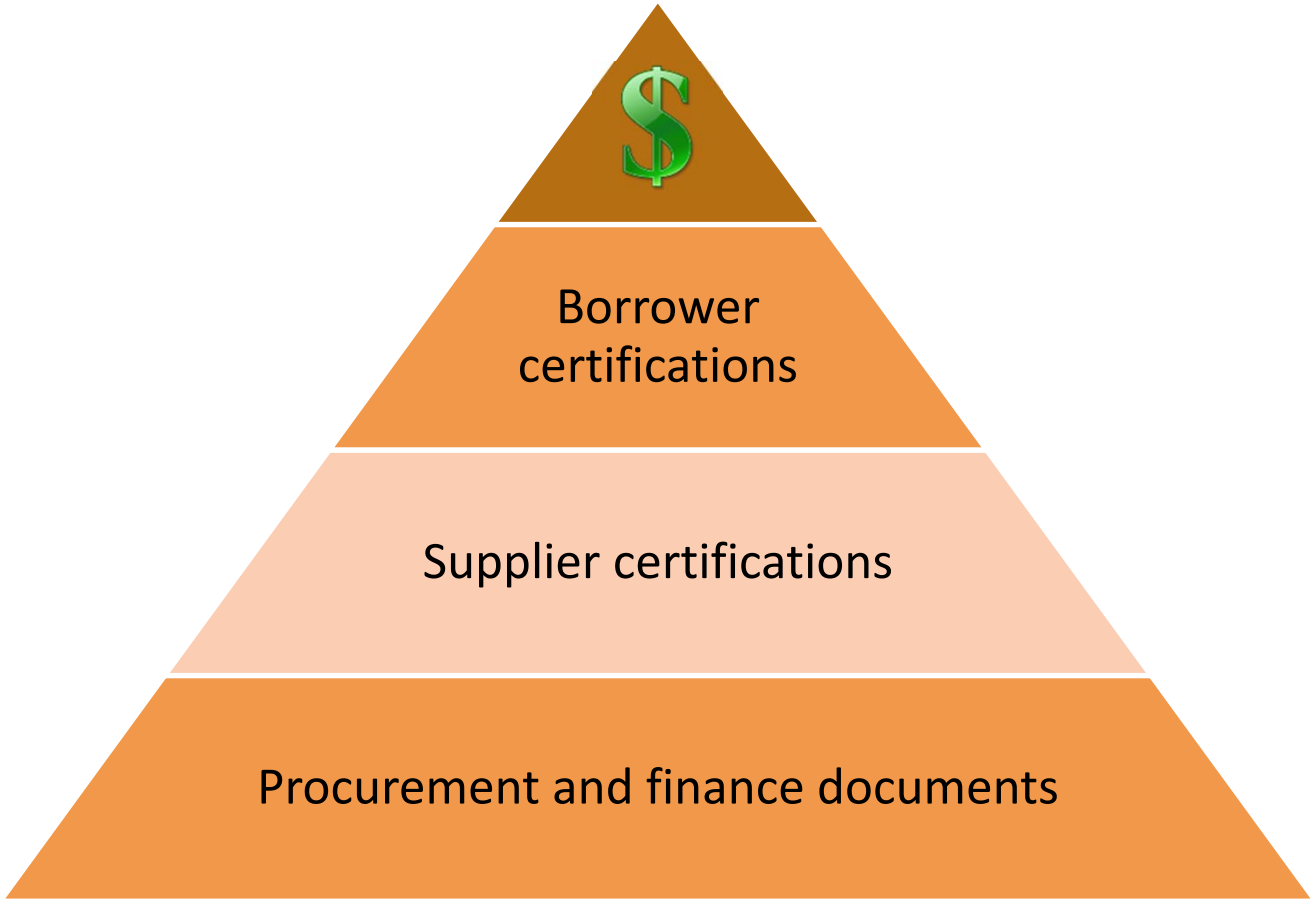


Progress payment invoices …

- can only be disbursed when the goods are shipped

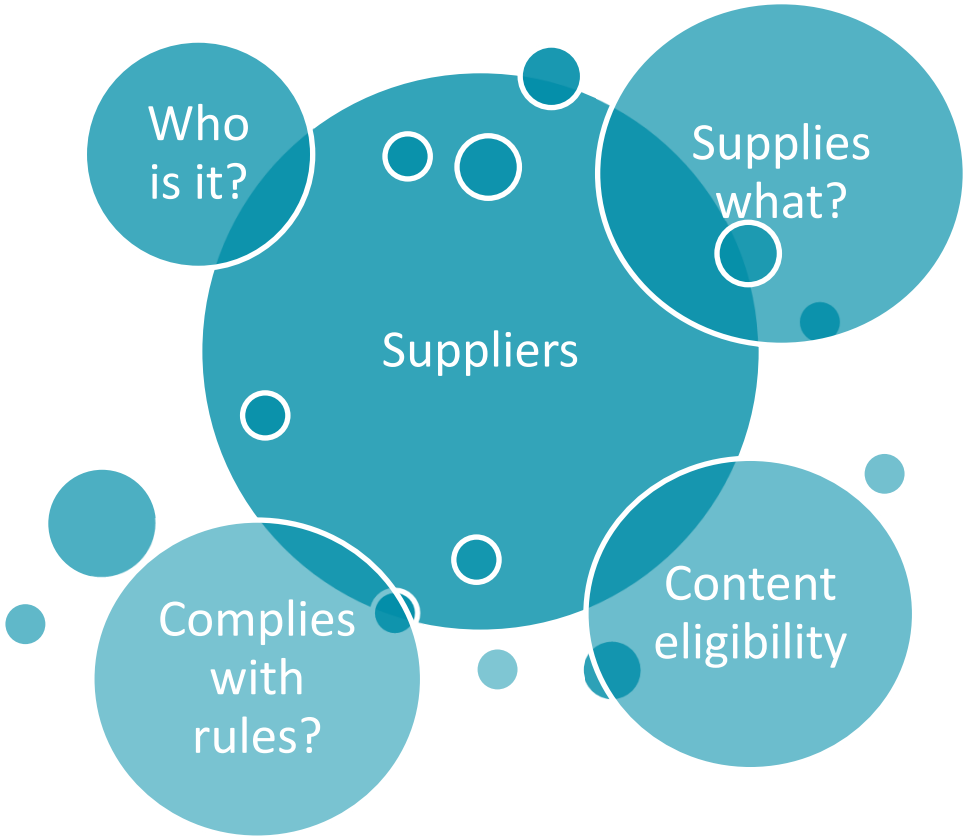
10 The disbursement package

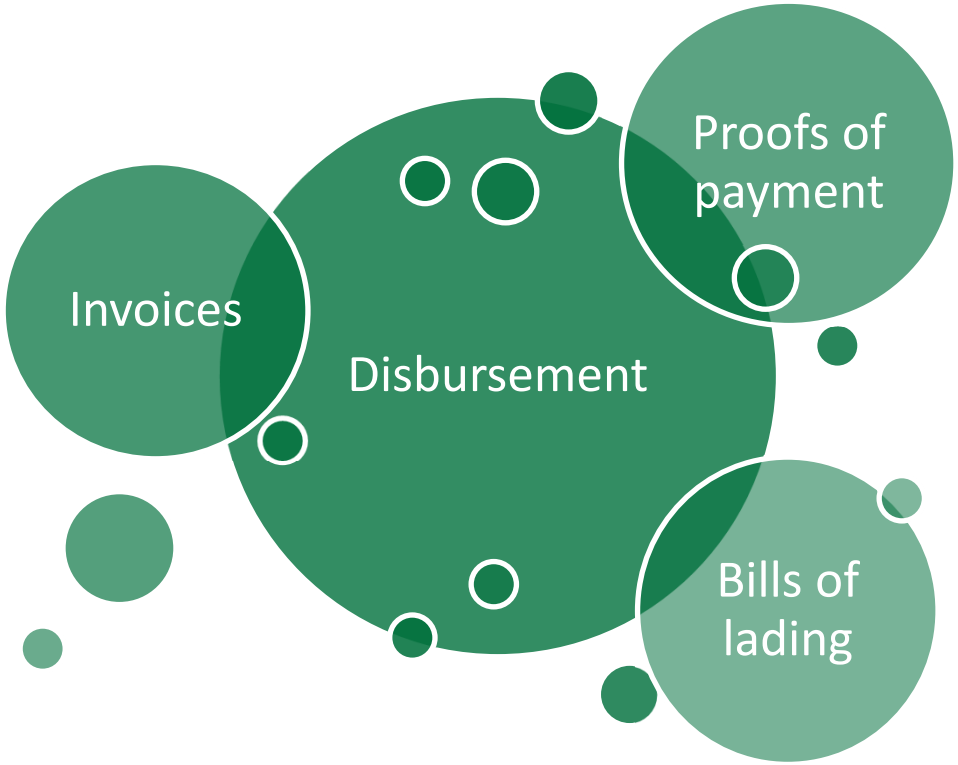
- Disbursement packages typically are built up from procurement documents and consist of:



10 The disbursement package

- The disbursement package seeks to answer the following questions from the ECAs:





10 Disbursement request

- Signed by the borrower
- Certifies compliance with loan agreement
- Requests disbursement
- States:
  - Total disbursement amount
  - Disbursement amount to date
  - Amount of disbursement for suppliers
  - Amount of disbursement for fees
  - Amount of disbursement for interest during construction

Disbursement request

FORM OF NOTICE OF BORROWING

2. This Notice of Borrowing constitutes a request for a Disbursement of U.S.$ **17,612,921.86**

3. On the Requested Utilization Date, the aggregate outstanding balance of all Disbursements outstanding under the Facility Agreement is U.S.$ **332,539,026.71**, after giving effect to the Disbursement requested hereby, of which U.S.$ **316,528,655.42** is for Eligible Goods and Services.

4. The requested Disbursement shall be made as follows:

Reimbursement: U.S.$ **17,612,921.86**

Amount	Required Documents
3,831,859.37	U.S. exporters: Request for Reimbursement, Itemized Statement of Payments, copies of invoices, proofs of payment, copy of Exporter's Certificate, copy of Anti-Lobbying Certificate, copies of bills of lading
13,781,062.49	Local cost: Request of Local Cost Reimbursement, Itemized Statement of Payments, copies of invoices, proofs of payment, copy of Anti-Lobbying Certificate

IDC Advance: U.S.$ **0.00**

Amount	Required Documents
0.00	None

Disbursement request

REQUEST FOR REIMBURSEMENT TO THE PROJECT COMPANY'S ACCOUNT

Ladies and Gentlemen:

In accordance with the terms and conditions of the Facility Agreement dated as of [redacted] (as amended, modified and supplemented and in effect from time to time, the "**Agreement**"), by and among the Project Company, [redacted] acting through its [redacted] Branch, as Ex-Im Facility Agent, and Export-Import Bank of the United States ("**Ex-Im Bank**"), we hereby request Ex-Im Bank to make a Disbursement under Credit thereby established in the amount set forth below, with the Reimbursement amount thereof being paid to:

US Correspondent Bank Name:

SWIFT:

ABA Number:

For Further Credit to:
Account Name:

SWIFT code:
IBAN:
Account Number:

Reimbursement amount U.S.$	**3,831,859.37**
TOTAL U.S.$	**3,831,859.37**

Disbursement request

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THE EXPORT-IMPORT BANK OF KOREA

UTILISATION REQUEST

2. We wish to borrow a Guaranteed Loan and a Direct Loan on the following terms:

Requested Utilisation Date 11/1/2013 (or, if that is not a [redacted] K-EXIM Business Day, the next [redacted] K-EXIM Business Day)

Currency and Amount of the Guaranteed Loan: [redacted]
Currency and Amount of the Direct Loan:

Interest Period: 1

3. We confirm that this is a request for reimbursement as more specifically set out in the enclosed original Reimbursement Certificate Serial No. Sams 3.

10 Disbursement request

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Reimbursement Certificate Serial No. Sams 3

Dear Sir/Madam

K-EXIM EMAL II Facilities Agreement dated [redacted] (the "**Agreement**") between, among others, [redacted] (the "**Company**") and [redacted] (the "[redacted] **K-EXIM Facility Agent**")

1. We refer to the Agreement. This is a Reimbursement Certificate. Terms defined in the Agreement have the same meaning in this Reimbursement Certificate unless given a different meaning in this Reimbursement Certificate.

2. This Reimbursement Certificate is issued in connection with the Agreement, and more specifically in connection with our K-EXIM [redacted] Utilisation Request dated _____ in which we have requested the disbursement on US$ [redacted] of Loans (the "**Requested Loans**").

3. The Requested Loans are to be made to reimburse us for payments made by us in respect of goods and/or services supplied to us pursuant to the Korean EPC Contract as specified in the Korean EPC Contractor's commercial invoice number [redacted] (the "**Invoice**") for the amount of US$ [redacted] (the "**Eligible Invoice Amount**") issued in accordance with the terms of the Korean EPC Contract.

EXHIBIT B
TO THE CREDIT AGREEMENT

FORM OF BORROWER DISBURSEMENT CERTIFICATE

[DATE]

[redacted] Bank,
as Administrative Agent
Structured Finance Agency Group
[redacted]
Attention: [redacted]

Re: [redacted] LLC

Ladies and Gentlemen:

We refer to the Credit Agreement, dated as of [redacted] (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among [redacted] LLC, as Borrower ("Borrower"), and the financial institutions named therein as Lenders, [redacted] Bank, as Administrative Agent, and [redacted] Bank [redacted] Hermes Agent. Terms used in this certificate (this "Disbursement Certificate") shall have the meaning given to them in the Credit Agreement.

The Disbursement Date of the Advance requested herein is [ ].

We hereby request the aggregate amount of $[ ] as Advances to be disbursed hereunder in accordance with the terms and conditions of the Credit Agreement for payment of Eligible Costs, in the following amounts:

1. $[ ] to pay to Equipment Supplier (in accordance with the applicable Equipment Supplier Disbursement Certificate) up to 85% of the Contract Price Eligible Portion;
2. $[ ] to reimburse Borrower for up to 85% of Borrower's payment of a portion of the Contract Price Eligible Portion (excluding any Pre-Closing Equity Contributions being reimbursed under paragraph 6 below);
3. $[ ] to (i) reimburse Borrower for its prior payment to Hermes Agent of up to 100% of the Hermes Guarantee Fees or (ii) to be used by Borrower to reimburse or cover Hermes Agent for its payment of up to 100% of the Hermes Guarantee Fees;
4. $[ ] to pay up to 100% of Eligible Interest During Construction which is due and payable by Borrower under the Credit Agreement;

B-1

EXHIBIT C-2
TO THE CREDIT AGREEMENT

FORM OF EQUIPMENT SUPPLIER DISBURSEMENT CERTIFICATE
(CONFIRMATION OF REIMBURSEMENT TO BORROWER)

[DATE]

[redacted] Bank,
as Administrative Agent
Structured Finance Agency Group
[redacted]
Attention: [redacted]

[redacted]

Re: [redacted] LLC

Ladies and Gentlemen:

We refer to (a) the [redacted] Sale and Purchase Agreement, dated as of [redacted] (as amended, supplemented or otherwise modified from time to time in accordance its terms and the terms set forth in the Credit Agreement (as defined below), the "Equipment Supply Agreement"), between [redacted] LLC [redacted] and [redacted] GmbH ("Equipment Supplier" or "we"), and (b) the Credit Agreement, dated as of [redacted] (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among [redacted], and the financial institutions named therein as Lenders, [redacted] Bank, as Administrative Agent ("Administrative Agent"), and [redacted] Bank [redacted] as Hermes Agent. Terms used in this certificate (this "Disbursement Certificate") shall have the meaning given to them in the Credit Agreement.

C-2-1

Disbursement request

EXHIBIT C-1
TO THE CREDIT AGREEMENT

FORM OF EQUIPMENT SUPPLIER DISBURSEMENT CERTIFICATE
(REQUEST FOR DISBURSEMENT TO EQUIPMENT SUPPLIER)

[DATE]

[redacted] Bank,
as Administrative Agent
Structured Finance Agency Group
[redacted]
Attention: [redacted]
[redacted]

Re: [redacted] LLC

Ladies and Gentlemen:

We refer to (a) the [redacted] Sale and Purchase Agreement, dated as of [redacted] (as amended, supplemented or otherwise modified from time to time in accordance its terms and the terms set forth in the Credit Agreement (as defined below), the "Equipment Supply Agreement"), between [redacted] LLC [redacted] and [redacted] GmbH ("Equipment Supplier" or "we"), and (b) the Credit Agreement, dated as of [redacted] (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among [redacted], and the financial institutions named therein as Lenders, [redacted] Bank, as Administrative Agent ("Administrative Agent"), and [redacted] Bank [redacted] as Hermes Agent. Terms used in this certificate (this "Disbursement Certificate") shall have the meaning given to them in the Credit Agreement.

We hereby request that [redacted] provide to Administrative Agent a request for a disbursement under the Credit Agreement in an amount equal to the sum of $[ ], to be applied to the payment of a portion of the Contract Price, to be paid by Administrative Agent to the account of Equipment Supplier designated in Schedule 1 hereto in accordance with the Credit Agreement on [ ].

C-1-1

10 Acquisition list

- Signed by the borrower
- Lists goods and services that will be procured and financed
- Is part of the application for financing
- EXIM engineering reviews and approves the list before disbursements happen
- At EXIM, disbursements are checked by the operations group against the acquisition list during the disbursement process
- Many ECAs do not use acquisition lists

Acquisition list

Note: The following document applies to new transactions that are documented under the revised Master Guarantee Agreement (March 2001)

EXPORT-IMPORT BANK OF THE UNITED STATES

Long Term Credit / Guarantee - Summary Acquisition List

Effective Date: _____

Exporter's Name, U.S. Street Address, Tel./Fax. #s: **American Exporting Company, Inc.**
12345 Westheimer Avenue, Suite 78
Houston, TX 77006 United States
Phone: (213) 555-1234; Fax: (213) 555-5678

Authorized Party Providing Information: _____ Signature: _____

Supply Contract/Purchase Order Number: **PO-00001, PO-00002**

RE: Ex-Im Bank Credit/Guarantee Number: **AP123456XX** Project Name/Identification: **Sample Project**

Purchaser: **Corporacion Mexicana S.A. de C.V.** Country: **Mexico**

To the best of our knowledge the following is true and accurate, representing the identifiable or most likely procurement (sources and description of goods and services) covered under the Credit / Guarantee.

Section A - U.S. Procured Goods and Services

AL Reference #	Reference #	Description of Goods a/o Services (including model, #units if applicable) SIC or NAICS code	Manufacturer & address of manufacture, plus (if different) Exporter & address	USD U.S. Export Value of described Products a/o Services (U.S. Contract Amount)	Est. Date of Shipping or service execution
PO-00001	PO-00001	- Mechanical equipment type N rated Y. NAICS 335311	American Exporting Company, Inc. 12345 Westheimer Avenue, Suite 78 Houston, TX 77006 United States	1,500,000.00	12/31/2016

EXPORT-IMPORT BANK OF THE UNITED STATES

Long Term Credit / Guarantee - Summary Acquisition List

Local Cost Provider's Name, Address, Tel./Fax. #s: **Summary Acquisition List for**

American Exporting Company, Inc.
12345 Westheimer Avenue, Suite 78
Houston, TX 77006 United States
Phone: (213) 555-1234; Fax: (213) 555-5678

Project Name/Identification: **Sample Project**

Effective Date: _____

Section B - Local Goods and Services

Reference #	Description of Goods a/o Serv ices (including model, #units if applicable) SIC or NAICS code	Manufacturer & address of manufacture, plus (if different) Exporter & address	USD U.S. Export Value of described Products a/o Services (U.S. Contract Amount)	Est. Date of Shipping or service execution
PO-00002	- Installation services for mechanical equipment. NAICS 238120	American Exporting Company, Inc. 12345 Westheimer Avenue, Suite 78 Houston, TX 77006 United States	233,750.00	5/31/2018
PO-00003	- Civil works. NAICS 238120	Gerardo Vasconcelos y Asociados Robles 15 Monterrey, Nuevo Leon, Mexico	500,000.00	7/31/2018
PO-00004	- Construction services. NAICS 238120	Gerardo Vasconcelos y Asociados Robles 15 Monterrey, Nuevo Leon, Mexico	375,000.00	12/31/2018
		Total Associated Local Costs:	1,108,750.00	

Sections A and B have been reviewed and approved by E&E Division: Initials: _____ Date: _____

10 Summary of invoices to be disbursed

- Signed by the borrower
- Typically includes:
  - Suppliers' names
  - Invoice number
  - Bill of lading number
  - Date of payment
  - Amount of payment
  - Description of goods/service
  - Reimbursement amount based on content rules

10 Summary of invoices to be disbursed

REIMBURSEMENT PROCEDURE
ITEMIZED STATEMENT OF PAYMENTS

Ex-Im Bank Credit No. AP#123456 _____, 20__

Attachment to Request for Reimbursement

No. 2

Exporter: American Exporting Company, Inc.

