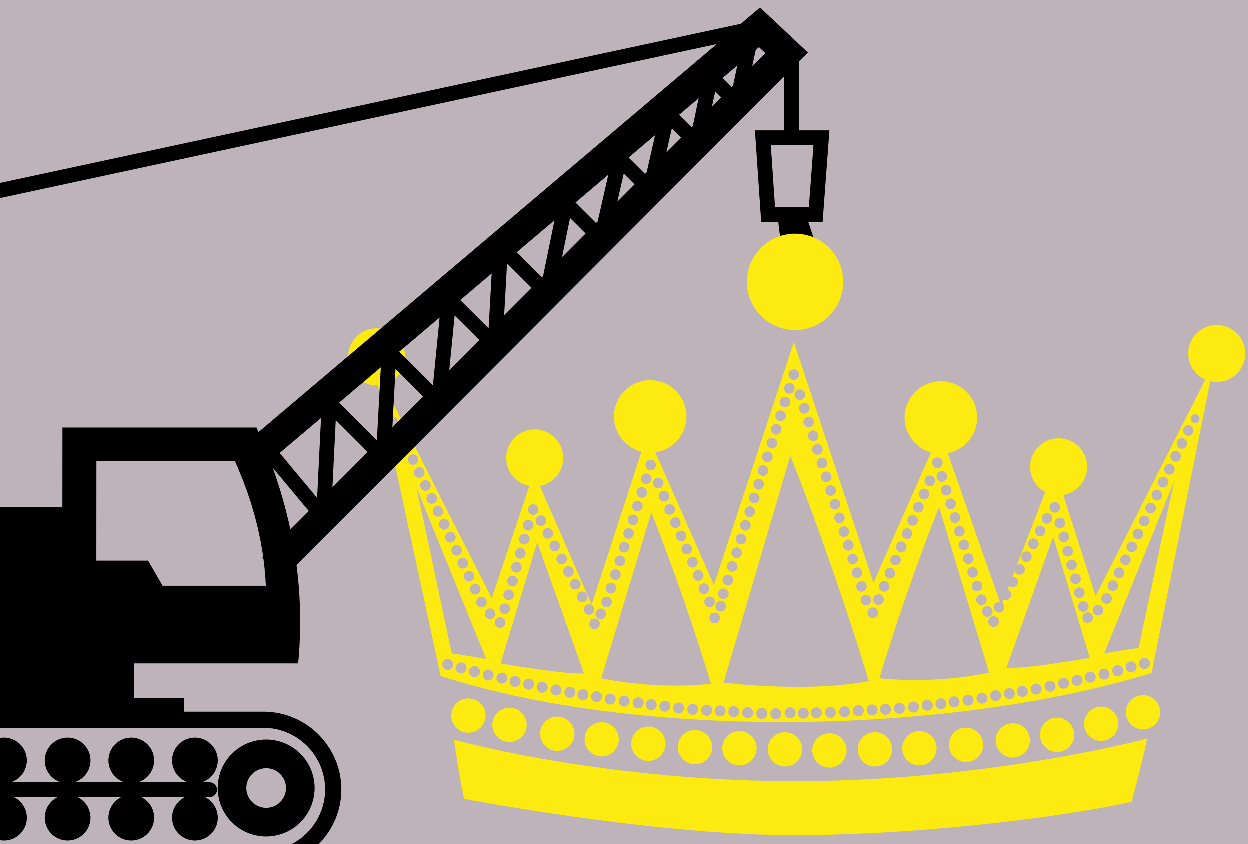


ENTER THE SOVEREIGNS