Date of Exporter's Certificate: 2/8/2011

Invoice No.	Bill of Lading Date/No.	Date of Payment	Amount of Payment(1)	Brief Description of U.S. Contract Good/Service(2)	Remarks
INV-AE-001	No BOL-AEC-001 / 28/02/2012	5/7/2012	232,000.00	Equipment and materials	10% progress payment
INV-AE-002	No BOL-AEC-002 / 02/03/2012	5/21/2012	928,000.00	Equipment and materials	40% payment with partial shipment

Total $1,160,000.00

REIMBURSEMENT AMOUNT at 64.66%

REIMBURSED AMOUNT $750,000.00

Summary of invoices to be disbursed

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Statement of Eligible Goods and Services

Date: _____

1. List of Commercial Invoices (All amounts in USD)

Korean EPC Contract	Content (Korean Goods and Services / Third Country Goods and Services (list separately))	Payment/ Reimbursement	Payment Date	Goods / Services	Contractor / Supplier	Contract No.	Invoice no.	Invoice Amount (a)	Advance Amount (b)	diff. (a-b)
	[redacted]									

(a) Korean Goods and Services	(b) Third Country Goods and Services	Aggregate value of (a) and (b)	Amount of Eligible Content* tobe financed in the Advance
Current Invoice:	Current Invoice:	Current Invoice:	Current Invoice:
[redacted]			
Accumulated amount across all Invoices to date:	Accumulated amount across all Invoices to date:	Accumulated amount across all Invoices to date:	Accumulated amount across all Advances to date:
[redacted]			

10 Summary of invoices to be disbursed

- For some ECAs (e.g., Euler Hermes), there is no such summary
  - Instead, the disbursement schedule is documented in the loan agreement, such schedule being based on supply contracts reviewed and approved by the ECA
- Requires detailed review of supply contract before it is signed
- Reviews “Schedule of payments”
  - “Map” for disbursements

10 Certification of national origin

- Signed by the exporter
- For EXIM:
  - It certifies U.S., foreign, and local content of all goods and services from each supplier by PO
  - May be amended from time to time
  - If U.S. content changes significantly, must be accompanied by “disbursement calculator”
- For some ECAs:
  - Content is certified by the contractor or aggregator
- For other ECAs:
  - Content is documented with official certificate of origin

Certification of national origin

FORM OF EXPORTER'S CERTIFICATE

		Definition	USD
A.	Supply Contract/ Purchase Order(s)	The aggregate price of all Goods and Services in the Supply Contract/ Purchase Order(s).	
B.	Excluded Goods and Services	The aggregate price of all Goods and Services that are not eligible for (or excluded from) Ex-Im Bank support (e.g., goods not shipped from the U.S.)	
C.	Contract Price	A minus B	
D.	Local Costs	The aggregate price of all Goods originated/manufactured in the Purchaser's country and all Services provided by residents of the Purchaser's country.	
E.	Net Contract Price	C minus D	
F.	Foreign Content	The aggregate cost to the Exporter of any Goods (or components thereof) that were produced or manufactured outside the U.S., Services provided by third country-resident personnel, and foreign freight costs and foreign insurance included in the Net Contract Price for Goods exported from the U.S. (Such amount shall not include any Local Costs.)	
G.	U.S. Content	E minus F	
H.	U.S. Content Percentage	G divided by E, expressed as a percentage.	%
I.	Disbursement Percentage	Initial Exporter's Certificate: input the lower of (i) 85% and (ii) the percentage in H. Amended Exporter's Certificate: input the percentage obtained from the Disbursement Percentage Calculator page (if any).	%

Certification of national origin

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THE EXPORT-IMPORT BANK OF KOREA

QUALIFYING CERTIFICATE (INTERIM PAYMENT)

EPC CONTRACT NUMBER/INVOICE NUMBER

WE CERTIFY that since the previous Qualifying Certificate (if any) we have received from [redacted] (the "**Company**") the sum of US$[redacted] representing the Eligible Goods and Services and carried out in accordance with the Contract comprising:

	Up to the previous Declaration	Amount of this Declaration	Cumulative Amount
Eligible Goods & Services			
- *Republic of Korea*	[redacted]		
- [redacted]			
- *Third Countries*			
Total:			
Original Contract Amount			
Current Contract Amount			

Certification of national origin

1. Goods consigned from (Exporter's business name, address, country)	Reference No. **GENERALIZED SYSTEM OF PREFERENCES** **CERTIFICATE OF ORIGIN** **(Combined declaration and certificate)** **FORM A**
2. Goods consigned to (Consignee's name, address, country)	Issued in..... (country) See the instructions that follow.
3. Means of transport and route (as far as known)	4. For official use

5. Item number	6. Marks and numbers of packages	7. Number and kind of packages: description of goods	8. Origin criterion (See the instructions that follow.)	9. Gross weight or other quantity	10. Number and date of invoices

11. **Certification** It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct. ..... Place and date, signature and stamp of certifying authority	12. **Declaration by the exporter** The undersigned hereby declares that the above details and statements are correct: that all the goods were produced in ..... (country) and that they comply with the origin requirements specified for those goods in the Generalized System of Preferences for goods exported to ..... (importing country) ..... Place and date, signature of authorized signatory

10 Compliance certification

- Signed by the borrower and by suppliers
- Certifies compliance with loan agreement

Compliance certification

ANTI-LOBBYING CERTIFICATE

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by Section 1352, Title

Compliance certification

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THE EXPORT-IMPORT BANK OF KOREA

- Compliance certification included within “Qualifying Certificate” and utilization documents

- Anti-bribery certifications must be signed by suppliers and sub-suppliers
- Letter of undertaking establishing compliance with rules

10 Invoices

- Information includes:
  - Purchase order number
  - Supplier address in the ECA country
  - Local address of borrower
  - Invoice number
  - Invoice date
  - Description of goods and services
  - Amount of invoice
- Discrepancies can delay funding

10 Proofs of payment

- Discrepancies can delay funding
- Typically wire transfer evidence
- Information includes:
  - Invoice number
  - Name of borrower
  - Amount
- If several invoices were paid together, the proof of payment should include a breakdown per invoice

10 Bills of lading

- Discrepancies can delay funding
- Should include
  - "Bill of Lading" is written on the document
  - Bill of Lading number
  - Shipping method (air, rail, truck, sea/maritime)
  - Shipment date
  - Signature of carrier or carrier's agent
  - Shipping location matches Supplier's address (if not, provide sufficient evidence)
  - Shipment originates in ECA country
  - Shipment ends in local country
  - Supplier name
  - Borrower name (identified as buyer)
  - Clean "On Board" identified and marked "No Exceptions"

10 Some notes on disbursing JBIC projects

- Disbursement plan for a six-month period (showing estimated date of disbursement and the estimated amount of disbursement)
- Statement of expenditure containing expenditures that are scheduled to be made by the borrower to the EPC contractor during a three-month period after the date of the request
- Invoices provided by the EPC contractors evidencing together with a certification by an independent engineer that such amounts constitute project costs and are eligible to be financed by the requested disbursement
- With reimbursements, the borrower is usually required to submit the statement of expenditures with the reimbursement request
- The borrower is not required to submit invoices

10 Typical root causes of problems in disbursements

- Inadequate review
- Single-failure steps in the process
- Insufficient process documentation
- High employee turnover
- Little reinforcement of knowledge
- Special cases

10 Disbursement requirements

- Accurate administration is essential!!!
- ECA financing requires additional management work, discipline, and collaboration
- Procurement shifts are allowed in some cases:
  - EXIM engineering approves changes to acquisition list
  - Reflected in required documents
- Goal of content management:
  - Stay within approved loan values
  - Actively and precisely manage change orders
  - Avoid late stage discrepancies

MODULE 11

Around the world in ECAs (Part 1)

11 Around the world in ECAs

ECAs generally tailor their services to the needs of industry in their countries – In this section we will tour the world to see how they do that

11 ECAs around the world

North America

A tale of two ECAs

Canada and the United States

- The United States and Canada are similar in many ways:
  - Both are rich industrialized countries
  - They boast diversified economies, exporting everything from commodities to high-tech products and services
  - They are each others' principal trading partners
- But they are also very different:
  - The U.S. has a much larger population
  - As a percentage of GDP, Canada is a much larger exporter than the U.S.
  - Canada has a relatively higher concentration of industry than the U.S.
  - U.S. companies tend to be much larger than Canadian companies
- Canadian and American ECAs have evolved to offer products that play to their respective country's strengths and to mitigate their weaknesses

A tale of two ECAs

In this section we will review the specific products and services that EDC and EXIM offer as tailored to the needs and characteristics of exporters in their countries

EDC
Export Development Canada | Exportation et développement Canada

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

"Through EDC, Canadians extended USD 2,534 per capita in export support to businesses in Canada and abroad, compared to just USD 114 in the U.S." – MacLeans (2014)

11 EDC (Canada)

- 100% state-owned
- Established in 1944
- Self-financing
- Driven to increase Canadian exports, which is required in a country with a relatively small domestic market
- Main products:
  - Insurance
  - Financing
  - Guarantees
  - Bonding
  - Small business solutions
  - Support of Canadian investment abroad
  - Support of international investment in Canada

11 EDC's long list of insurance products

- Accounts receivable insurance
- Single and multi-buyer insurance
- Contract frustration insurance
- Political risk insurance
- Domestic credit insurance
- Bonding and guarantee solutions
- Account performance security guarantees
- Surety bond insurance
- Foreign exchange facility guarantee
- Domestic surety bonding and bank guarantees

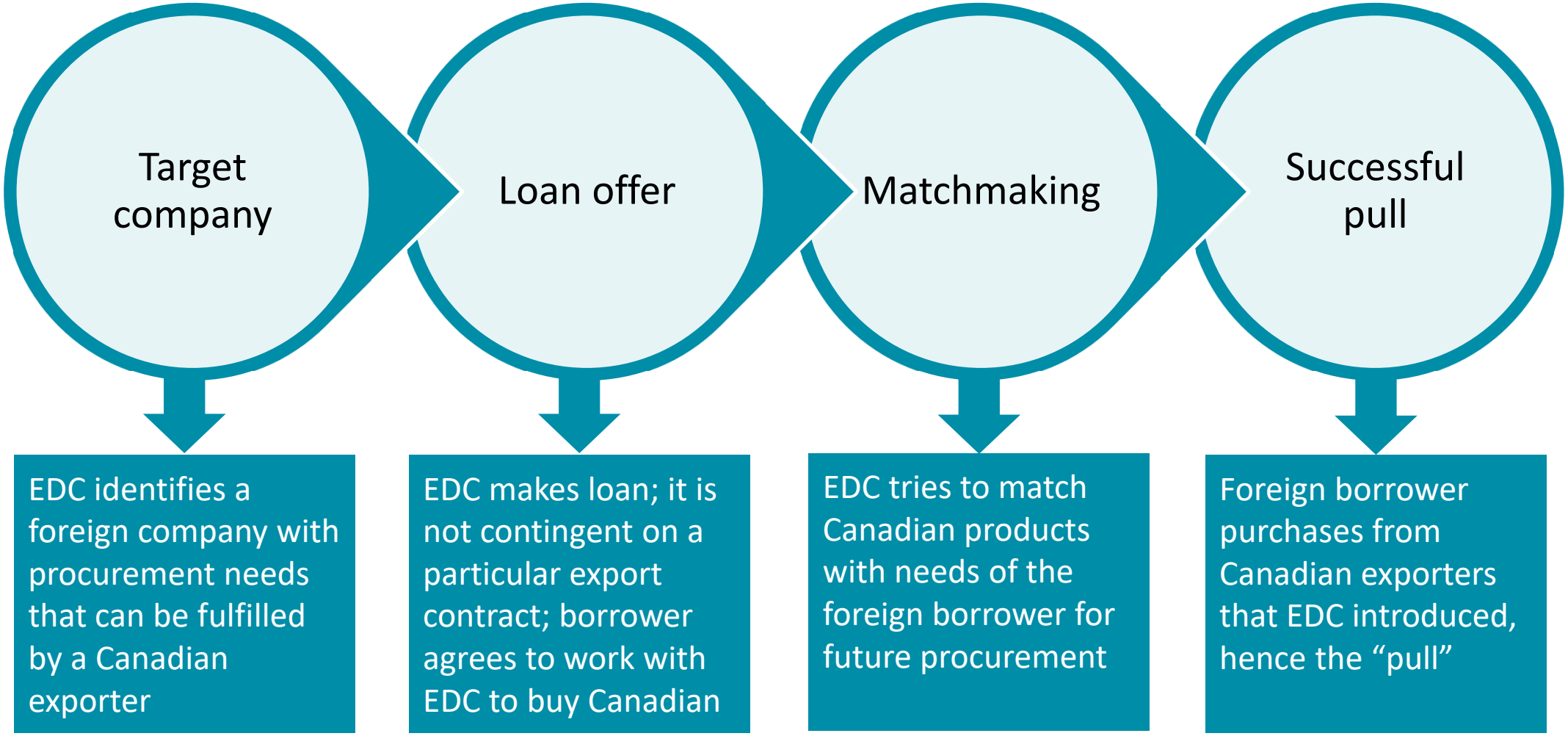
11 Case study: EDC performance security guarantee

- Small telecom uses insurance product to enter risky new markets
- A pioneering company providing electronic payment solutions to the wireless industry was asked by new customers abroad to provide performance security bonds
- The company was asked by its bank to put up collateral to get the bonds, which would have tied up working capital
- The company used EDC's performance security guarantee product, which provided a 100% guarantee to the company's bank in case of a wrongful call against a performance security guarantee
- Because of EDC's guarantee, the bank relented on its requirement for cash collateral before issuing the bonds

11 EDC's seemingly short list of financing products

- List of programs:
  - Working capital financing
  - Buyer financing
  - Direct lending
  - Structured and project finance
- EDC-specific features:
  - Pull program
  - Market window
  - Partnership with financial institutions in the private sector
  - Active canvassing of Canadian market for additional exports

11 “Pull programs” influence future procurement



11 Case study: EDC financing products

- Large financing to multi-sector conglomerate
- A very large industrial conglomerate in the emerging world was looking to continue its rapid growth
- To fund new capital investments, the company targeted ECAs
- EDC provided a substantial tranche of financing based on:
  - History of the conglomerate buying Canadian goods and services
  - Informed expectation of future Canadian exports
  - The conglomerate's home country being a strategic market for Canada
  - Adequate risk profile
  - Market pricing

11 EDC's investment products

- Products for Canadian companies investing in foreign markets:
  - Accounts receivable insurance for foreign affiliates
  - Letter of guarantee for foreign affiliates
  - Surety bond insurance for foreign affiliates
  - Working capital finance for foreign affiliates
  - Knowledge center
- Enterprise Canada Network
- Inbound foreign direct investment financing (50% of production must be exported)
  - Greenfield
  - Brownfield with CAPEX
  - Brownfield without CAPEX

11 EDC – In conclusion

- Nimble and flexible
- Long list of products
- Market approach:
  - Benefits
  - Costs
- Actively promotes Canadian exports

11 EXIM (United States)

- 100% state-owned
- Established in 1934
- Uses U.S. Treasury funds
- With a mission to stimulate American exports and support U.S. employment, EXIM must buffet tensions arising from highly competitive market in which exports are not the main driver of the economy
- Main products:
  - Insurance
  - Guarantees
  - Direct loans

EXIM – A dicey political environment

- By design, EXIM only exists for a few years until it expires
- In order not to close, EXIM must be reauthorized by U.S. Congress
- If not reauthorized, EXIM closes:
  - All existing credits are honored
  - No new business
  - EXIM closes down for good
- Reauthorizations were routine during most of EXIM's history
- In 2019, EXIM was reauthorized for seven years

EXIM – 2019 reauthorization

- In December 2019, EXIM was reauthorized for seven years with an updated mandate:
  - New procedures to establish a temporary board in case of insufficient amount of Senate-confirmed board members to achieve quorum
  - Established "Program on China and Transformational Exports" for reserving 20% of EXIM exposure authority to support U.S. exports that directly counter Chinese competition
  - Transactions over USD 25 million, in which the end user, obligor, or lender is believed to be an entity of or controlled by the People's Republic of China, require consultation with Department of State and other agencies to assess the risk to U.S. national interest
  - Increase SME financing support from 25% to 30% of total exposure
  - Reserve 5% of exposure authority to support renewable energy exports

EXIM – What can be gleaned from the big picture?

- Limited flexibility to deviate from policy
- No ability to finance foreign content
- Inability to use market window, untied financing, and investment support
- Complex but clear and consistent utilization procedures
- Sensitivity to socioeconomic impacts in the host country as well as in the United States
- Boost to strategic markets
- Low financing costs
- Supportive of innovative financial instruments (e.g., bonds)

11 EXIM's product list

- Short-term export credit insurance
- Working capital guarantee
- Buyer credits:
  - Medium- and long-term guarantees and direct loans
  - Project and structured finance
- Finance lease guarantee

The high fees required for medium-term transactions, as a result of EXIM's higher reserve requirements for this program, significantly lessen EXIM's competitiveness

11 Case study: EXIM aircraft financing

- Rand financing to African airline
- An African carrier was in contract to buy two new Boeing aircraft
- To mitigate currency risk, the airline wished to obtain financing in South African rand (ZAR)
- EXIM provided a rand guarantee to an international bank, who in turn provided a rand loan to the airline
- In the highly-competitive aircraft financing industry, EXIM has pioneered:
  - Foreign currency financing
  - Capital market solutions

11 DFC (United States)

- U.S. International Development Finance Corporation
- Formerly OPIC (Overseas Private Investment Corporation)
  - Formed in late 2019 after the BUILD Act consolidated the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority (DCA)
- 100% state-owned
- Uses U.S. Treasury funds
- With a mission to stimulate American investments overseas, it also provides support to American private-sector players in foreign countries
- Main products:
  - Medium- and long-term loans and loan guarantees (up to USD 1 billion)
  - Political risk insurance
  - Support for private equity funds

DFC – Changes from OPIC transition

- In the transition, DFC was given a new mandate and gained new capabilities and financial tools
  - USD 60 billion investment cap (double that of OPIC)
  - Availability of equity financing, and financing of technical assistance and feasibility studies
  - Ability to use local currency loans and first-loss guarantees
  - Loosening of the 25% U.S. investor participation requirement—it is now a preference and not mandatory
  - Prioritization of low- and lower-middle income countries
  - Increased alignment and coordination with U.S. Department of State foreign policy
  - Seven-year authorization

11 Case study: OPIC debt financing

- OPIC loan to Brazilian bank expands SME access to capital in developing region of the country
- A Brazilian bank wanted to expand its loan SME portfolio in the country's northeast
- OPIC provided a USD 400 million loan to the Brazilian bank alongside a U.S. private sector bank's USD 80 million commitment
- The transaction was facilitated by the agency's innovative methodology for assessing development impacts

A tale of two ECAs

Two very different agencies provide products and services tailored to the specific requirements of their home industries

EDC
Export Development Canada | Exportation et développement Canada

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

AFRICA

The emerging powerhouse

Afreximbank

- Africa's multilateral bank, formed in 1993
- Finance, promote, and expand intra- and extra-African trade
- ECA facilitation program
  - Guarantees to ECAs to finance eligible imports into Africa
  - Qualifying transactions
    - Import of equipment and raw materials
    - Engineering and consultancy services that facilitate African exports (if services not available)
    - Exports from Africa to ECAs' countries of origin
- ECA facilitation products
  - Letter of credit confirmation to beneficiaries in country of origin of ECAs or within Africa
  - Reimbursement guarantees to ECAs in respect of letters of credit confirmation

11 Afreximbank is a regional powerhouse

Cairo, 18 January 2017 – The African Export-Import Bank (Afreximbank) has announced the inception of new five-year strategic plan that will see the African continental trade finance institution disburse no less than $90 billion in support of African trade between 2017 and 2021.

Afreximbank Strategic Plan 2017-2021

The African Export-Import Bank (Afreximbank) and Ecobank have signed a US$500mn memorandum of understanding to finance private sector projects and trade finance transactions in Africa.

Rating Action: Moody's upgrades the African Export-Import Bank's ratings to Baa1 from Baa2, outlook stable

By Brian Ngugi | Business Daily, Kenya
December 23, 2016

BUSINESS DAILY

Kenya is expected to sign a deal paving the way for setting up of a Sh3 billion regional headquarters by the African Export Import Bank (Afreximbank) in Nairobi.

Afreximbank to source $1.5bn for Burkina Faso's 5-year development plan

0 COMM

FEBRUARY 17TH, 2017 KAY UGWUEDE NEWS

11 Afreximbank – Supplier and buyer credits

- Encourages intra-African trade
- Assist African companies in competing against global importers
- Engineering machinery and equipment
- Infrastructure services
- Supplier credit
  - African exporters of goods and equipment
  - Give credit to buyers from six months to seven years
- Buyer credit
  - Exporter of heavy equipment is paid current basis
  - Afreximbank takes payment directly from buyer

Afreximbank – Project finance

- Large manufacturing
- Infrastructure: Pipelines, power, telecoms, ports
- Mining
- Tourism: Hotels, resorts, airports
- Pricing
  - LIBOR +
  - Country risk
  - Transaction risk
  - Market conditions
- Tenor: Up to seven years

11 ECIC

- South Africa's ECA, formed in 2001
- Focus on medium- and long-term insurance
- Cover in 2018
  - ZAR 30 billion
  - 11,272 South African jobs
  - 14,943 construction jobs and 17,663 permanent jobs in host countries

Zambia	**19%**
Zimbabwe	12%
Ghana	21%

Sugar plant Mozambique

Sugar cane to ethanol Sierra Leone

Copper plant Zambia

Gold mining Liberia

Water treatment Sudan

Telecom Angola

Hotel Uganda

Renewable power Ghana

ECIC – Financial institutions products

- Buyer credit to South African banks
  - Insurance of loan paid to the exporter/buyer during the delivery period
  - Foreign buyer undertakes to repay the loan at the agreed credit terms
  - 100% political risks
  - 85% to 100% commercial risks (determined case-by-case)
  - Eligible loans: Project finance, corporate finance, asset backed finance, or sovereign finance
- Investment insurance cover to S. African banks
  - Financing a foreign investment
  - Political risk cover 90% of the loan value
  - Eligibility requirements
  - Breach of contract cover of host government contractual obligations

Transaction location	SA content	Other African content
African continent	≥ 50%	≥ 20%
Non-African continent	≥ 70%	

ECIC – Exporters products

- Export credit insurance
  - Political risk 100% if loss is < 90% of South African contract value
  - Commercial risk 85%
  - Eligibility same as for financial institutions
- Small (< USD 10 million) and medium-sized (USD 10 to USD 20 million) transactions
  - Fast track processing when eligibility and information are complete
  - Terms: Up to five years
  - Facility size may not exceed 85% of the South African contract price
  - Cover:
    - Commercial 85%–100%
    - Political 100%

11 Nigeria Export-Import Bank – Special programs

- Local Input Facility
  - Local currency
  - Seven-year tenor (inclusive of two-year grace period)
  - Use: Asset acquisition, modernization, and expansion for exportable products
- Foreign Input Facility
  - Available to manufacturers of exportable products
  - Use: Import capital equipment, packaging, and raw materials to produce exports
  - Repayable in a foreign currency
  - Seven-year tenor (inclusive of two-year grace period)
- Nigerian Creative and Entertainment Industry Stimulation Loan Scheme
  - USD 200 million stimulation facility
  - Entertainment industry: Production, distribution, and exhibition of film, TV, and radio

11 Nigeria Export-Import Bank – Direct lending

- Direct lending to exporters
- Tenor: Up to three years
- Interest rate of NIBOR + 200 bps for local currency loans
- Interest rate of LIBOR + 200 bps for foreign currency loans
- Commitment fee of 0.5% p.a. shall be charged on the undisbursed balance
- Administrative fee:
  - Either (a) one-time fee of 1.0% on the loan amount, or
  - (b) fee of 0.5% for short term facilities < 180 days
- Legal fee of 0.5% calculated on the loan amount (when NEXIM uses outside counsel)

11 Nigeria Export-Import Bank – Traditional products

- Guarantees to banks lending to exporters
- Export credit insurance to exporters
- In both cases, cover as follows:
  - Pre-shipment: Up to 75% of export value
  - Post-shipment: Up to 85% of export value
- Letter of Credit Confirmation and Refinancing: Up to 100% of invoice value
- Project-related financing
  - Up to 100% of the invoice value of the equipment
  - No more than 80% of the total project

Ghana EXIM Bank

- New ECA, seeking to be operational in 2016
- Consolidate three existing entities under one organization
  - Export Development and Agricultural Investment Fund (EDAIF)
  - Exim Guaranty Company
  - Export Finance Company
- Focus on export finance—SMEs and other export-oriented businesses
- ST, MT, and LT programs
- Insurance
- Loan guarantees
- Start-up funding estimated at USD 12 million for year one
- Government task force to secure funding methods and implement strategy

11 China's agencies active in Africa

- All agencies open
- Tenor, pricing, and country limitations—not transparent
- Small, short-term deals to mega-deals occurring
- Largest lender to Africa, surpassing World Bank

11 Case study: Maamba Collieries

- Largest coal mining company in Zambia
- Sinosure's first project financing in Sub-Saharan Africa
- Two 150 MW coal-fired power plants
- Transmission line to connect to national grid
- Sinosure guaranteed USD 365 million loan
- Development banks financed USD 150 million
- Senior debt commercial banks USD 515 million

- Debt:equity ratio – 70:30
- Sponsors: India, Singapore, Zambia
- EPC contractors – China (power, transmission); India (coal mining)

11 Case study: Awash-Weldia Railway, Ethiopia

- USD 865 million financing package to fund the railway infrastructure development
- Borrower: Ethiopian Railways Corporation (ERC)
- Guarantor: Ministry of Finance and Economic Development of Ethiopia
- Construction period: Three years
- Equator Principles: Category A
- ECA multi-sourced tranche of USD 415 million; 13-year tenor
- Commercial banks: USD 450 million, Libor + 375, seven-year tenor
- Turk Eximbank: USD 300 million

ECA	Volume, USD millions	Lender
EKF	180	Deutsche
EKN	85	ING
SERV	150	KfW

11 The challenge of ECA financing for African Banks

- Local African banks
  - Pay highest capital rate worldwide at 4.0%
  - Have higher level of collateral than most western banks
  - Experience a shortage of liquidity
- Central Banks in most African countries do not recognize ECA guarantees

11 Capacity building

- World Bank created initiative in 2015 to expand African banks' abilities to use ECA financing to grow economies
- IFC, Berne Union, China, Germany, Italy, UK, and U.S.
- Educate Central Banks on benefits of expanding trade using ECA financing
- Larger and longer lending terms
- Lower financing costs
- Reserve relief for ECA guaranteed loans
- Democratic Republic of Congo
  - First country to recognize ECA product
  - Grant up to 50% capital relief to local banks with ECA-backed transactions

11 Africa Trade Insurance Agency (ATI)

- Africa's ECA
- Formed in 2001
- Rated "A" by S&P
- USD 17 billion

ATI – Trade credit insurance

- Maximum cover: USD 50 million
- No minimum size
- Pre-shipment cover: Up to 12 months from policy date

	Multi-buyer	Single buyer
Credit tenor	Up to 1 year	Average 1–5 years
Price range	0.4%–1.5% of the insurable	1.8%–3.5% of exposure

- Application in four steps
  - Submit an insurance inquiry form
  - Non-binding indication (NBI) issued within 48 hours
  - If client accepts NBI terms, then submit formal application
  - ATI will underwrite and issue policy within 2–4 weeks once all information is received

ATI – Credit insurance

- Tenor: Up to 10 years (including pre-shipment period)
- Cost: 1.0%–3.5% on insured amount
- Covered risks:
  - Expropriation
  - Contract frustration
  - Payment default
  - Political violence
  - Trade embargoes
  - Currency inconvertibility
  - War and civil disturbance

	Political Risk	Commercial Risk	Maximum size
Private	Up to 100%	Up to 90%	USD 100 million
Sub-sovereign	Up to 100%	Up to 95%	USD 100 million
Sovereign	Up to 100%		USD 100 million

11 Case study: ATI and ADB fill a financing gap

- Ethiopian Airlines received a USD 159 million loan from ADB, insured by ATI
  - This was ATI's first deal in Ethiopia
- Proceeds will fund the purchase of an Airbus A350-900 jet
- Timing for this financing is important
  - UKEF, Bpifrance, and Euler Hermes are currently unable to support Airbus transactions owing to ongoing corruption scandals of unfair contracting practices
- Ethiopian Airlines is Africa's largest carrier by revenue and profit, earning more than its rivals on the continent combined with revenues of USD 2.2 billion in 2015
  - The airline serves over 85 international destinations.
- Expansion plans include doubling its fleet and increasing revenues to USD 10 billion within a decade

EUROPE

A mosaic of diverse institutions and practices

European ECAs

- European ECAs are a diverse group of agencies that can work closely together but sometimes have different policies
- Though all of them comply with OECD guidelines …
- … there is much variability regarding:
  - Content eligibility
  - Disbursement procedures
  - Application processes
  - Market windows
- In this section we will review broadly some European ECAs and their products and policies

11 Euler Hermes (Germany)

- 100% private (with Federal guarantees)
- Euler Hermes is an exporter-oriented ECA that provides various insurance products:
  - To insure foreign receivables from a single or multiple buyers
  - To insure buyer credits
  - To insure lease obligations
- The agency also has products for specific businesses:
  - Airbus guarantee
  - Project financing
  - Railway financing
  - Renewable energy
  - Ship financing

Euler Hermes – Definition of foreign content

Level 1	Level 2
Foreign deliveries up to 49% possible without providing any further reasons	Foreign deliveries over 49% are possible if sufficient reasons justifying necessity are provided
	Determined on case-by-case basis; free preliminary assessment
Local costs up to 23% of total order value	Local costs up to 23% of total order value

Euler Hermes – Definition of foreign content

EULER HERMES

WHAT IS THE DEFINITION OF FOREIGN CONTENT?

Goods produced in another country which are processed or modified within the Federal Republic of Germany and integrated in a product for which a German certificate of origin has been or could be issued are not classified as foreign content. This is because in accordance with the Federal Government's definition a product for which a German certificate of origin has been issued is deemed to constitute German goods in whole regardless of whether and to what extent it contains foreign goods and services.

OECD

11 Other Euler Hermes considerations

- The application for financing should be made before the export contract has been concluded
- Euler Hermes needs to review and approve payment conditions in the export contract
- Euler Hermes provides special advice to SMEs on the availability of federal guarantees to strengthen their global competitive position

11 Case study: Euler Hermes guarantees EEHC

- Euler Hermes guarantees Egyptian Electricity Holding Company (EEHC) for USD 1.31 billion for conventional power
- ECA guarantee: Euler Hermes
- Lenders: AKA Bank, BayernLB, BNP Paribas, DZ Bank, and IKB Deutsche Industriebank
- Arranger: IKB Deutsche Industriebank
- Exporter: Siemens
- Tenor: 15 years, 3 months
- Grace period: 3 months
- Financial close: September 3, 2016

coface

bpifrance

OECD

11 SACE – Italy expands its reach

- Joint stock company ultimately owned by the Italian Ministry of Finance and Economy
- Focused on internationalization of Italian companies
- Highlights of 2018:
  - Outstanding exposure: ~EUR 60 billion
  - New commitments: ~EUR 20 billion
  - Rating BBB+
- Office network
  - Large business department: Large exporter; international bank
  - Four branches in Italy to manage underwriting process; exporter turnover < EUR 500,000
  - Ten offices in Italy—focus on mid-cap and SMEs
  - Ten overseas offices—for foreign buyers and borrowers

11 SACE – Large business department

- Heavy industries
  - Oil and gas
  - Petrochemicals
  - Steel
- Transport, financial services, special industries
  - Shipping
  - Aircraft, automotive, and trains
  - Banks and special industries
- Infrastructure and utilities
- Global Relation Management – 68 top corporate clients and selected banks

11 Case study: SACE's subsea mega-deal

- Prysmian, based in Milan, is the largest manufacturer of cables in the world (measured by revenues)
- Project: North Sea Link (NSN Link)
  - Involves the construction of a subsea interconnector with a capacity of 1,400 MW between the UK and Norway
  - Once completed, it will extend over 730 kilometers (will be the longest infrastructure of its kind in the world)
  - Improves the efficiency of both countries' power generation and transmission networks, increases energy security and helps to achieve national emissions targets
- Project total value: EUR 2 billon
- SACE's role: Guaranteed 90% of the loan, with SIMEST interest rate stabilization

11 SACE – Online vs. standard processing

- Online
  - Small and standardized transactions
  - Underwriting process managed through internet platform
  - Preliminary assessment issued to client electronically
  - Supporting documents submitted
  - Premium payment
- Standard
  - For large or complex transactions
  - Preliminary assessment managed through internet platform
  - Bulk of work done by dedicated transaction team

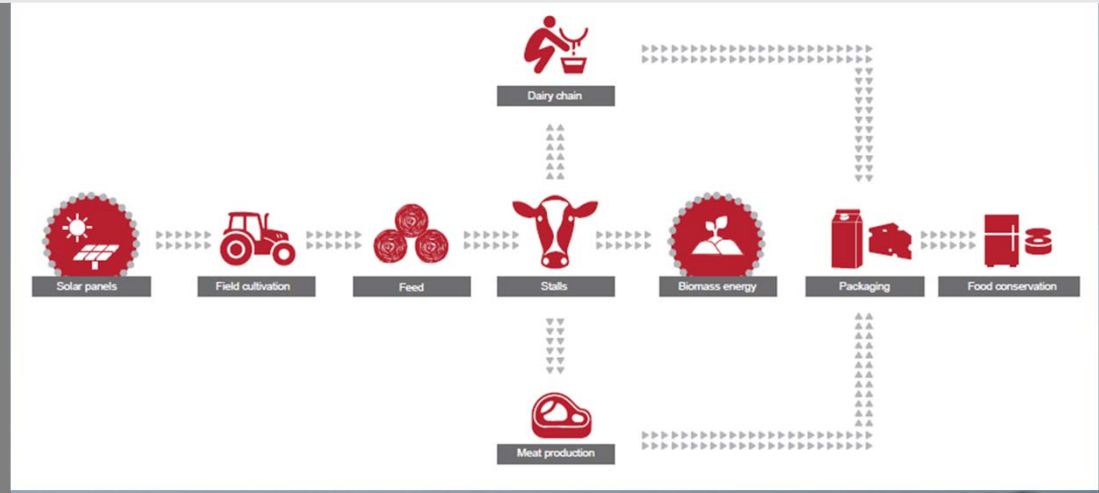
SACE – Selected products

- Supplier credit
- Buyer credit
- Structured and project finance
- Investment guarantee: Guarantee on loans to Italian firms and their foreign affiliates to finance foreign investments (e.g. joint ventures, M&A, increase of capital in foreign companies, production facilities) or investments in Italy in sectors of strategic relevance for the country (e.g. renewable energy, infrastructure)
- Training and advisory to other ECAs and MLAs

11 Case study: SACE's feed to cheese in Kenya

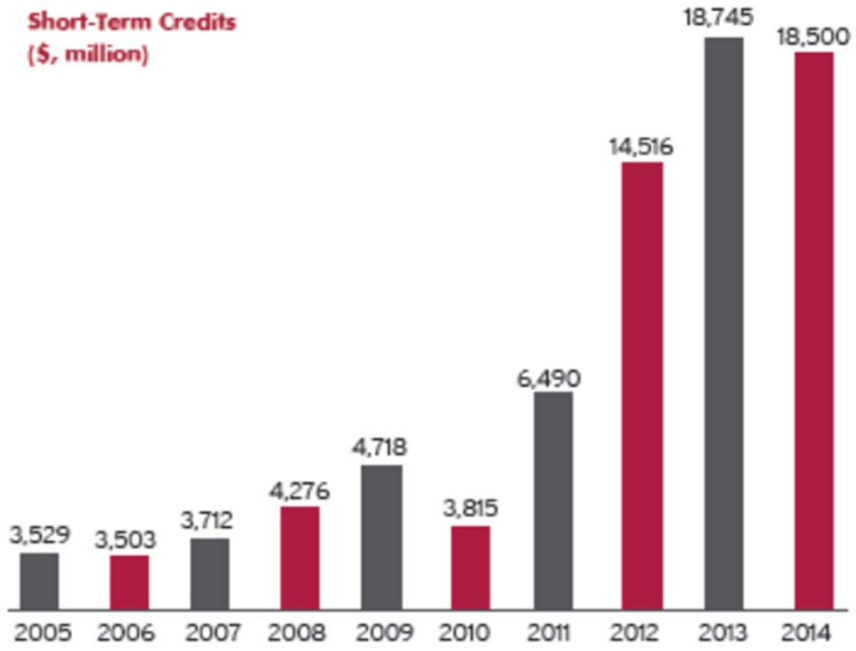
- Creation of an integrated dairy farm arranged by SACE
- State-of-the-art technologies increase production 10 times the country average
- Italian entities: 11 Italian SMEs in field of dairy production
- Amount: EUR 25 million
- Tenor: Seven years
- Financing: 100% guaranteed SACE loan to Italian lender
- Equity: Contribution of land by Kenya and university
- Benefits:
  - Production > 25,000 litres of milk daily from 1,000 high-yielding pedigree cows
  - Annual revenues > USD 3million
  - Generate 1 MW of power through biogas, helping to cut the university's monthly electricity bill of USD 220,000

- https://www.youtube.com/watch?v=TbvCrJuNzfU



11 Türk Eximbank

- 100% state-owned
- Established in 1987
- Self-financing
- Provides direct lending to exporters and buyers, as well as insurance, and guarantees to Turkish commercial banks so that they support exporters
- Experiencing tremendous growth
- Main products:
  - Short-term credits
  - Medium and long-term credits
  - Credits for foreign currency earning services
  - Specific credit programs

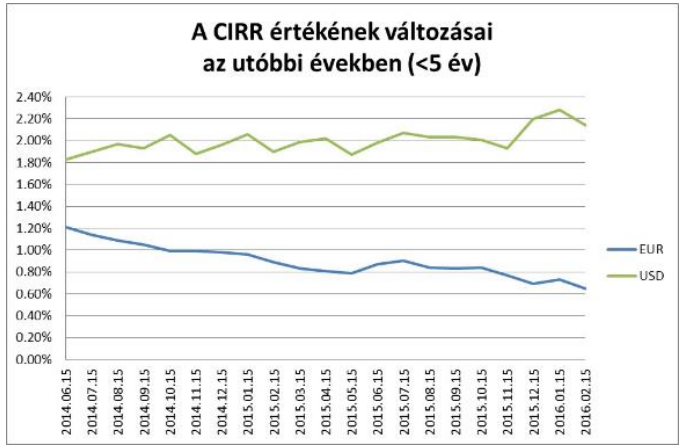


Türk Eximbank special programs

- Some interesting programs:
  - Overseas chain stores investment credit program: Supports direct sales of Turkish consumer goods by providing financing for the establishment of shopping centers and stores overseas
  - Tourism marketing credit program: Provides financing to airlines and travel agencies for promotional and marketing activities
  - EIB-funded investment loan: Medium and long-term facility from EIB to support investments in modernization and expansion projects
  - Credit program for foreign currency earning services: Short and medium-term financing for Turkish firms providing software design, project design, consultancy, and project-based services

11 Trends in European export finance

- Opening new markets
- Spread of national interest policies through Europe
- Low EUR financing costs
- Divestment from coal
- Exploring capital markets
- Islamic financing




Climate change + Follow

Export subsidies for coal power stations reined in by OECD

Deal could put a stop to as many as 850 planned coal plants

MODULE 12

Around the world in ECAs (Part 2)

THE NORDICS

Nimble, sleek, and working side-by-side with their exporters

12 Nordic ECAs

- Small countries
- Large, high value-added exporters
- National industries

- Exporters are well-integrated with ECAs, sometimes seamlessly
- Consistent procedures
- National interest policies
- Long list of products

12 Finnvera (Finland)

- 100% state-owned
- Established in 1999
- In addition to being Finland's ECA, Finnvera provides financing for the start, growth, and internationalization of companies by offering loans, domestic guarantees, venture capital investments, and other services associated with the financing of exports
- Main products:
  - Export credit guarantees
  - Export credits and interest equalization
  - Loans
  - Guarantees
  - Venture capital investments

Finnvera – Export credit guarantees

- Credit risk guarantee: Insures the exporter against credit loss related to an export transaction
- Export receivables guarantee: For short-term exports
- Buyer credit guarantee: Security to a lender to protect it from credit risk caused by a foreign buyer, the buyer's bank or country
- Bill of exchange guarantee: Helps the exporter to arrange bank financing for an export transaction by transferring risks associated with the buyer, the buyer’s bank or the buyer’s country to Finnvera
- Letter of credit guarantee: Protects a bank from commercial and/or political and/or sovereign risks related to a confirmed letter of credit

Finnvera – Export credit guarantees

- Bank risk guarantee: Protects the bank of a Finnish exporter against risks involved in bank guarantees given to the exporter
- Investment guarantee: Insure foreign investments against political risks
- Bond guarantee: Insure a bid bond, an advance payment bond, a performance bond, or a maintenance period bond
- Finance guarantee: Security for the credit institution granting an export credit to the exporter
- Raw material guarantee: Security for a loan granted to a foreign borrower in connection with a long-term contract to import raw materials
- Export credits and interest equalization: Funding of export credits through Finnish Export Credit Ltd (FEC)

Finnvera – Loans

- Finnvera loan: Financing for SMEs to finance domestic construction, machinery and equipment investments, energy and environment projects, and working capital needs
- Entrepreneur loan: Personal loan to entrepreneur to finance investments
- Internationalization loan: Loans to SMEs for financing their operations abroad
- Bridge financing: Working capital loan before grant funding from a different program
- Bond financing: Marking of bonds issued by Finnish companies
- Growth loan: Financing of major growth or internationalization projects, including restructuring

Finnvera – Guarantees

- Start guarantee: Loan guarantees for young companies
- Ship guarantee: Security for credits granted to Finnish companies engaged in shipping or shipbuilding
- Finnvera guarantee: General purpose, domestic financing for SMEs
- Internationalization guarantee: Collateral for financing the business operations of a Finnish SME abroad
- Export guarantee: Instrument for covering domestic needs for collateral in exports
- Environmental guarantee: Security for credits that are used for environmental protection investments, renewable energy projects, or projects improving energy efficiency

12 Case study: Telefónica's 2016 deal with Finnvera

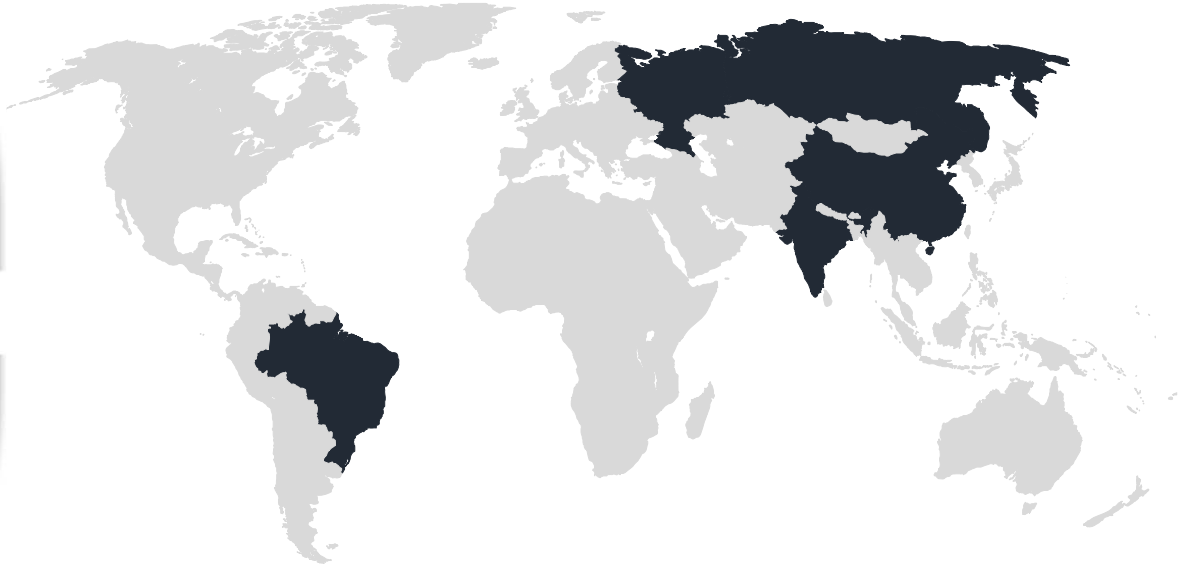
- Finnvera offers buyer credit to Spain's Telefónica
- USD 545 million financing
- Purchase of Nokia equipment and services
- Deliveries to Telefónica's subsidiaries worldwide
- 95% guarantee
- 10.5 years tenor
- Interest rate of approximately 2%
- On the heels of similar deals with Ericsson and EKN

12 Case study: EKF backs its exporters

- A 30MW Kiata Wind Farm project, developed by John Liang and Windlab, located in Victoria, Australia, targets operation FYE2017
- Financing: USD 84.5 million loan by NAB is guaranteed by EKF
- Danish exporter: Vestas
  - 9 turbines
  - EPC contractor
  - 5-year output service contract post-completion
  - Vestas online data-driven monitoring and preventive maintenance VES
- The wind farm will:
  - Provide enough annual clean energy for more than 20,000 households
  - Reduce CO2 by 152,000 tonnes per annum

12 Case study: EKF (Denmark) project finance

- EKF closes complex USD 315 million project financing (2014)
- Separate USD and PHP tranches
- Largest wind farm in the Philippines (150 MW)
- First project finance for a wind farm in the country
- Early days of new tariff legislation
- Initial drawdown reimbursed equity
- No offtake agreement in place
- 15-year tenor



A mandate to increase exports

Then BRICS' export challenge

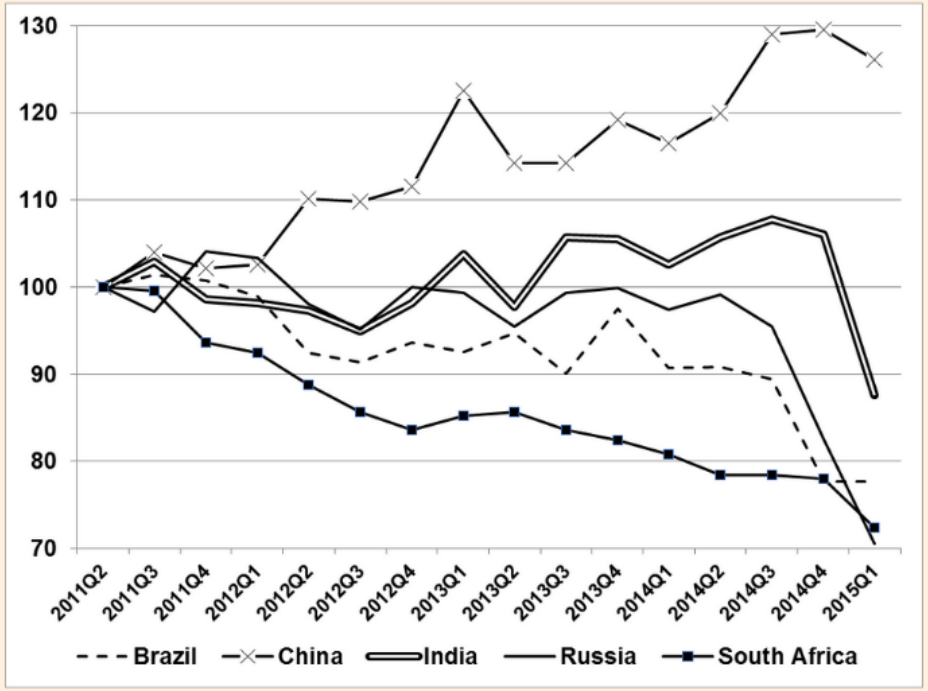
The Brics' export competitiveness – even worse than previously thought?

Simon Evenett, University of St Gallen

Author alerts | Jul 13 2015 10:42 | 3 comments | Share

That export performance of the Brics has been disappointing in recent years is well known. What hasn't been appreciated is the extraordinary lengths the governments of Brazil, Russia, India, China and South Africa have gone to boost their exports. Indeed, once such initiatives are taken into account, recent export performance is cast in a worse light, raising the question—is the Brics competitiveness problem worse than previously thought?

Figure 1: Only China's exports are now worth more in US dollar terms than four years ago—and even there Q1 2015 data is disturbing.



ECAs as catalyst to high-value export growth

Brazilian government finally opens Exim bank

NEWS | 13 May 2010

People & places Brazilian government finally opens Exim bank

More than a year after it was first announced, The Brazilian government has finally established its own export credit agency, the Credit Agency for Exports from Brazil (Agência Crédito à Exportação do Brasil S.A) or Exim Brasil. The new organisation has been established within Brazil's long-established development bank BNDES.

2010

China Investment Corporation, the country's sovereign wealth fund, invested 20 billion yuan (US$3.15 billion) in the China Export and Credit Insurance Corporation (Sinosure) in June, in a move to provide capital support for its commercialization and reform plan, according to a recent report.

2011

The Russian Agency for Export Credit and Investment Insurance (EXIAR) was established in late 2011 as Russia's first ever export credit agency.

2011

12 ECAs as catalyst to high-value export growth

Over the last 15 years, some of the world's largest economies, including China, India, and Brazil have expanded their production and export of capital goods. This expansion has contributed to these countries putting in place new or revitalized MLT official ECA systems to support the export of these new and advanced products. While the standard financing programs offered by these ECAs fully tie to exports and in many respects would comply with Arrangement parameters, the countries are not parties to the Arrangement. Thus, their ECA programs are not bound by the Arrangement (except for aircraft from Brazil). Between 2000 and 2014, the BRIC countries' ECAs have increased their volume of MLT trade-related official support activity from less than 3% of the world total to 40% today. China dominates this new trend, constituting about 90% of the MLT trade-related official support activity of BRIC countries.

-EXIM 2014 Competitiveness Report

BRICS activity in 2016–2018

Growing MLT Support from BRICS Countries: The BRICS countries (Brazil, Russia, India, China and South Africa) provided a combined total of more than $51 billion (in U.S. dollars) in MLT export credit in 2016. This activity represented 45 percent—nearly half—of the total official export credit provided worldwide. Most of this support was offered on terms outside of the rules on export credit of the Organisation for Economic Cooperation and Development (the OECD Arrangement), to which EXIM adheres.

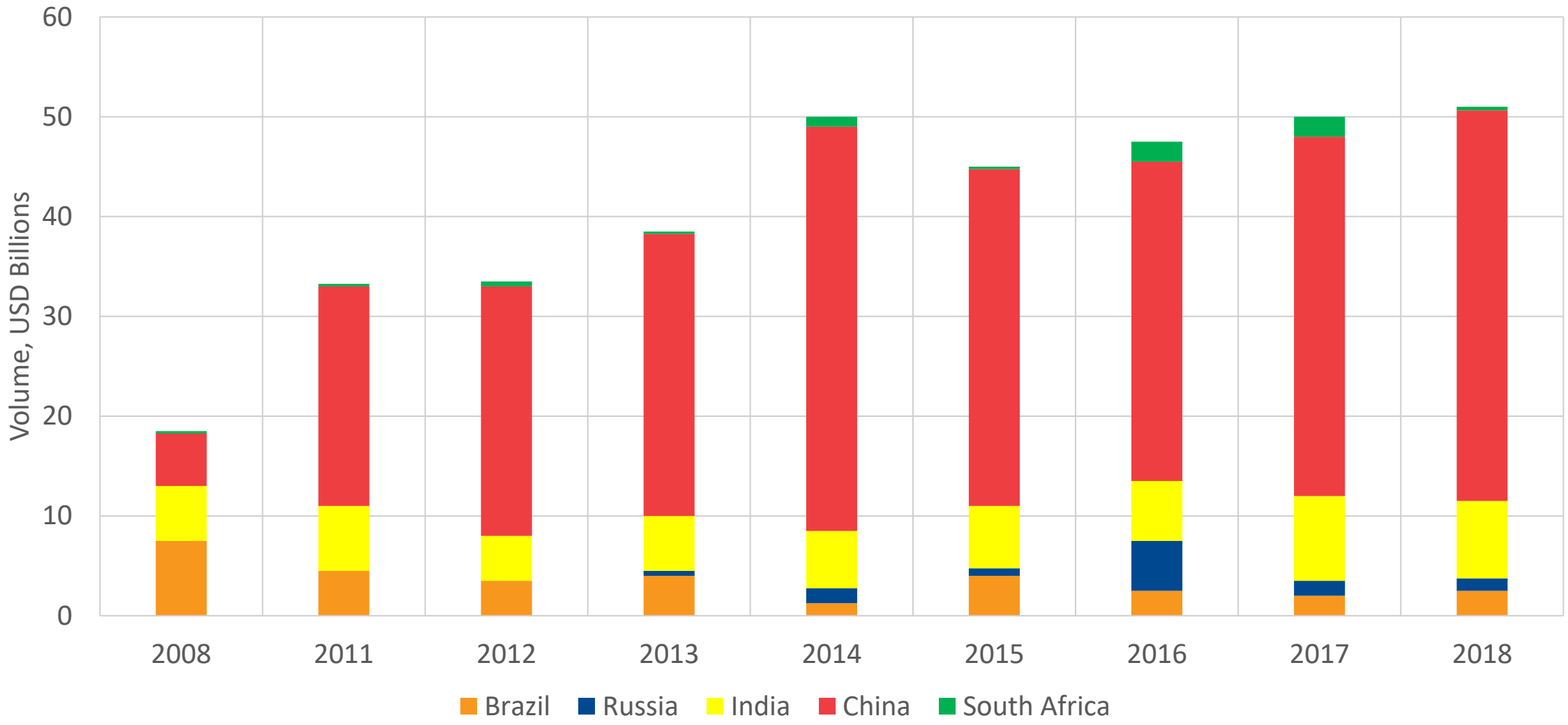
-EXIM 2016 Competitiveness Report

This steady increase in activity since 2015 may be at a different pace than the drastic surge in BRICS activity following the GFC, but the BRICS countries have steadily continued on their overall upward trajectory since emerging onto the scene.

Combined, total "standard" MLT export credit activity from OECD and BRICS countries totaled almost $129 billion in 2018, compared to roughly $73.5 billion in 2008.

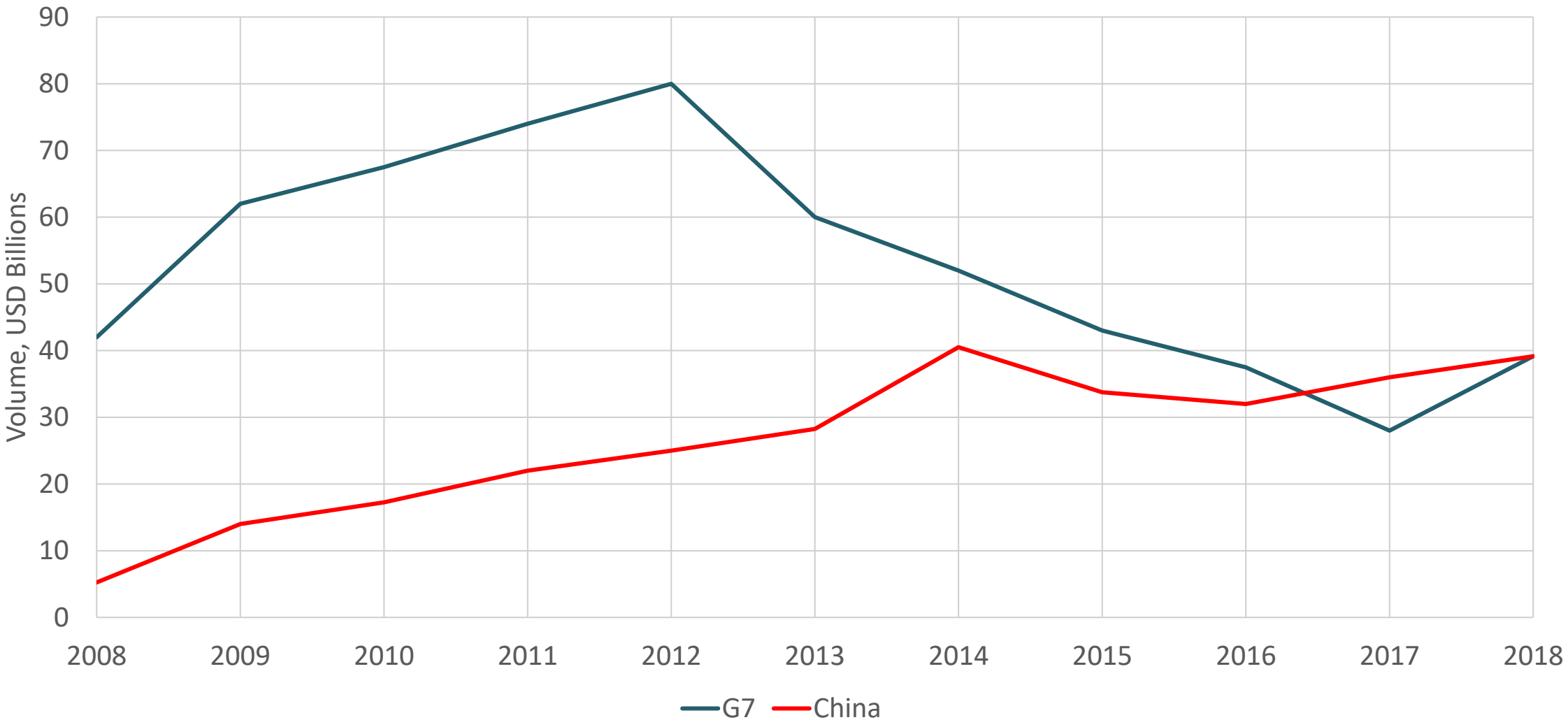
-EXIM 2018 Competitiveness Report

BRICS official MLT export credit activity



Source: U.S. EXIM 2018 Competitiveness Report

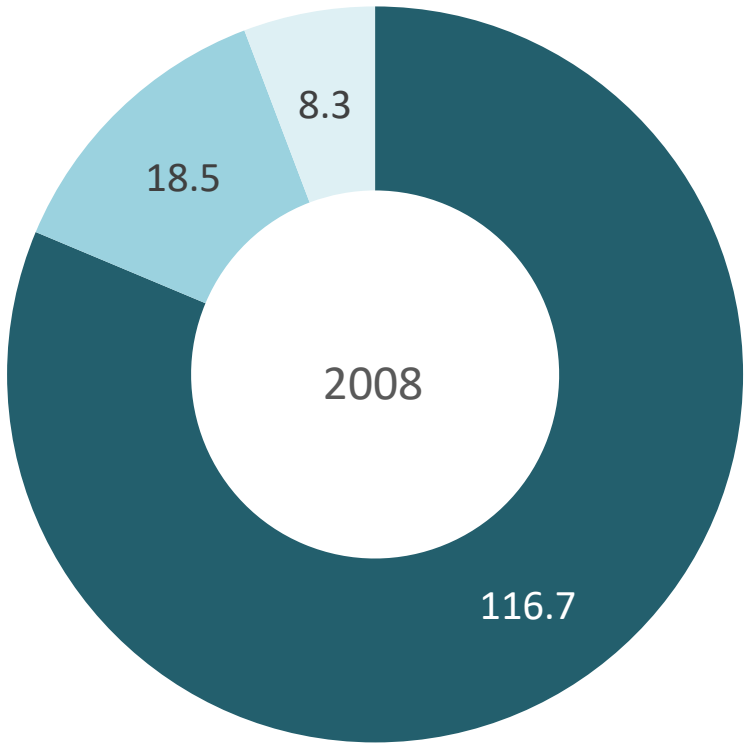
12 G7 and China MLT export credit activity

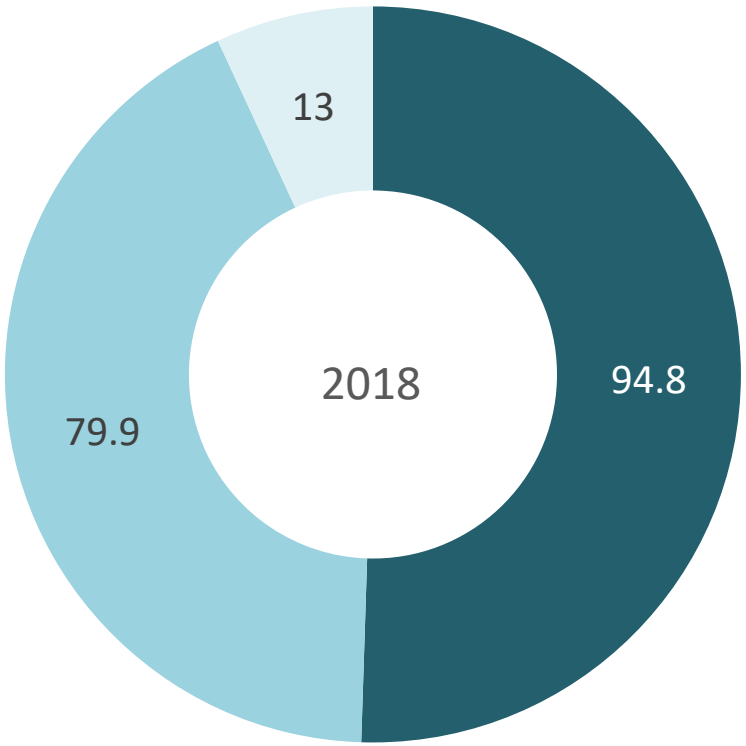


Source: U.S. EXIM 2018 Competitiveness Report

Providers of export and trade-related finance

Commitments in USD Billions





G7 + Korean ECAs BRICS ECAs DFIs

G7 + Korean ECAs BRICS ECAs DFIs

Source: U.S. EXIM 2018 Competitiveness Report

EXIM Brazil

- Established in 2010
- 100% state-owned
- Agency within Brazil's development bank, and not subject to budget restrictions
- Main products:
  - Pre-shipment financing (including special products for small businesses and for indirect exporters)
  - Post-shipment financing (buyer and supplier credit products)
  - "EXIM Automatico" – Line of credit with foreign banks

12 EXIM Brazil pre-shipment products

- Terms of up to three years (including up to six-month disbursement)
- Interest rates and fees of EXIM Brazil products are lower for small businesses and exports of “promoted” goods
  - Interest rates between TJLP and TJFPE
  - BNDES margin of between 1.6% and 2.0%
- Required non-BNDES financing of between 20% and 30%

EXIM Brazil post-shipment products

- Terms of up to 15 years (including up to three-year disbursement)
- Interest rates and fees of EXIM Brazil products are lower for small businesses and exports of “promoted” goods
- Funding rate is LIBOR
  - BNDES margin of at least 1.5%
  - BNDES risk premium calculated on a case-by-case basis
  - BNDES charges 1% flat fee on financings
- Maximum flat fee for commercial lender of 1% on financings
- Commitment fee of 0.5%
- Required non-BNDES financing of between 0% and 15%
- Special program for aircraft

EXIM Automático

- Loan agreement between BNDES and foreign bank or discount of letters of credit issued by foreign banks
- Terms of up to five years
- Interest rates and fees of EXIM Brazil products are lower for small businesses and exports of “promoted” goods
  - Funding rate is LIBOR
  - BNDES risk premium of 0.4% to 1.35% depending on OECD country risk classification
- Maximum flat fee for commercial lender of 1% on financings
- Maximum USD 10 million

12 Case study: Brazil responds to its economic crisis

- BNDES reduces the cost of pre-shipment financing for capital goods
- The fall of commodity prices combined with internal factors cause a deep economic crisis in Brazil in 2015
- In order to stimulate the export of value-added capital goods, BNDES reduces the costs of pre-shipment financing:
  - From 12.94% to 11.94% per year for “high-externality” industries, such as energy and transport infrastructure
  - From 14.46% to 13.64% per year for all other industries
- In addition, costs of “BK Eficiencia” lines were dropped from 10.20% to 9.00%

12 Changes to power plant financing

- New guidelines discourage carbon-intensive energy projects
- Revised commitment levels
  - Reduce financing to gas-fired power plants to 50% of total investment cost of a project, down from 70%
  - For solar developments, increase financing to 80% of project values, up from 70%
- Public financing for carbon-intensive projects such as coal-fired power plants has long drawn the anger of environmental groups across the world, especially now that most countries have agreed to reduce carbon emissions to limit global warning
  - That's a shift from the past where Brazil has financed big coal projects, including a large 300-megawatt plant built by one of the companies owned by former billionaire Eike Batista

ABGF (Brazil)

- 100% state-owned
- Agency's purpose is to foster Brazilian exports and infrastructure projects in Brazil in order to promote growth, income, and job creation
- Main products:
  - Export credit insurance
  - Infrastructure guarantee fund
  - Rural insurance stability fund
  - Structured and project finance

Russian institutions

VEB BANK FOR DEVELOPMENT

ЭКСАР
ЭКСПОРТНОЕ СТРАХОВОЕ АГЕНТСТВО РОССИИ

Insurance coverage

ВЭБЛИЗИНГ

Leasing transactions

EXIMBANK OF RUSSIA

Financial and non-financial export support

Only capital goods may be financed

12 EXIAR (Russia)

- 100% state-owned
- Established in 2011 with the explicit objective of promoting high-tech Russian exports
- Main products:
  - Buyer credit insurance
  - Confirmed letter of credit insurance
  - Export factoring insurance
  - Working capital financing insurance
  - Guarantee insurance
  - Supplier credit insurance
  - Short-term receivables insurance
  - Russian investment abroad insurance

12 Case study: Recent EXIAR transactions

- EXIAR finances Indian nuclear plant
  - Project: Kudankulam nuclear power plant
  - Exporter: AtomStroyexport (ASE)
  - Covered lender: VTB Bank
  - Financed amount: RUB 7 billion (USD 103 million)

- EXIAR finances agribusiness
  - Project: Export of agricultural equipment
  - Exporter: Sodrugestvo
  - Covered lender: Gazprombank
  - Financed amount: Approximately USD 150 million

12 Case study: EXIAR guarantees two Russian banks

- EXIAR insured a USD 3.79 billion (EUR 3.6 billion) loan from Gazprombank and PAO Sberbank to the Yamal LNG project in northern Russia
- EXIAR's support to Yamal LNG is the first such deal using EXIAR's new insurance product introduced March 2016
- The policy is slated to back loans used to finance the creation of export-oriented manufacturing and related products
- Term for this policy is 15 years

Export Import Bank of Russia

- 100% state-owned
- Established in 1994
- Current objective is to secure access to financial resources for Russian export companies and to support the growth of Russian non-commodity exporters
- Main products:
  - Financing expenditure on export contracts
  - Financing current expenditure on export deliveries
  - Financing exporter's commercial credit
  - Financing of trade with foreign buyer
  - Financing through confirmed letter of credit
  - Direct credit to bank or foreign buyer

12 India Exim Bank

- Established in 1982
- 100% state-owned
- Founded with a mandate to not just enhance exports from India, but also to integrate the country's foreign trade and investment with the overall economic growth
- Main products:
  - Overseas investment finance
  - Project finance
  - Line of credit
  - Corporate banking
  - Buyer's credit

India Exim Bank recent headlines

India deepens financial relations with Africa

By: Emma Rumney | 27 May 16

India has opened a $10bn line of credit for Africa, it was announced at the African Development Bank's annual meetings in Zambia earlier this week.

एक्ज़िम बैंक
EXIM BANK
भारतीय निर्यात-आयात बैंक
EXPORT-IMPORT BANK OF INDIA

Exim Bank to raise Rs 3000 crore from local markets to facilitate exports to Iran

New Delhi to open $500 million line of credit to develop port

Exim Bank extends its second largest credit of $1-bn to Mongolia

PTI May 3, 2016, 10.11PM IST

India's EXIM Bank to embark on new cooperation with Bangladesh after 'historic' LoC

Nurul Islam Hasib, **bdnews24.com**
Published: 2016-03-10 17:34:17.0 BdST **Updated:** 2016-03-10 18:16:09.0 BdST

EXIM in tandem with the Sovereign: Fitch

Fitch rates EXIM at 'BBB-'

12 Case study: India EXIM supports infrastructure

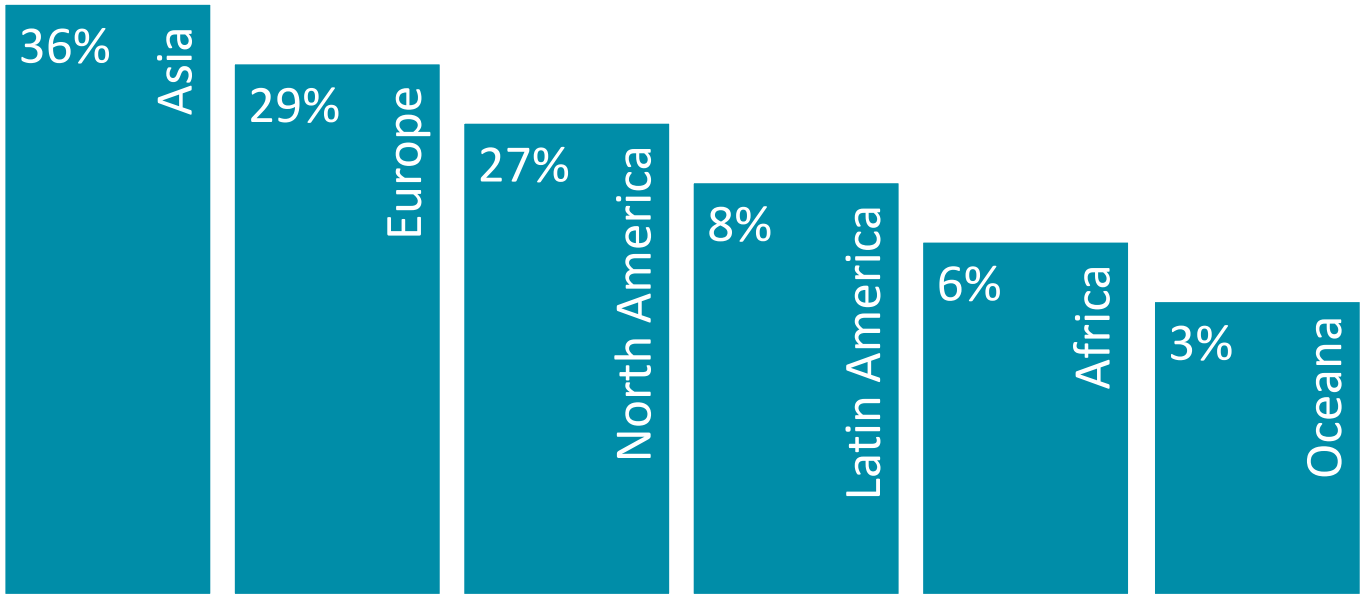
- Tanzania's water supply will be improved with the proceeds of a USD 92 million line of credit
- Content requirements:
  - Indian firms are required to provide 75% of the goods and services to implement the rehabilitation and new construction for the water system; this includes consultancy services
  - Remaining 25% can be sourced locally or globally
- Tenor: 60 months from final completion of the project; availability commenced February 24, 2017
  - In Kenya, India EXIM allocated a TZS 1.5 billion (USD 14m) loan to small and medium importers
  - Proceeds must be used to purchase equipment to boost productivity, such as machinery, fertilizers, and other farming needs (excludes consultancy services)

SINOSURE – Largest ECA globally

SINOSURE – Big, new, bold

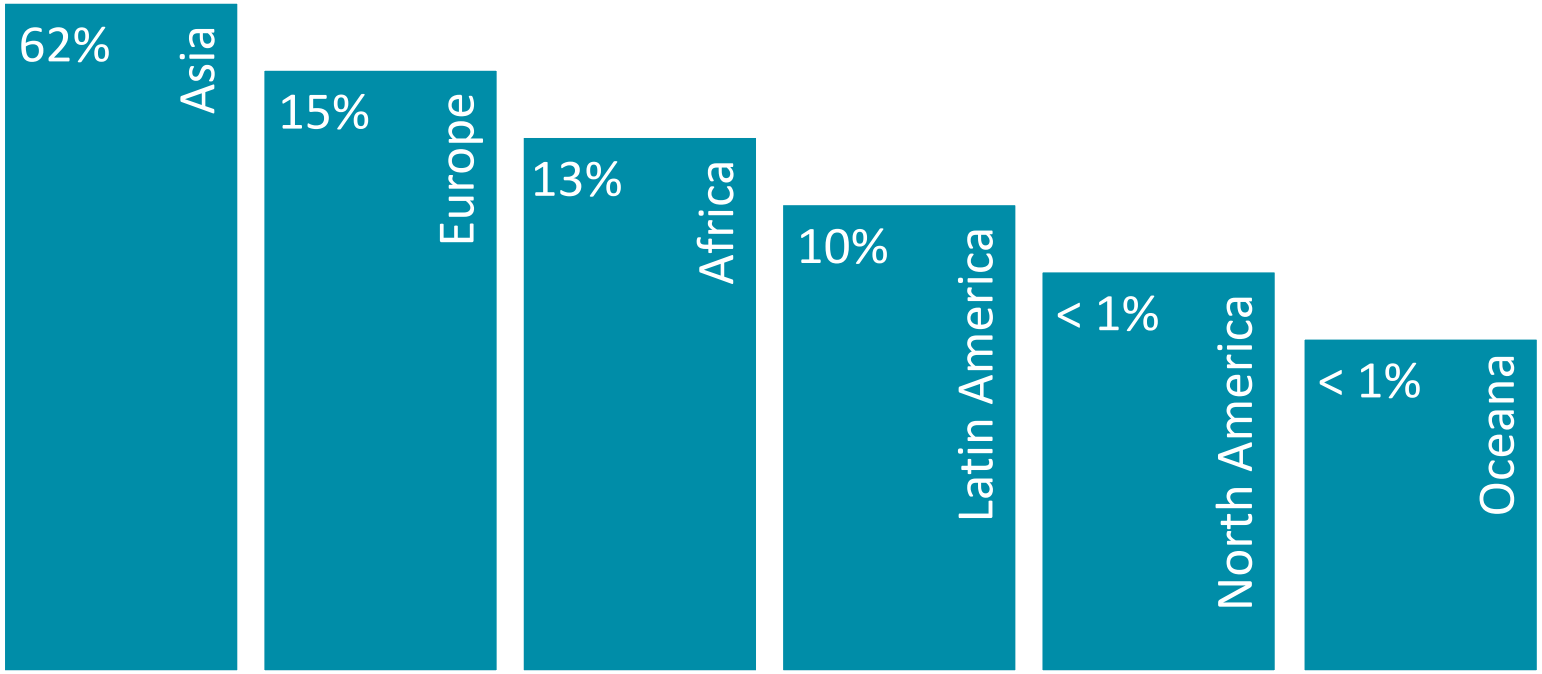
- Amalgamated in 2011, Berne Union member, and non-OECD
- Largest ECA globally in terms of supported percentage of exports
- Growth has exceeded 30% per annum over last nine years
- USD 3 billion in 2009 to USD 445 billion in 2014 in support
- Market growth in 2015: Outbound EPC contracts of USD 210 billion; outbound investments of USD 118 billion—many transactions included Sinosure support

SINOSURE – Short-term cover metrics 2012



Top 5 markets: 36% of short-term cover				
USA	Hong Kong	Japan	Germany	UK

SINOSURE – MLT cover metrics 2012



SINOSURE standards

- Applies to both buyer's and supplier's credit financing products
- 15% down payment (20% for vessels)
- Tenor: 1–15 years; can be extended at discretion
- Chinese content not less than:
  - 60% of contract value general exports
  - 40% in ship finance
  - 15% for civil works
- Cover percentage for both political and commercial risk:
  - Up to 90% in supplier's credits
  - Up to 95% in buyer's credits
  - Project finance: Commercial risk cover typically starts at 50%; can be higher case-by-case
- Currencies: USD, CNY, EUR, and others case-by-case

SINOSURE standards

- Exposure fee
  - Developed based on country risk, tenor, borrower credit risk, and guarantor credit risk
  - Finances up to 85% of exposure fee
  - Can pay in three installments during disbursement
- Does not adhere to Equator Principles
- Does not exhibit social or environmental standards
- Typically guarantees floating rate loans; silent on fixed options

SINOSURE MLT products

- Buyer credit insurance up to 15 years
- Supplier credit insurance up to 15 years
- Nuclear power and high-speed trains can exceed 20-year tenors
- Overseas investment insurance
  - Requires over 20% Chinese content
  - Up to 20 years
- Other
  - Refinance insurance for benefit of Chinese lenders
  - Overseas leasing insurance

SINOSURE ST insurance

- Sinosure is the largest ST insurance provider globally
- USD 375.2 billion in new ST commitments in 2016
- Sinosure supports 27% of all Chinese exports
- Tenor:
  - Up to one year for general trade goods and services
  - Up to two years for complete equipment sets (telecom, ships) and engineering contracts
- Some ST products:
  - Comprehensive cover of commercial and political risks
  - Contract frustration of government counterparty
  - Whole turnover covers all export receivables
  - Pre-shipment or post-shipment payment risk cover – specific
  - Milestone or progress payments from buyer

SINOSURE bond products

- SINOSURE is the world's largest provider of ECA bond insurance
- Typical bonds
  - Bid
  - Performance
  - Advance payment
  - Quality
- Unique bond products
  - Customs exemption bond: Transaction is exempt from customs tax (duty-free)
  - Lease payment bond: Non-fulfillment of lease obligations by Chinese entity

SINOSURE – Basic bond criteria

- Meets relevant legal requirements
- Qualified licenses/permits
- Exports that are supported by government policies
- Products are competitive in the international market
- Foreign entity is financially healthy with good credit score and good operating activities
- Exporter has good credit record
- Exporter can provide good counter-guarantee means
- In principle, the exporter should also be insured by SINOSURE

SINOSURE approval authority

- Sinosure has nine country risk categories
- Board of Directors approve transactions greater than USD 100 million
- Central Government approval for transactions greater than USD 300 million

SINOSURE buyer credit application process

Buyer consultation

- Discuss financing need
- Down payment demonstrated
- Structure and term overview

Regulatory review

- Legal compliance Chinese entity
- Letter of interest issued

Negotiation

- Bank selected
- Negotiate structure and term

Sign contract

- Legal due diligence
- Request letter of intent
- Term sheet issued

Export financing

- Submit export finance application
- Letter of intent issued
- Policy issued, loan agreement signed

12 Case study: China leaps into Iranian downstream

- Sinosure opened a USD 1.3 billion line of credit to finance the revitalization of the Abadan Oil Refinery
  - Once the biggest refinery in the world, it was severely damaged during the Iraq-Iran war
- Exporter: China Petroleum and Chemical Corporation (Sinopec)
- Purpose: Upgrade of refinery's production processes to increase higher value gasoline and diesel, compared with today's primary product of mazut (low quality fuel oil, also called bunker)
- Financing terms:
  - China Sinosure will finance 85% of the project with the remaining percentage for domestic financers
  - Construction period: Four years

China Eximbank

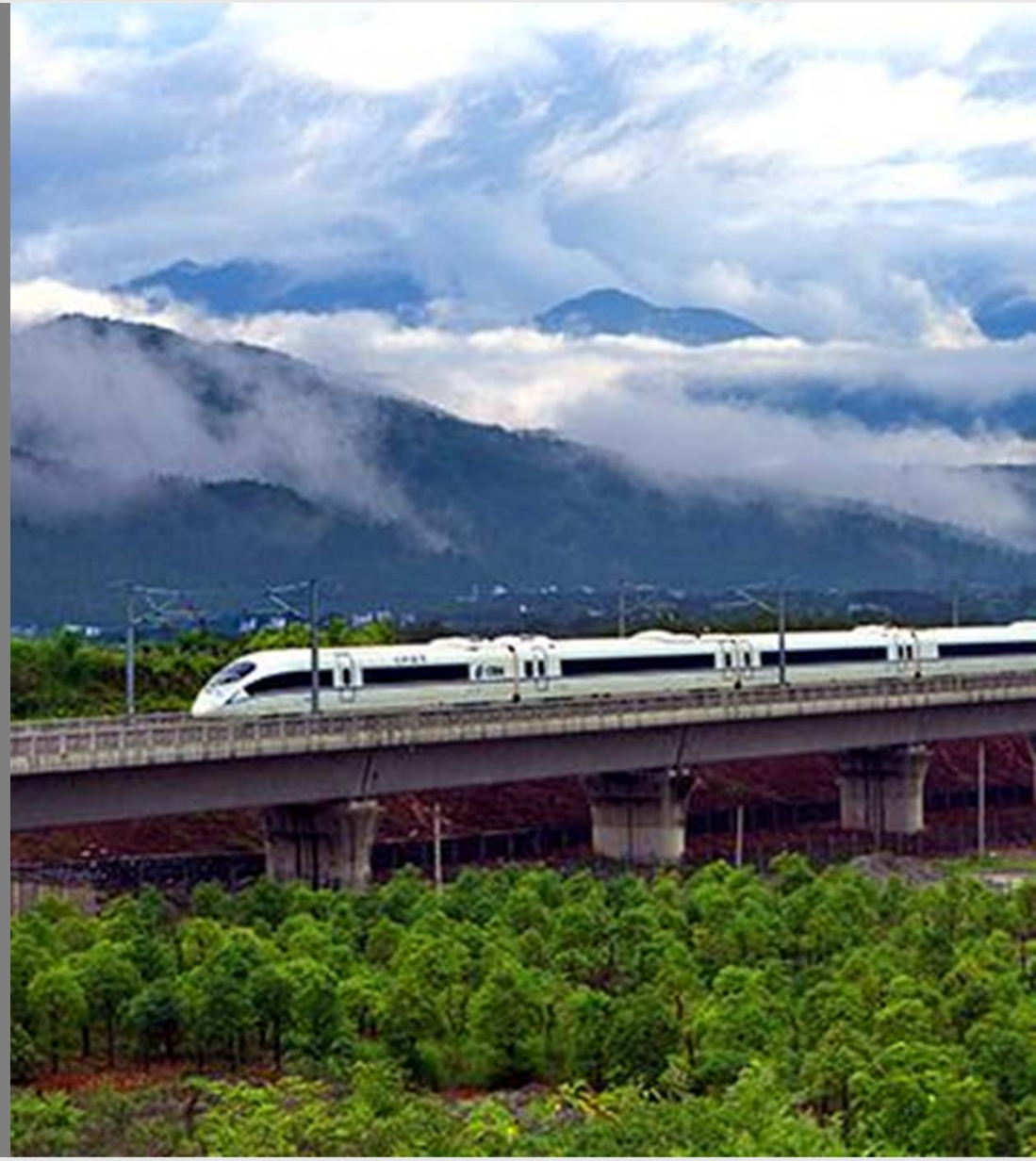
- 100% state-owned
- Established in 1994
- The Bank's main mandate is to facilitate:
  - Export and import of Chinese mechanical and electronic products
  - Complete sets of equipment and new- and high-tech products
  - Assist Chinese companies with comparative advantages in their offshore project contracting and outbound investment
  - Promote international economic cooperation and trade

China Eximbank

- Main products:
  - Export credit and import credit
  - Loans for offshore contracts and overseas investment
  - Chinese government concessional loans
  - International guarantees
  - On-lending loans from foreign governments and financial institutions
  - International and domestic settlement and corporate deposits
  - Fundraising in domestic and international markets
  - Inter-bank loans and organizing or participating in international and domestic syndication loans
  - CNY inter-bank borrowing/lending and bond repurchases
  - FX business
  - Credit analysis

12 Case study: Financing Silk Road infrastructure

- In 2015, China Eximbank:
  - Financed more than 1,000 new Silk Road projects in 49 countries
  - Loans increased 46% to approximately USD 80 billion
  - Investment by Chinese businesses grew 35% to USD 14 billion
- In 2016, the Bank:
  - Signed a lending agreement with China Railway Corporation for a line of credit of up to USD 80 billion
  - Among the projects financed will be a high-speed rail project in Indonesia, as well as projects in Laos and Thailand



12 Case study: Why did China Eximbank go to Brazil?

- China EXIM financed Brazil's state-run oil company, Petroleo Brasileiro SA (Petrobras)
  - Proceeds were used to pay for goods and services already contracted with Chinese firms in 2016
  - Petrobras was unable to pay the Chinese suppliers as scheduled do to the dual hits of falling oil prices and a price-fixing, bribery, and political kickback scandal
- ECA direct lender: The Export-Import Bank of China
- Financed amount: USD 1 billion
- Purpose: Repay overdue Chinese supplier invoices, pre-finance spend in 2017, and diversify finance sourcing
- Despite Petrobras' challenges, China entered into this financing because:
  - Petrobras will buy goods and services from Chinese companies
  - China will secure long term supply of downstream products to import

12 Working with Chinese lenders

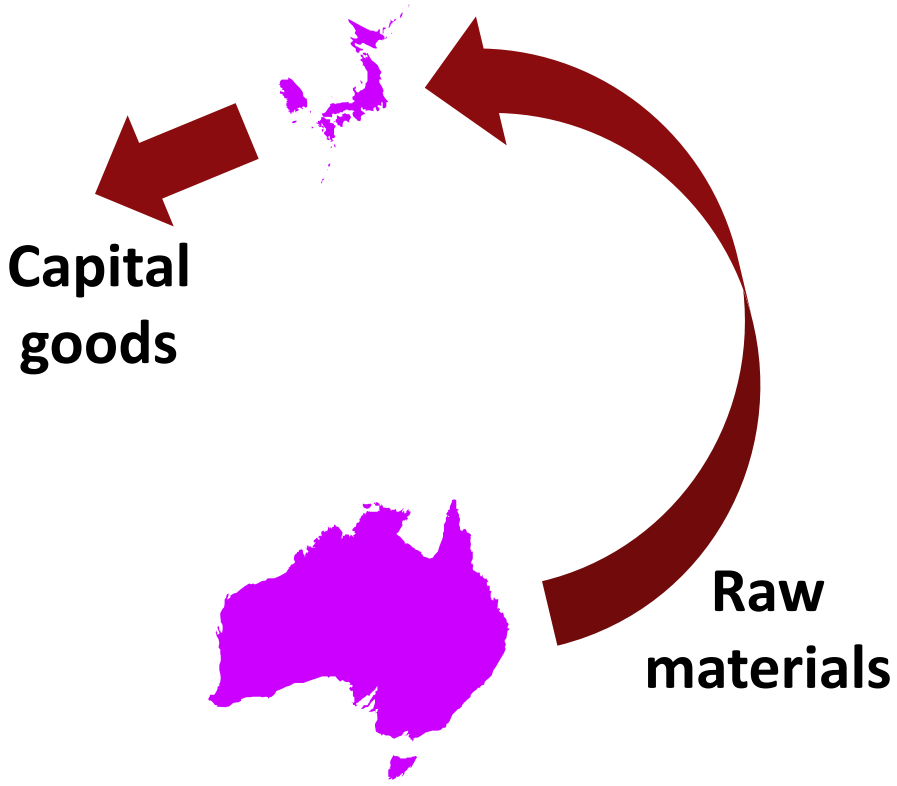
- China Eximbank and China Development Bank are the country's top project finance lenders
- In 2009 and 2010 they lent over USD 110 billion to emerging markets, more than the World Bank in the same period
- Work on project finance transactions is conducted by a branch banker—there typically is no central project finance desk
- Approval process can be time-consuming and structured
- Larger Sinosure transactions need the approval of the State Council (executive arm of the Chinese government)—this can take a long time
- It is rare to see Chinese lenders in deals where there is no other Chinese involvement
- Facility agreements are typically governed by English law

Asia Pacific

Trading raw materials and capital goods

12 Trade in Asia Pacific

- Trade between East Asian countries and Australia can serve to illustrate how ECAs in resource-poor countries develop products to provide financing to imports of raw materials and to projects overseas that develop them
- We will also see how ECAs in countries whose economies largely rely on exports of capital goods offer innovative export finance products outside the OECD guidelines to support local industry



12 Case study: JBIC funding of raw material imports

- JBIC has its own interpretation of the OECD guidelines
- Japan is natural resource-poor
- Japan needs stable, long-term imported supply of natural resources to insure domestic economic activity
- JBIC offers “import loans” to finance the development and import of energy resources of oil, LNG, and mineral resources (including iron ore, copper, and other rare materials)
- Claiming national strategic importance, these import loans have very low Japanese content and are not required to follow OECD guidelines of term, pricing, and Japanese content

12 Case study: JBIC lends to Sberbank in Russia

- Proceeds from a USD 38.5 million JBIC loan to Sberbank will be on-lent to the operator of Vostochny Port, who will purchase equipment from Japanese companies
- Total slated for Vostochny Port is USD 100 million
- JBIC is brokering engagement between reluctant Japanese lenders and the Russian market
  - Tensions have been in place for some time, owing to the territorial dispute in the southern Kuril Islands
- Why?
  - Japan needs to secure sourcing of raw materials
  - Chinese Belt & Road Initiative is threatening access to goods
  - Asian Infrastructure Investment Bank could limit Japanese access to raw materials
- JBIC announced it would provide an additional USD 800 million for other Russian port projects through other on-lending transactions with Sberbank, VTB, VEB and Gazprombank

12 Case study: NEXI supports Doha metro

- NEXI provided export credit insurance to the Doha metro
  - Proceeds will be for the construction and maintenance of the system by an EPC consortium that includes Mitsubishi, among other Japanese companies
- NEXI's insurance will cover Qatar's political risk and the credit risk of Qatar Railways Company (QRC), the project developer
- This is NEXI's largest underwritten amount, according to a statement by the Japanese agency, though the amount in question has not been disclosed
- Mitsubishi and Mitsubishi Heavy Industries' scope runs the gamut from project management and system integration, to track construction, power supply, platform screen doors, and tunnel ventilation
- Hitachi will provide a 20-year maintenance contract

Korea Eximbank

- 100% state-owned
- Established in 1976
- Provides comprehensive export loan and guarantee programs to support Korean enterprises conducting business overseas
- Main products:
  - Loans
  - Guarantees
  - Investment
  - Structured trade finance

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Korea Eximbank – Loans

- Export-related loans
  - Export promotion loan: For exporters, investment, R&D, and foreign marketing; up to 10 years; 10% down payment
  - Export growth loan: For SMEs and exporters of intellectual property; up to USD 50 million and 3 years); 0%–40% down payment
  - Export project loan: For exporters, working capital facility; 10% down payment
  - Export facilitation loan: Buyer credits compliant with OECD, supplier credits; up to 30 years; up to 10% down payment
- Import-related loans
  - Import loan: For resources and capital goods, 10%–20% down payment; 2 years for resources; 10 years for capital goods (with 3-year grace!)
  - Import facilitation loan: For investment (30 years) and working capital (3 years); 10% down payment

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

OECD

Korea Eximbank – Loans

- Overseas business-related loans
  - Overseas investment loan: For Korean companies investing abroad; 30 years; 0%–20% down payment
  - Overseas project loan: For Korean companies working abroad, for investment and working capital; 3–30 years; 0%–20% down payment
  - Overseas business loan: For overseas subsidiaries of Korean companies; 3–30 years, 0%–10% down payment
  - Overseas business facilitation loan: To entities that contribute to promoting Korean overseas business; up to 30 years; 0%–10% down payment
- Interbank credit facility
  - Interbank export loan: Bank-to-bank OECD ECA financing
  - Untied interbank loan: For the provision of loans to Korea-related companies; does not require underlying Korean trade; terms vary

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

OECD

Korea Eximbank – Guarantees

- Financial guarantees
  - Export-related financial guarantee: For banks that provide loans to entities eligible for export-related loans
  - Overseas project loan: For banks that provide loans to entities eligible for export-related loans
  - Overseas business-related financial guarantee: For banks that provide loans to entities eligible for overseas business-related loans
- Performance guarantees
  - Bid bond, advanced payment bond, performance bond, warranty bond, retention bond
  - Export-related performance guarantee
  - Import-related performance guarantee
  - Overseas business-related performance guarantee

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

OECD

Korea Eximbank – Investment

- Direct equity investment
  - New product launched in June 2014
  - For projects for which Korea Eximbank provides loans or guarantees (or projects of which the purposes are in line with the agency)
  - Investments in companies in which Korean companies own at least 10% of equity
  - Korea Eximbank cannot be the largest Korean investor and cannot have more than a 15% stake
- Contributions to funds
  - Equity investments via funds in Korean companies to support their global activities

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

OECD

Korea Eximbank – Structured trade finance

- Export transaction support
  - Export bill purchase
  - Export factoring
  - Forfaiting
  - L/C confirmation facilities
- Import transaction support
  - Letter of credit
  - Rediscount on trade bills
- Support programs for SMEs
  - Korean hidden champions
  - Shared growth program
- Financial advisory and structuring services (and MLA)

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

Korea Eximbank – Priority sectors

한국수출입은행
THE EXPORT-IMPORT BANK OF KOREA

OECD

Korea Eximbank – Priority sectors

한국수출입은행
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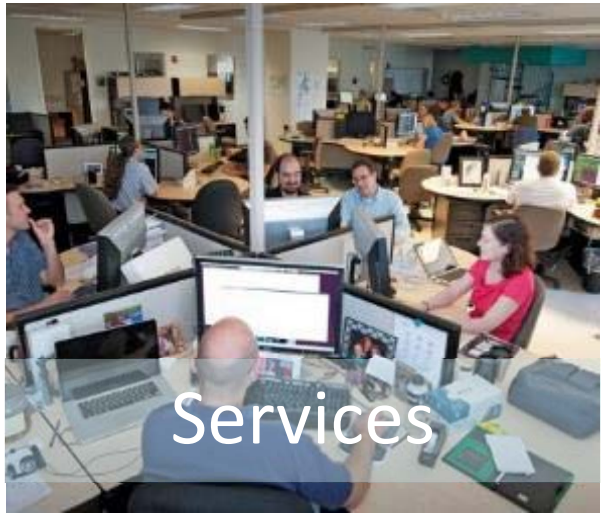


OECD

12 Export Finance Australia (formerly EFIC)

- 100% state-owned
- Established in 1957
- Main products:
  - Buyer credits (direct loans, guarantees)
  - Suppliers (loans and guarantees)
  - Bonds
  - Letter of credit confirmations
  - FX mitigation
- Foreign investment support
- Content eligibility: 1:1 Australian to foreign content (may be 1:2 in some cases)

In conclusion

Some definitions

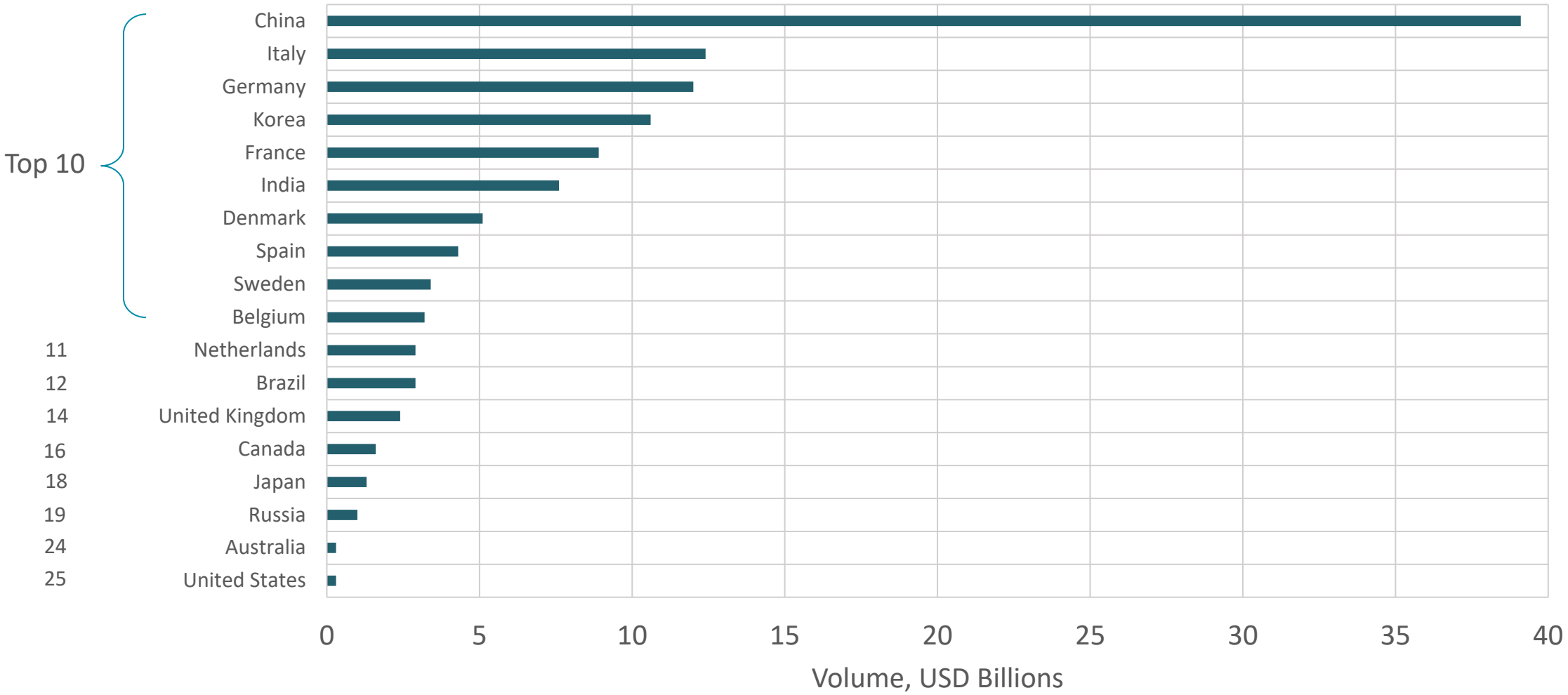
Market window	Commercially-priced ECA activity that takes a market-based approach to setting all financing terms
Untied support	Financing not directly linked or tied to procurement from the country of the ECA to support national interests or promote business interests in a market
Investment support	Financing that may not be directly linked or tied to procurement from the country of the ECA to support projects where home country companies have equity participation or there is benefit to the national interest

In 1999, 100% of ECA financing by OECD ECAs fell within the OECD arrangement. In 2014 that has been reduced to 34%.

-EXIM 2014 Competitiveness Report

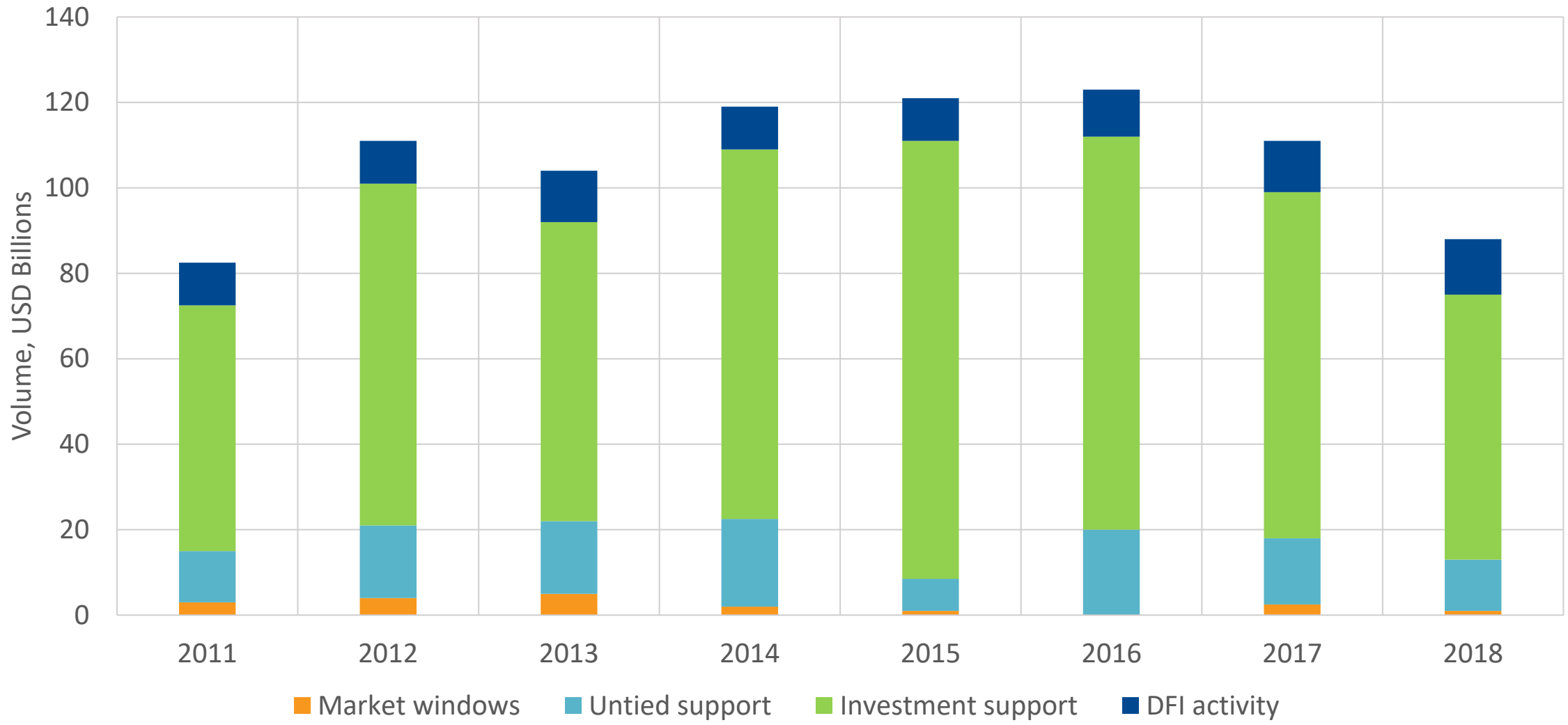
12 How ECAs stacked up in 2018

Ranking



Source: U.S. EXIM 2018 Competitiveness Report

12 Total official MLT trade-related activity



Note: Non-export credit activity from OECD and non-OECD countries
Source: U.S. EXIM 2018 Competitiveness Report

12 In conclusion

- ECA financing continues to be important
- There is an imperative to provide financial support and compete with other ECAs
- ECAs are drifting from content eligibility rules to national interest mandates
- There is increasing use of:
  - Market windows
  - Untied support
  - Investment support
- Even though all ECAs are guided by the same general principles …
- … each of them is different, each with its own products, policies, and procedures

MODULE 13

Legal aspects of project finance

Introduction

- Good legal agreements are essential to the success of an ECA financing, and even more so of a project financing:
  - In order to allocate risk away from the project to the appropriate parties, legal agreements are entered into by project sponsors and stakeholders
  - The construction and operation of a project are dictated and shaped by these documents
  - They will be necessary to reach financial closing
  - Lawyers and legal counsel representing each stakeholder will be involved in the drafting process

13 Legal documents in project finance

- Sponsor documents
  - Pre-development agreements (feasibility)
  - Shareholder's agreement / JV agreement
  - Sponsors' support agreement
- Loan and security documents
  - Loan agreement
  - Security documents
- Project documents
  - Concession and license agreements
  - EPC contract
  - O&M contract
  - Supply agreements
  - Offtake agreements

SPVs

- Borrower and concessionaire/licensor
- Project companies:
  - **Incorporated body (e.g., limited company)**
  - **Joint venture => Appoint one party as manager (joint and several liability)**
  - Partnership (joint and several liability), limited partnership
- Requirements:
  - No other business activity
  - Negative pledge
  - Restrictions on issue of new shares
  - Restrictions on asset disposal
  - Restrictions on asset acquisition
  - Restriction on further indebtedness
  - Amend statutes, etc.

The loan agreement

- Core terms (purpose, amount, availability, interest, etc.)
- Conditions precedent
  - To closing
    - Down payment for portion of supply contract
    - Perfection of security
    - Sovereign guarantee
  - Initial and subsequent disbursements
    - Disbursement package presented for utilization
  - Purpose: Minimize risk to lender
- Representations and warranties
- Covenants
  - Positive
  - Negative

Project covenants (examples)

- Carry out the project
- Comply with all provisions of the project documents
- Not to amend or waive any provision of the project documents without the majority lender consent
- Not to exercise certain discretions in the project documents without majority lender consent and to exercise certain discretions in the project documents if the majority lenders so require
- Not to enter into any new material agreements without majority lender consent
- Not agree to issue of takeover/acceptance certificate without the consent of the independent engineer
- Negative pledge

Project covenants (examples)

- Non-disposal of assets
- No other borrowings or lendings
- Not to make any distributions/dividends
- Take out insurances with insurers on terms acceptable to the insurance advisor
- Comply with all applicable laws
- Provide the independent engineer with access to the project facilities

13 Information and access

- Annual accounts and financial statements
- Periodic (e.g. monthly) progress reports during project construction
- Engineer's certificates, etc., accompanying drawdown requests together with supporting invoices
- Copies of material notices and communications received under all project agreements
- Copies of communications from relevant authorities
- Details of all disputes and claims in connection with the project
- Periodic reports from experts
- Copies of all insurance documentation and claims
- Copies of all consents and permits relating to the project
- Certificate of compliance with cover ratios, etc.

13 Financial covenants in project finance

- Amount of debt is limited to a debt-to-equity ratio, determined by the lenders, based on the creditworthiness of the project finance package
- Debt-to-equity ratios are widely variable
- Several financial ratios are evaluated by lenders, including the debt service coverage ratio (DSCR)
- $DSCR = \frac{CADS}{(P+I)}$
- DSCRs also vary from project to project, though typically there is a narrower margin for them
- The minimum DSCR during the operations period is a key driver of the debt-equity ratio
- Other useful ratios are the loan life coverage ratio (LLCR) and the quick ratio

Financial covenants in project finance (cont.)

- Loan life coverage ratio:

$$LLCR = \frac{NPVCF}{OD}$$

- Interest coverage ratio:

$$ICR = \frac{CADS}{I}$$

NPVCF	NPV of Cash Flows available for debt service (during debt) discounted at debt rate
OD	Outstanding debt

Events of default (examples)

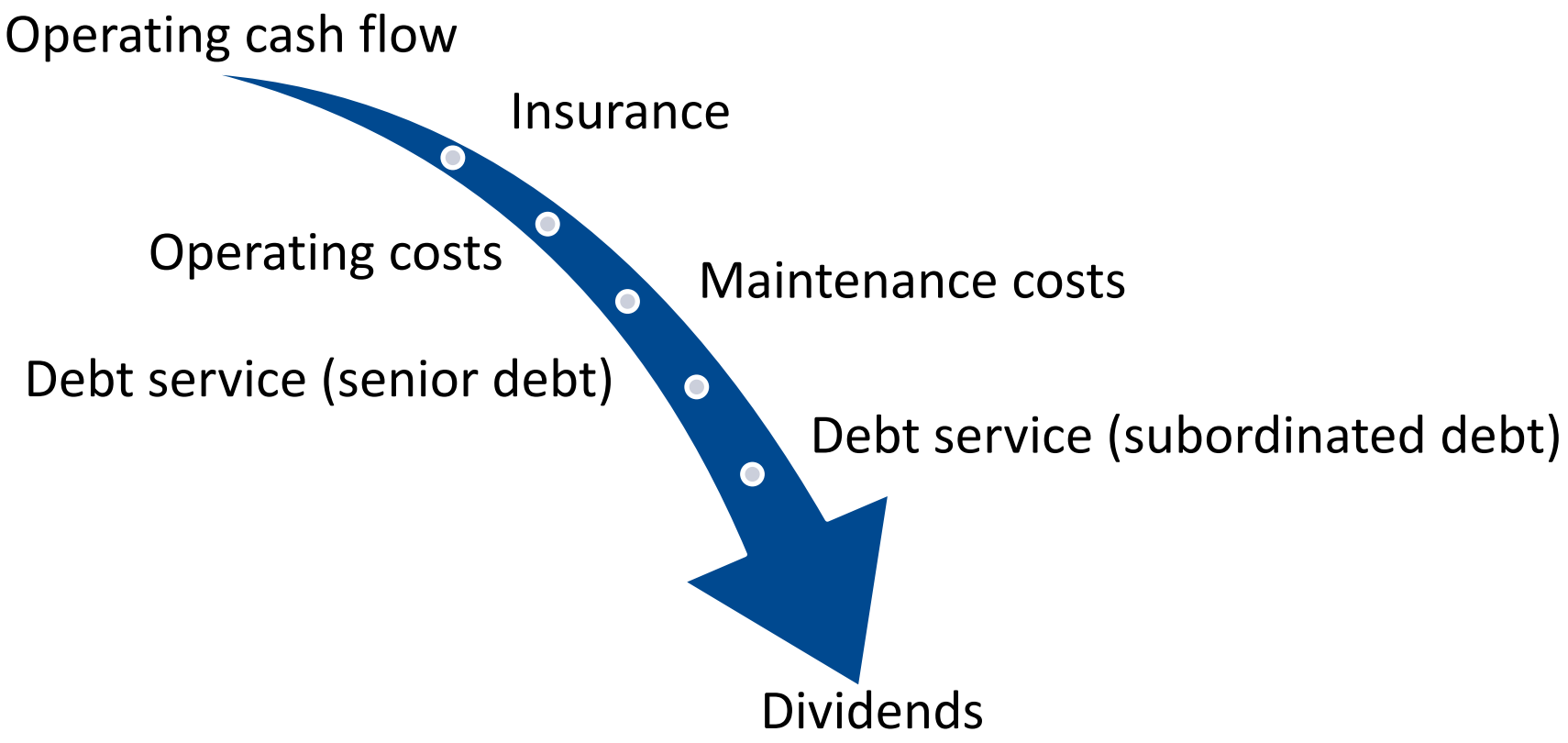
- Failure to pay any amount due under any finance document
- Failure to comply with any other undertaking under any finance or project document
- Breach of any representation and warranty
- Remaining development costs exceed available funding
- Debt service coverage ratio falls below [_]
- Loan Life Cover Ratio falls below [_]
- Any insurance in relation to the Project becomes voidable or is cancelled
- Revocation of, or alteration of the terms of, any consent or license

13 Events of default (examples)

- Damage to all or any material part of the project assets
- Abandonment of the Project
- Force majeure lasting over [_] days
- [Occurrence of political risk]
- Project delay
- Cross-default
- Insolvency
- Termination on any project document

Cash waterfalls in project finance

- Cash flow waterfalls limit management's discretion in the use of cash



13 Force majeure

"Event or circumstance

(i) which is beyond a party's control,

(ii) which such party could not reasonably have provided against before entering into the contract,

(iii) which, having arisen, such party could not reasonably have avoided or overcome, and

(iv) which is not substantially attributable to the other party."

-International Federation of Consulting Engineers

13 Force majeure

- Flood, storms, earthquakes, or other natural events
- War, hostilities, revolution, or civil disorder
- Destruction or damage to project assets
- New laws or regulations
- Failure to grant permits
- Strikes, walkouts

13 Governing law

- Lenders prefer independent jurisdictions (e.g., New York, England and Wales)
- Some contracts will be subject to specific jurisdictions:
  - Land and buildings: Local law
  - Registered assets: Country of registration
  - Physical chattels: Country where physically located on date of mortgage
- There are many important difference between U.S. and UK law

13 Intercreditor agreement

- Order of drawdown of funds
- Maturities of the differing classes of finance
- Priority of distribution of project revenues to the various classes of financier
- Restrictions on financiers amending the terms of their own financing documents
- Voting powers for waivers and amendments to financing documents and intercreditor arrangements
- Who has the right to accelerate loans and to control the enforcement of security
- Priority of distribution of the proceeds of enforcement of security

13 The security agreement

- Land
- Moveable assets
- Immovable assets
- Contractual rights
- Consents/permits
- Bank accounts
- Insurance

EPC

- Lump sum turnkey – most common
  - Project owner specifies overall performance and reliability standards
  - Turnkey contractor assumes full responsibility for design, construction, supply, installation, testing and commissioning of the plant
  - Contractor provides an overall guarantee of the performance of all components and sub-contractors
- Generally, one turnkey contractor preferred, rather than different companies each responsible for various aspects of design, procurement, and construction
  - Different contracts result in gaps in responsibilities
- Sometimes, project sponsors may themselves undertake EPC responsibilities
  - Lenders will need to be satisfied that project sponsor has necessary experience and expertise to manage process
  - Save time and cost

EPC

- Joint ventures
  - Will JV assume joint and several liability or only several liability under the construction contract?
  - Can be decided by legal structure of the JV
  - Lenders prefer joint and several liability
- Warranties
- Ongoing representations and covenants
- Content eligibility requirements
- Bonding requirements
- Attention: Liquidated vs. consequential damages

EPC

- Scope of work
- Contract price
- Payment terms/schedule – typically stage payments
  - Milestone payments
  - Substantial advance payment (~20%)
  - Contractors will want price to be adjustable in case of unforeseen circumstances
  - Sponsors and lenders will want the least amount of variation in price as possible
- Completion schedule
  - Contractors want flexibility – postponement for unforeseen circumstances (limited)
  - Sponsors, lenders want certainty
  - Liquidated damages (LDs) – typically do not exceed 20% of contract price

EPC

- Mechanical completion – not sufficient
  - Substantial completion
  - Final completion
  - Liquidated damages
- Performance tests and guarantees
- Force majeure
- Change orders
- Warranties
- Indemnity
- Subcontractors
- Limitation on liability
- Termination or suspension
- Insurance
- Dispute resolution
- Assignment

EPC

- Approved vendors list
- Completion test:
  - Project is physically complete
  - Project can meet the performance criteria
  - Project can be expected to operate reliably through life of the loan
  - All operating permits have been granted
  - Lender’s independent engineer is satisfied

O&M

- Fixed price vs. cost plus
- Incentives and penalties
- Considerations:
  - Who is responsible for increased O&M costs?
  - Potential for conflict when different operations and maintenance contractors
- Term
- Scope of work
- Force majeure
- Authority of operator
- Termination
- Insurance
- Warranties
- Indemnity
- Assignment

Offtake

- If project's output is not being sold to the general public, the project company will contract in advance with an identified purchaser to purchase the project's output on a long-term basis
- However, it is not always the case that there is an agreed offtaker
  - Sometimes, sell on open market – market risk
- ECAs hire market consultant as part of due diligence
- Sensitize financial model – decrease debt-to-equity ratio

Offtake

- Term
- Quantities
- Quality
- Price
- Place of delivery
- Conditions precedent
- Force majeure
- Security
- Availability
- Assignment
- Termination

13 Offtake

- Take or pay
  - Minimum volume, minimum price
  - Currency
  - Tenor overhang
  - + market studies
- Tolling
- Contracts for differences
- Creditworthy buyers
  - Sovereigns
  - Rated entities
- Force majeure
- Vs… market risk?

13 Supply

- Certain projects rely heavily on supply of fuel: oil, gas, coal, etc.
- Supplying essential goods and/or services in connection with a particular project
- Both the contractor and the operator could be categorized as supplier
- Requirements and attributes of EPC contractor and O&M company apply to suppliers
- Without fuel, project facility cannot operate – therefore, reliable supply is of utmost importance
- Key: Project company agrees long-term contract with credible supplier at pre-agreed price
- Transport of fuel – third-party or supplier's own responsibility?

Supply

- Take-or-pay structure (more common)
  - Project company agrees to buy an agreed amount of fuel, agreed price, specified period
  - If the does not purchase the agreed level of fuel, it must still pay for it
  - Supplier obligated to supply the agreed volume at agreed price
- Sole supplier structure:
  - Project company agrees with a single supplier to purchase entirety of project fuel requirement from it
  - However, volume of requirement and price not specified
  - Project company only pays for the fuel it purchases
  - Supplier not be obligated to supply all the project's fuel requirements

Other agreements

- Concessions:
  - Concessions are agreements between public and private entities
  - The public entity has the power to approve contracts for the project
  - Concessions give the project company use of government-owned land or other assets for a specific period of time
- Reimbursement and subrogation
- Accounts agreement
- Agent/fee letters
- Equity support agreement
- Hedging agreements

Project finance legal regimes in Africa

	Botswana	Kenya	Mozambique	Nigeria
General security agreement	Not all types of assets	Register debenture for movable assets and charge for immovable assets	Created and perfected through written agreement certified by notary	Must be stamped 30 days from creation and registered within 90 days
Security over real property	Land: mortgage bond; equipment: deed of hypotecathion	Board resolutions, charge, consent of land control board, lands registry…	Land is public property; right to use land OK; equipment: general mortgage	Land: legal or equitable mortgage; equipment: Fixed charge
Security over receivables	Yes: out-and-out cession	Yes	Not for future receivables	Yes
Security over bank accounts	Yes	Precedent not clear	Not for future receivables	Yes
Security over shares in companies	Yes	Yes	Requires endorsement and registration	Yes
Registration requirements	Lender must be approved; 2-4 months	Complicated for land	Simple; stamp duty expensive	Simple

Project finance legal regimes in Africa

	Botswana	Kenya	Mozambique	Nigeria
Security trustee recognition	Problematic	Yes	Yes	Yes
Joint and several creditor status	Unexplored	N/A	N/A	N/A
Enforcement of security	Through the courts	Charges rank on order of registry – Complicated process	Mortgage: Through the courts; Pledges: judicially or private sale	Public auction may be required in some cases; real estate: governor's consent (and Petroleum Ministry for oil and gas)
Foreign ownership restrictions	Only agricultural land	Only agricultural land or leasehold > 99 years	Not for future receivables	Oil and gas: 51% Nigerian; otherwise no
Financing documents enforceable	If registered at the Deeds Registry	If stamped	Only if authenticated or certified by third party	Instrument that creates charge must be registered at CAC within 90 days of creation
Exchange controls	No (though there is unrepealed legislation limiting it)	No	Requires Central Bank approval	No, except for import of certain construction materials (e.g., cement)

Project finance legal regimes in Africa

	Botswana	Kenya	Mozambique	Nigeria
Restrictions on foreign insurance	Local insurance unless unavailable (must seek approval)	None; VAT implications	Local insurance unless unavailable - Cross-border transfers > 1 year require registration	Yes for fire, motor, liability, life, and accident (exceptions allowed)
Insurance payable to foreign creditors	Yes	Yes	Require proof of approval by government entity	Yes
Restrictions on foreign employees	Not particularly	Not particularly	Yes; quotas	Yes; quotas
Restrictions on import	Not particularly	No	Not particularly	Imports must be approved by authority
Jurisdiction	Any; except agreements with government entities => Botswana	Any	Any; must have nexus to contract; local principles are mandatory	Nigerian or English
Change of law	N/A	Letters of undertaking and guarantees are available	Mega-projects act	Federal and state guarantee protections available; special program for power sector

MODULE 14

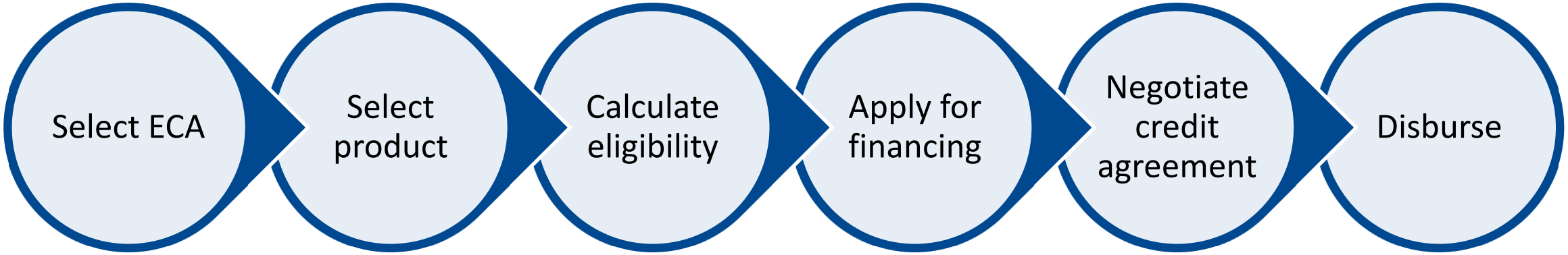
ECA disbursements: Advanced topics

Estimating ECA cash flows

A key goal of successful ECA financings is that borrowers be able to **access cash** when they need it

14 Estimating ECA cash flows

- So far, we have discussed many aspects of ECA financing:



- Deriving a cash management plan that works takes into account of all these activities and knowledge, and is critical for the borrower
- In this section we will discuss this and other related issues

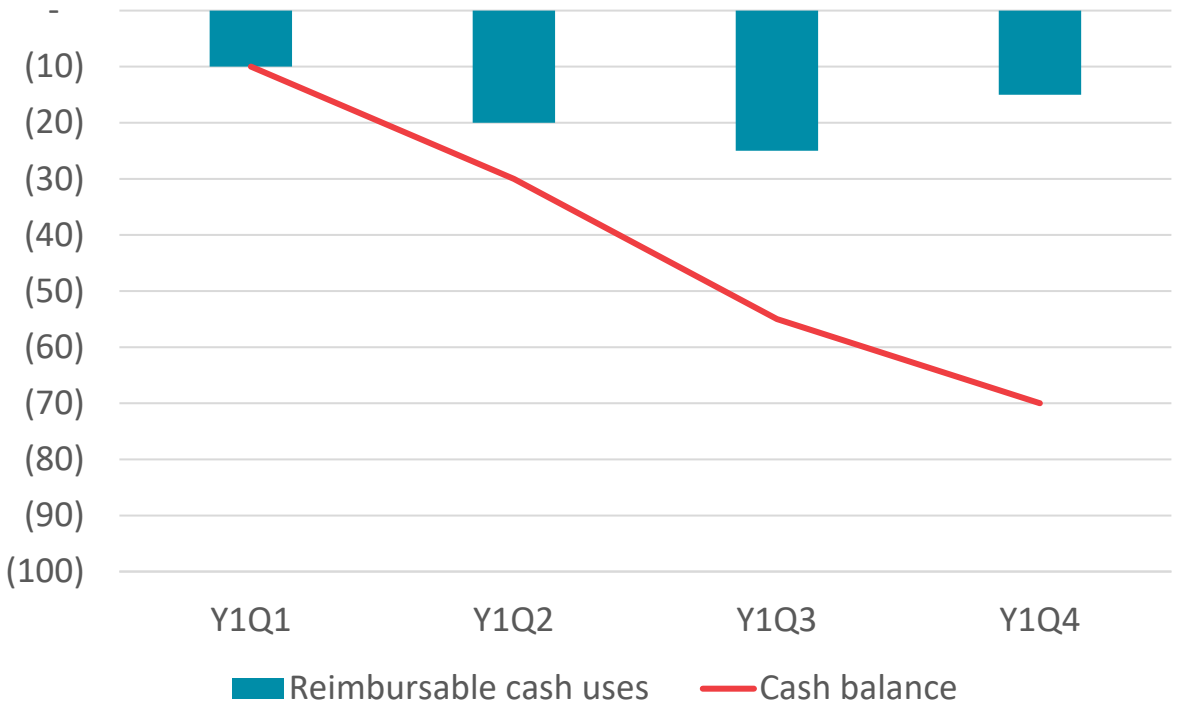
14 When cash flow forecasting is critical

- In some cases, ECA cash flows are fixed in place at financial closing:
  - Following ECA guidelines
- In other cases, ECA cash flows are somewhat variable:
  - Simple procurements
- In some cases, however, ECA cash flows can have high variability and entail risk for the borrower:
  - Projects with large costs incurred before financial closing
  - Projects with progress payments
  - Content eligibility at different levels of procurement
  - Multiple financing tranches
  - Project delays (and cost overruns)
- In the next slides we will review these cases

14 Costs incurred by owner before financial closing

- Some ECAs will finance reachback costs, but disbursing them can be tricky
- A careful forecast of sources of cash is required to quantify extent of negative cash flows and quickly recover equity
- An illustration of the problem:

Loan size:	**USD 300 million**
Equity required:	**USD 45 million**
Uses pre-closing:	**USD 70 million**

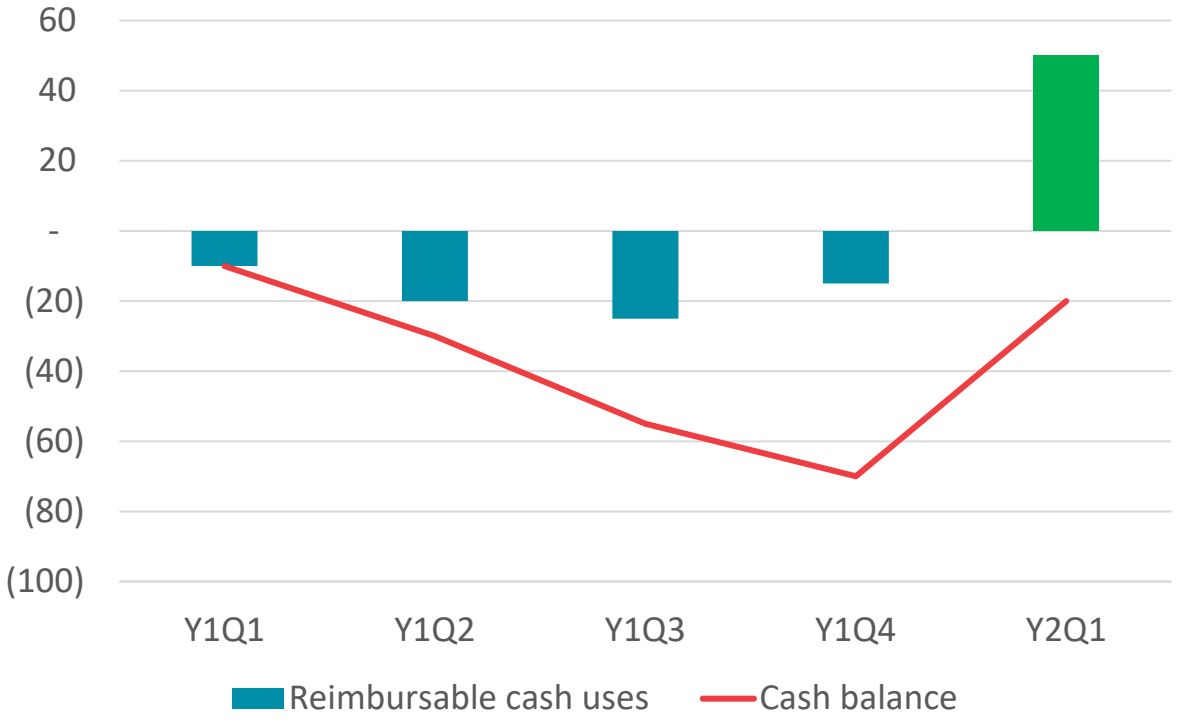


14 Costs incurred by owner before financial closing

- Though the borrower suffers through financial closing, reimbursement rules may allow for a quick reimbursement of costs incurred to date
- In many cases, equity can be invested pro-rata to debt
- An illustration of the solution:

Loan size: **USD 300 million**
Equity required: **USD 45 million**
Uses pre-closing: **USD 70 million**

First disbursement: **USD 50 million**



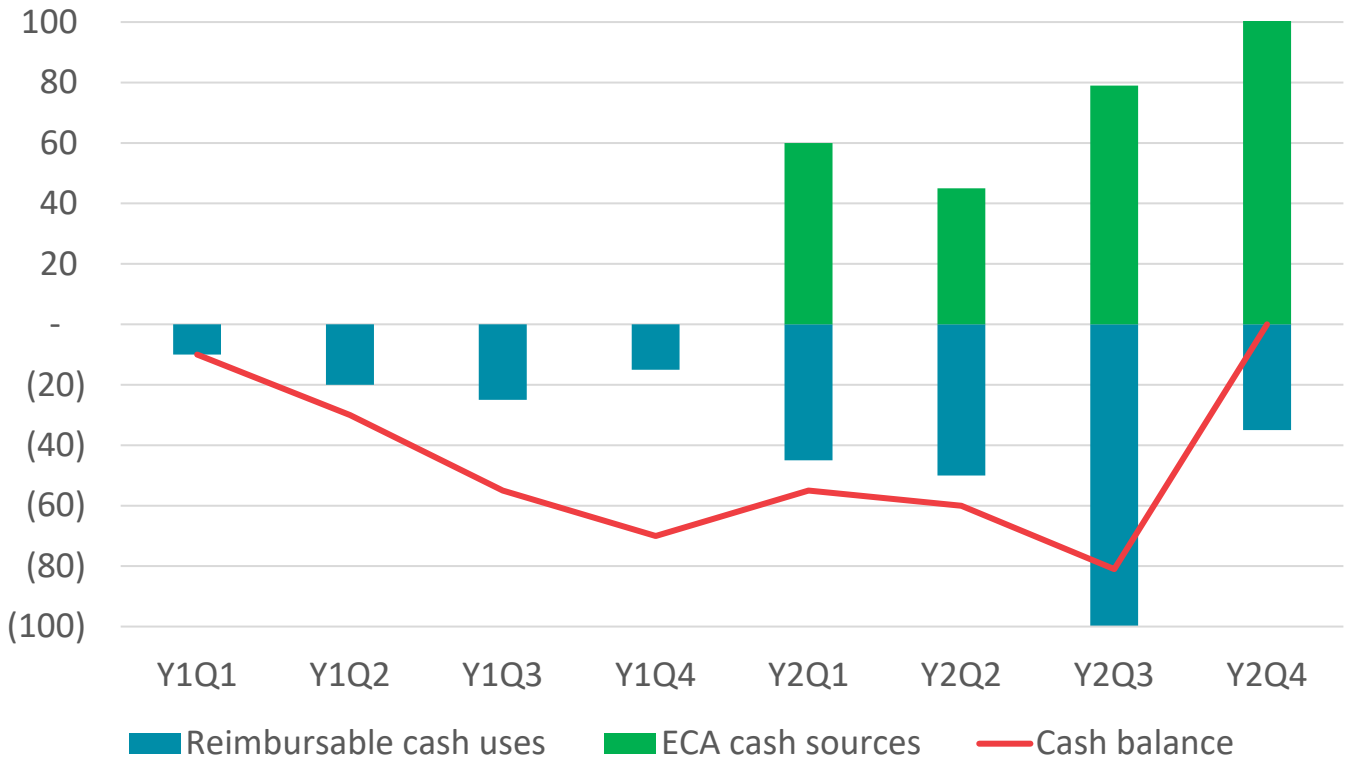
14 Costs incurred by owner before financial closing

- In many cases, not all reachback outlays can reimbursed after financial closing:
  - Some outlays may have been milestone payments to suppliers, which in the reachback period (EXIM) may only be reimbursable upon shipment of goods
  - Some outlays may have been progress payments, only reimbursable upon shipment
  - Supplier documents may not yet be available
- The financial closing process is not instantaneous—take account of:
  - Time to document all conditions precedent
  - Time to make the loan operative
  - Time for the lender/agent to review the disbursement package
- Issue needs to be identified and analyzed during the application process and discussed with the ECA to maximize reimbursable amount
- Gather compliant disbursement documents early from borrower and suppliers

14 Projects with progress payments

- For some ECAs, progress payments are not disbursable
- This can create serious cash shortfalls for borrowers buying equipment from major suppliers
- An illustration of the problem:

Loan size:	**USD 300 million**
Equity required:	**USD 45 million**
Worst balance:	**USD 81 million**

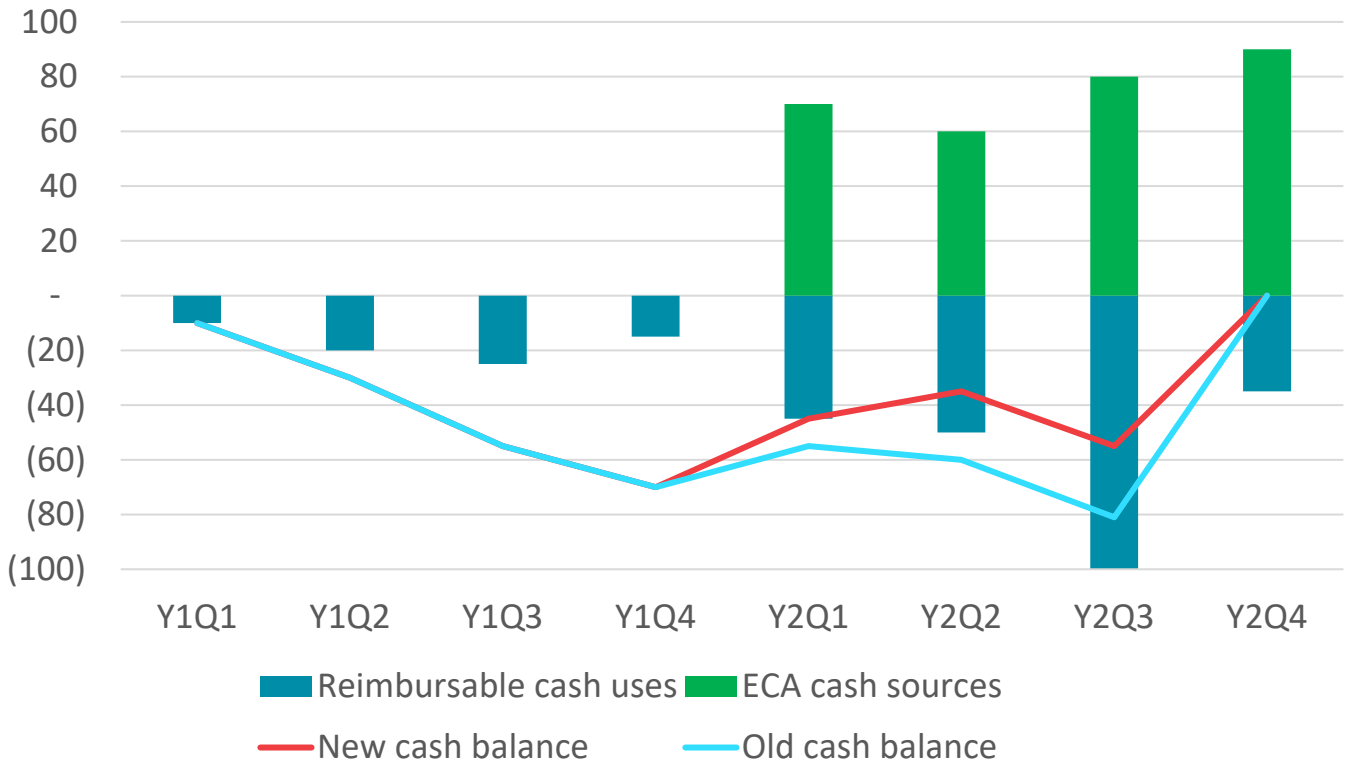


14 Projects with progress payments

- Working early and proactively with the borrower and its contractors and suppliers, the cash shortfall may be minimized
- In this case, the payment schedule to the contractor was slightly adjusted
- An illustration of the solution:

Loan size: **USD 300 million**
Equity required: **USD 45 million**
Worst old balance: **USD 81 million**

Worst new balance: **USD 55 million**

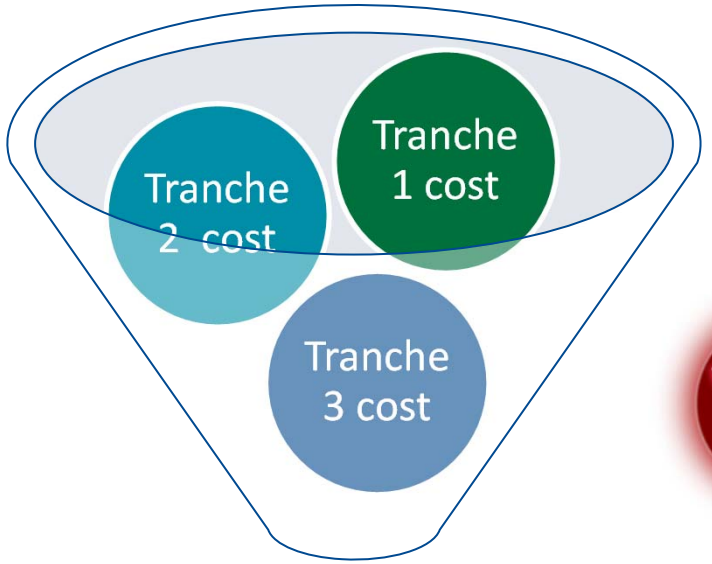


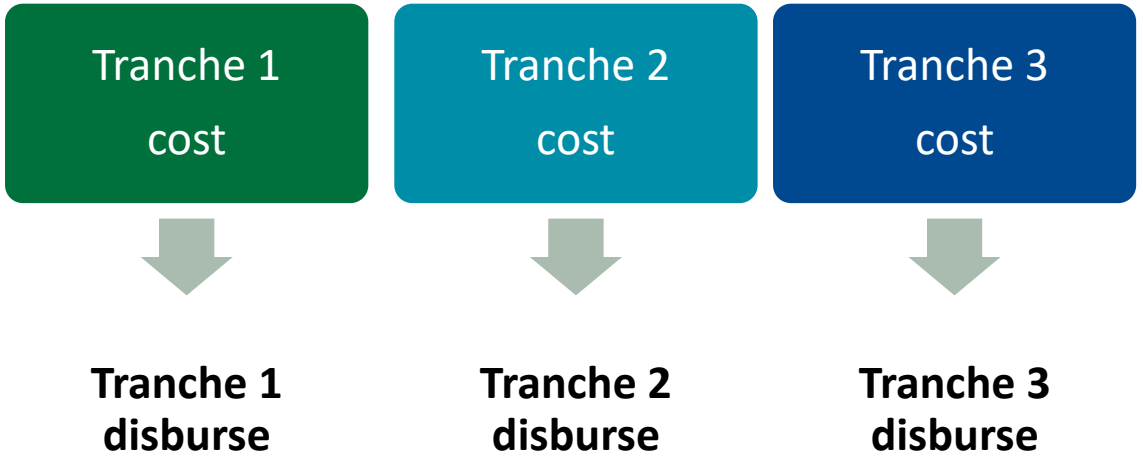
14 Projects with progress payments

- ECA financial management must go beyond the treasury department of the borrower
- In some cases, the borrower and its contractors and suppliers need to adjust payment schedules in order to minimize cash shortfalls:
  - Disaggregating invoices for milestone payments may have substantial effects on the cash flow from ECAs
  - The wording of milestones can be crucial for the early disbursability of some invoices
- Increasing the granularity of milestones can also help (but it is difficult to achieve)
- Keep in mind that contractors and suppliers need to mitigate their risk, and it is unlikely that they will accept additional risk or negative cash positions to assuage the borrower's cash flow issues
- Issue needs to be identified and analyzed during the application process
- ECAs must approve payment schedules early

Multiple financing tranches

- Even within the same ECA there may be different standards for disbursement of multi-tranche transactions:





Disbursement

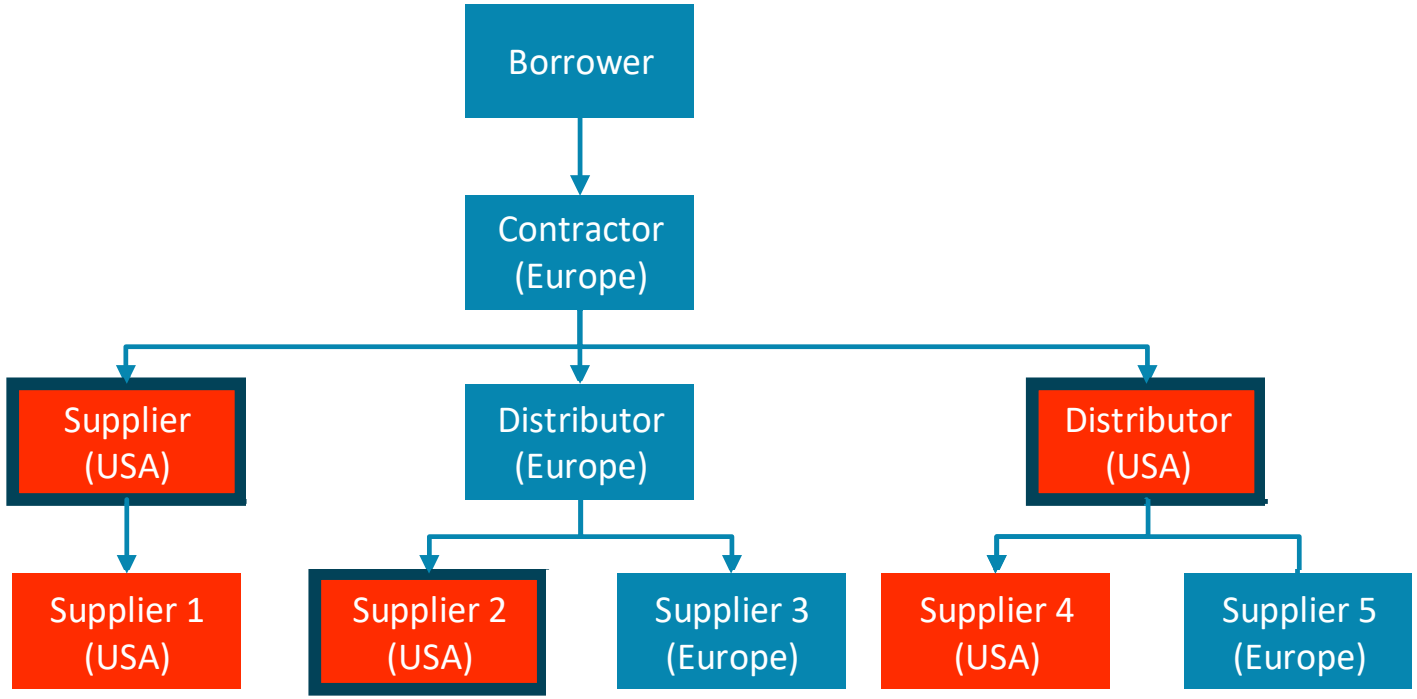
- Tranche 1 %
- Tranche 2 %
- Tranche 3 %

14 Multiple financing tranches

- Develop rigorous cash flow forecast model for the borrower
- Evaluate merits and drawbacks of multi-tranche disbursement methods
- Early on, establish multi-tranche disbursement rules with ECA
- Make sure that all invoices are treated consistently
  - If not, track discrepancies and resolve them later on (and inform borrower and ECA at every step)
- Include tranche disbursement calculation detail in disbursement packages
- In some cases, some tranches may “fill up” before disbursement happens
- Be prepared for this scenario and agree on methodology to resolve it with borrower and ECA

14 Content eligibility at different procurement levels

- Some ECAs are exacting when it comes to quantifying national content
- In order to maximize ECA financing, borrower needs to look beyond its immediate suppliers for eligible content (example: EXIM)
- How is content certified in this structure?



14 Content eligibility at different procurement levels

- Multiple procurement tiers with eligible content can add substantial complexity to the disbursement process
- Early quantification of eligibility is impaired by the challenge of getting through the different tiers of procurement
- Manufacturing content can typically be quantified only after manufacturing is complete
- Confidentiality issues arise from sub-suppliers having to report content to ECAs, potentially disclosing suppliers' profit margins
- Solutions:
  - Based on historical content levels for goods and services, set targets for suppliers
  - Establish content target levels contractually
  - Carefully forecast cash flows based on eligibility rules

14 Content eligibility at different procurement levels

- Data required from tiered contracts:

- Total PO amount
- % US content
- Certifications
- Invoices

US supplier or contractor

- Names
- Addresses

US sub-suppliers and subcontractors

14 Content eligibility at different procurement levels

- Data required from tiered contracts:

Non-US supplier or contractor — Nothing!

US sub-suppliers and subcontractors
- Total PO amount
- % US content
- Certifications
- Invoices

14 EPC meets ECA

- Success largely dependent upon EPC contractor
- When using ECA finance, EPC contractors have additional rules to integrate into:
  - EPC contract
  - Work processes
  - Reporting requirements
- Inform EPC, suppliers and sub-suppliers of ECA financing intention as early as possible in the procurement process

14 Case study: Disbursing ECA loans

- The impact to one contractor of failing to manage an EPC contract in accordance with ECA finance obligations:
  - EPC contractor didn't heed ECAs when planning or executing the work:
    - Looking to save cost, did not concern itself with following procurement plan to meet ECA eligibility requirements
    - Did not monitor eligibility during design and construction
    - Did not ask suppliers and subcontractors to comply with ECA requirements
    - Looking to save money on freight, did not comply with shipping requirements

14 Case study: Disbursing ECA loans

- The impact to one contractor of failing to manage an EPC contract in accordance with ECA finance obligations:
  - The consequences for the contractor:
    - At 80% complete, realized that ECA eligibility was 50% lower than it should be
    - Was forced to buy expensive goods and services in ECA country
    - Could not prepare ECA disbursement packages on time and caused cash shortfall for its customers
    - At the end, could not meet eligibility targets, and its customer had to fund much of the project with equity and project became unprofitable

EPC meets ECA

- Be prepared to disclose and certify key information and provide specific documents throughout contract period
- Make sure sub-suppliers also understand that they will also need to comply with disclosure and certifications requirements
- Providing accurate, timely, and complete procurement information to borrowers is essential:
  - Know how much content can be financed at all times
  - Keep disbursements flowing

14 EPC structures

- Cost plus
  - EPC contract to deliver scope
  - EPC charges costs plus a profit margin
- Lump-sum, turnkey (LSTK)
  - EPC agrees to deliver project on date certain, cost certain
  - Financially responsible for gap in funding caused by shift in procurement leading to reduction in eligible content
- Consortium
  - Several EPCs collectively deliver the project
  - Can be cost plus or LSTK
  - Coordination of ECA deliverables is essential; avoid conflicts

14 Keep asking the right questions

Where am I planning to buy project goods and services?

What is the home, foreign, excluded, and local content in each purchase order?

Will my own team, and each eligible supplier, be able to provide ECA-compliant documents?

Which team member can review these ECA required documents?

14 Sample RFP language

Section XXX - ECA certification coincident with RFP

The goods and/or services being bid in this RFP are being considered as part of the eligible supply that [borrower] may finance with export credit agencies (ECAs), including [list agencies].

In order for [borrower] to maximize its opportunity to utilize ECA-sponsored funds, [name of supplier or EPC] shall follow certain procedures throughout the procurement and construction of the [project name]. [Name of supplier or EPC] shall maintain procurement documents with accurate information in accordance with the requirements of the selected ECAs.

Further [name of supplier or EPC consortium] agrees to complete and execute specific ECA documentation and certifications, copies of which will be made available to them in due course.

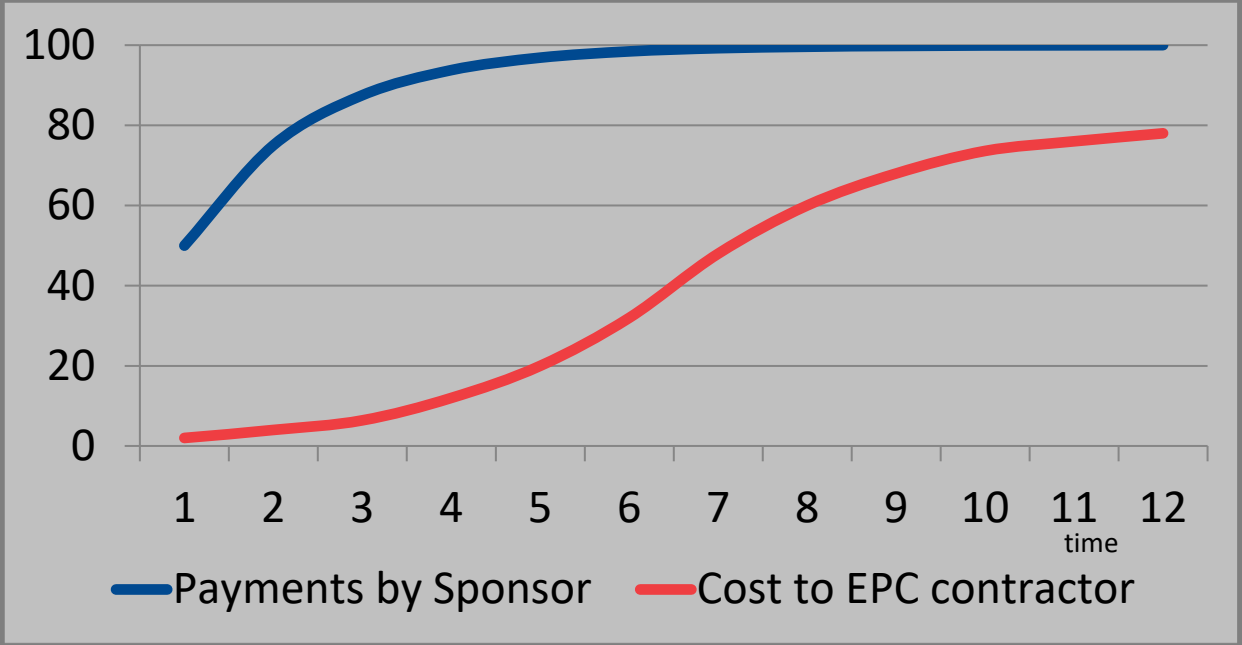
[Name of supplier or EPC] shall target to procure at least [USD X] of content from each of [name of preferred sourcing country] to yield financeable content in excess of [USD Y] once ECAs rules of eligible content are applied to each purchase order and/or contract.

14 Effective management

- Designate ECA procurement coordinator
- Responsibilities:
  - Ensure RFPs and purchase orders include ECA-compliant language
  - Constantly review acquisition list of eligible goods
  - Document the magnitude and reasons for procurement discrepancies
  - Ensure that sub-contractors and suppliers comply with ECA rules as per the purchase orders
  - Solicit execution of ECA documents to suppliers
  - Provide required data and documents to ECA administrator (outsourced or in-house) for disbursements

14 Case study: Milestone vs. progress payments

- Sponsor is financing a refinery project with ECAs
- EPC contractor progress payments and costs flow in this manner:



14 Case study: Milestone vs. progress payments

- ECA will not accept EPC contractor invoices to sponsor as sufficient evidence to make disbursement against ECA facility
- When ECA disbursements begin, sponsor asks EPC contractor to prepare accommodation invoices:
  - Provide all the invoices it has received from subcontractors to ECAs
  - Create invoices for EPC contractor's own work and submit them to ECAs
- ECA will disburse least of sum of EPC contractor invoices or accommodation invoices
- EPC contractor must be willing to provide this information
- Confidentiality agreements with ECAs and other finance parties may be required

MODULE 15

Workshop 2: Financing an industrial project and conclusions

Stage 1

- Magellan Refining Inc. (MRI), is a publicly traded company that owns and operates chemical plants worldwide.
- MRI recently bought Santa Ana Procesamiento (SAP), a urea producer in Nueva Granada, a Latin American country that is undergoing tremendous economic growth. SAP currently produces urea for local consumption in the agricultural sector. MRI is planning to triple the production of SAP and increase the quality of its product slate by expanding the plant. At current spot market price prices, the product slate of the revamped plant will sell for prices that average 4.5% higher than the current production.
- The project is expected to cost USD 500 million and take three years to design and build.
- MRI is looking to continue operating the existing processing while the new units are being built.

Stage 1

- The expansion project will be designed and built by American Engineers Corp. (AE).
- Although AE is a leader in its industry, it has a credit rating of BB+ due to potential environmental liabilities it faces from an acquisition it made some time ago. Nevertheless, AE is seen as well qualified for performing this project, which it won competitively. AE has a history of performing projects on budget and on schedule.
- AE will not post a surety bond, but it will provide a corporate guarantee for completion and performance. Liquidated damages for schedule and performance are capped in the EPC contract at 2% of the project cost.
- AE has several subcontractors and sub-suppliers from all over the world

Stage 1

- Attachments:
  - Financial statements of MRI
  - Financial statements of SAP
  - National origin estimates

Unstructured – Corporate financing to SAP?

- Financial statements are not audited
- Statements of cash flow are not available
- Always refer to the notes as well!

BALANCE SHEET
All amounts in USD

	FY 2016	FY 2015	FY 2014
Cash	19.76	16.42	1.00
Accounts receivable	15.00	10.00	8.33
Inventory	15.00	10.00	8.33
Total current assets	49.76	36.42	17.67
PP&E	114.00	100.00	98.00
Total assets	163.76	136.42	115.67
Accounts payable	9.00	6.00	5.00
Notes payable	-	-	0.50
Total current liabilities	9.00	6.00	5.50
Long term debt	10.00	10.00	10.00
Total liabilities	19.00	16.00	15.50
Common stock	2.00	2.00	2.00
Retained earnings	142.76	118.42	98.17
Total equity	144.76	120.42	100.17
Total liabilities and equity	163.76	136.42	115.67

Santa Ana Procesamiento

Total equity = 144.76

Maximum ECA loan
~ 40% of total equity
= 0.4 * USD 144.76
~ **USD 58 million**

Since project cost is USD 500 million, SAP's balance sheet is too small for a material amount of debt for the project

Santa Ana Procesamiento

INCOME STATEMENT
All amounts in USD millions

	FY 2016	FY 2015	FY 2014
Sales	180.00	120.00	100.00
Costs	(72.00)	(48.00)	(40.00)
SG&A	(36.00)	(24.00)	(20.00)
Depreciation	(11.40)	(10.00)	(9.80)
Earnings before interest	60.60	38.00	30.20
Interest paid	(0.50)	(0.50)	(0.50)
Taxable income	60.10	37.50	29.70
Taxes	(21.04)	(13.13)	(10.40)
Net Income	39.06	24.37	19.30
Dividends	(25.35)	(13.66)	(9.73)
To retained earnings	13.71	11.11	9.57

Operating profit ✓

Cash flow from operations ?

BALANCE SHEET
All amounts in USD

	FY 2016	FY 2015	FY 2014
Cash	19.76	16.42	1.00
Accounts receivable	15.00	10.00	8.33
Inventory	15.00	10.00	8.33
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Retained earnings	142.76	118.42	98.17
Total equity	144.76	120.42	100.17
Total liabilities and equity	163.76	136.42	115.67

Santa Ana Procesamiento

Total liabilities / total equity

= 0.13 < 1.75 ✓

Overall, healthy financials, but too small to carry amount of debt required by the project

Unstructured – Corporate financing to MRI?

- Financial statements are not audited
- Statements of cash flow are not available
- Always refer to the notes as well!

BALANCE SHEET
All amounts in USD

	FY 2016	FY 2015	FY 2014
Cash	20.03	12.84	15.00
Accounts receivable	270.00	163.64	125.00
Inventory	112.50	75.00	62.50
Total current assets	402.53	251.48	202.50
PP&E	1,100.00	1,025.00	1,000.00
Total assets	1,502.53	1,276.48	1,202.50
Accounts payable	202.50	135.00	100.00
Notes payable	-	-	-
Total current liabilities	202.50	135.00	100.00
Long term debt	655.40	618.61	642.50
Total liabilities	857.90	753.61	742.50
Common stock	10.00	10.00	10.00
Retained earnings	634.63	512.87	450.00
Total equity	644.63	522.87	460.00
Total liabilities and equity	1,502.53	1,276.48	1,202.50

Magellan Refining, Inc.

Total equity = 644.63

Maximum ECA loan
~ 40% of total equity
= 0.4 * USD 644.63
~ **USD 257 million**

Since project cost is USD 500 million, MRI's balance sheet is too small if we want debt to be more than 50% of the investment

Magellan Refining, Inc.

INCOME STATEMENT
All amounts in USD millions

	FY 2016	FY 2015	FY 2014
Sales	2,700.00	1,800.00	1,500.00
Costs	(1,485.00)	(990.00)	(750.00)
SG&A	(945.00)	(630.00)	(450.00)
Depreciation	(110.00)	(102.50)	(100.00)
Earnings before interest	160.00	77.50	200.00
Interest paid	(32.77)	(30.93)	(32.13)
Taxable income	127.23	46.57	167.87
Taxes	(44.53)	(16.30)	(58.76)
Net Income	82.70	30.27	109.11
Dividends	(50.00)	-	(100.00)
To retained earnings	32.70	30.27	9.11

Operating profit ✓

Cash flow from operations ?

BALANCE SHEET
All amounts in USD

	FY 2016	FY 2015	FY 2014
Cash	20.03	12.84	15.00
Accounts receivable	270.00	163.64	125.00
Inventory	112.50	75.00	62.50
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Total assets	1,502.53	1,276.48	1,202.50
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Total equity	644.63	522.87	460.00
Total liabilities and equity	1,502.53	1,276.48	1,202.50

Magellan Refining, Inc.

Long term debt / total equity

~ 50% ✓

Total liabilities/ total net worth

~ 1.33 < 1.75 ✓

Overall, healthy financials, but it may still be too small if we want debt-to-equity higher than 50%

Using corporate finance would also constrain future debt capacity of the company

How much can EXIM cover?

		Estimated cost, USD millions	Origin
	Engineering		
US	Basic and detailed design, home office	50.00	Work performed in U.S. office by personnel who are citizens of different countries
Local	Basic and detailed design, field	30.00	Work performed in Nueva Granada. All work performed by U.S. and local personnel (50%/50%)
Excluded	Travel costs	5.00	
US	Profit and overhead	10.00	
	Subtotal engineering	**95.00**	

How much can EXIM cover?

Procurement

Excluded	Modular package A	50.00	Module produced by Komack (Korea), 70% Korean content, 20% Nueva Granadan content, 10% various
Excluded	Modular package B	50.00	Module produced by Komack (Korea) completely in China
40 US 10 Eligible foreign 65 Excluded	Furnace	115.00	Contracted to American Heat (U.S.), but only USD 50 million will shipped from the U.S. (USD 10 million of that will be Mexican-made components). Rest will be made in China and shipped directly from there to Nueva Granada
Excluded	Bulk materials (piping, electrical, etc.)	40.00	To be determined, could be India, Indonesia, or China
	Subtotal procurement	**255.00**	

How much can EXIM cover?

Construction			
Local	Construction contract	150.00	Work contracted by American Engineers, Nueva Granada S.A.
Subtotal construction		**150.00**	
Total cost		**500.00**	

How much can EXIM cover?

Supply contract	500.0
Excluded content	210.0
Local cost	180.0
Net contract price	110.0
Eligible foreign content	10.0
U.S content	100.0
U.S content %	91% (of NPC)
Disbursement %	91% (of NPC)

Financed amount, U.S.	93.5
Financed amount, local	33.0
Total financed amount	126.5
Down payment	373.5

All amounts in USD millions

How much can other ECAs cover?

- Any costs not cover by EXIM could be covered by someone else
- Costs already covered by EXIM **CANNOT** be covered by anyone else
- When we look at other ECAs we should only look at EXIM excluded content
- Korea Eximbank can only cover one contract => Komack

How much can Korea Eximbank cover?

Procurement

35 Korea	Modular package A	50.00	Module produced by Komack (Korea), 70% Korean content, 20% Nueva Granadan content, 10% various
10 Local	Modular package B	50.00	Module produced by Komack (Korea) completely in China
55 Foreign	Furnace	115.00	Contracted to American Heat (U.S.), but only USD 50 million will shipped from the U.S. (USD 10 million of that will be Mexican-made components). Rest will be made in China and shipped directly from there to Nueva Granada
	Bulk materials (piping, electrical, etc.)	40.00	To be determined, could be India, Indonesia, or China
	Subtotal procurement	**255.00**	

How much can Korea Eximbank cover?

Supply contract		**= USD 100.00 million**
- Korean content		= USD 35.00 million
- Local content		= USD 10.00 million
- Foreign content		= USD 55.00 million
Exported value (EV)	**= Korean + foreign**	**= USD 90.00 million**
Eligible foreign (EF)	= 25% * Korean	= USD 8.75 million
Eligible exported value (EEV)	**= Korean+EF**	**= USD 43.75 million**
Financed EV (FEC)	= 0.85 * EEV	= USD 37.19 million
Financed local content (FLC)	= MIN(Local,0.3*EV)	= USD 10.00 million
Total financed	**= FEC + FLC**	**= USD 47.19 million**

How much can be covered by ECAs?

- Approximately USD 175 million covered by EXIM and Korea Eximbank
- Only about 35% of project cost
- Consider maximizing local cost financing from Korea Eximbank by:
  - Assigning additional local country scope to Komack
  - Hire aggregator to consolidate Komack contract with other local content
- Bring in another ECA?
  - Possible
  - But could complicate matters
- Ask AE to redirect more procurement to the U.S. or Korea

Maximizing eligibility has to be done early on

Stage 1 – Questions

- MRI would like to finance the work on a corporate basis. Would it be possible to have SAP be the borrower without recourse to MRI?
- If SAP cannot be a standalone borrower, can MRI borrow the funds on a corporate finance basis?
- What credit issues do you see with MRI's financial statements? With SAP's?
- How much ECA financing could SAP get from EXIM? From Korea Eximbank (assuming 25% Korea Eximbank foreign content eligibility)? From other ECAs?
- Would it make sense that one ECA co-finance with another ECA?
- What additional questions would you ask regarding national origin of goods and services?
- Assuming that the corporate financing works, do you have any concerns regarding AE's qualifications?
- What work will the borrower have to do regarding environmental assessment?

Stage 2

- MRI understood that the work cannot be financed on a corporate basis, and that a project financing is inevitable.
- MRI reveals that SAP currently buys feedstock from PG, Nueva Granada's national oil company at spot market prices in USD.
- SAP sells all of its products to PG as well, in NGP. SAP would like to keep the flexibility of continuing to buy feedstock and sell products in the spot market, based on the reasoning, that oil price changes are simply passed on to the consumer.
- Understanding that it will need to have a stable supply of oil and a steady market for its products, PG and SAP have signed an offtake take-or-pay agreement in USD derived from the international spot market, and spot market prices in NGP for the products. The country's currency, the NGP has a fixed exchange rate to the USD of 1 NGP per USD. This policy has been in place for over 20 years.

Stage 2

- An initial assessment of the project by the lenders establishes a loan repayment tenor of 10 years. Interest during construction will be capitalized.
- MRI would like to have a debt to equity ratio of 70:30, but the lenders are not convinced. This is how DSCR behaves in the financial model under the base case:

Debt to equity	DSCR
80:20	1.05
75:25	1.15
70:30	1.26
65:35	1.39
60:40	1.54
55:45	1.70

Stage 2 – Questions

- What is your expectation regarding the project's cost and schedule at this point? Is it the same as it was before the decision to go with a project financing or not? Why? If you expect them to be affected, provide an estimate
- While reviewing the financial model you see a circular reference. Is this a problem?
- Now, do you have any concerns regarding AE's qualifications?
- Do you have any concerns regarding AE's contract?
- What do you suggest should be the debt to equity ratio for the project? Why?
- What are your view of the project's market risks?
- If, in your view, market risks are unacceptable, what do suggest can be done to mitigate them?
- Is it acceptable that funding of the debt reserve account take precedence over payment of operating expenses in the cash waterfall?

15 Stage 3

- The independent engineer reviewing the project calls for an urgent meeting with the financiers before they finalize the loan agreements. In the meeting, the engineer alerts the team that the costs of spare parts and catalysts that will be used in the project life are not included in the construction cost estimates.
- Right before financial closing, MRI decides to use subordinated debt in lieu of all or some of the equity for the project.
- In the middle of construction period, Komack goes bankrupt! There is only one other supplier in the world able to fulfill the order, and it offers to do the work for USD 400 million. SAP and AE are locking horns as to who is responsible for funding the cost overrun. In the meantime, a technical default on the financing is invoked, and project construction screeches to a halt.
- Four years after the project starts up, a tsunami destroys the plant. Fortunately, the lenders made sure that the project company had adequate insurance, and the insurance claim is promptly paid up.

Conclusions

In this course we have learned about ECAs and the fundamentals of working with them

- ECAs
  - ECA products
    - Buyer credits
    - Supplier credits
  - ECA rules
    - Content eligibility
    - Standards
- ECA financings
  - Apply for financing
  - Negotiate credit agreement
  - Coordinate EPCs
  - Disburse financing
  - Estimate cash flows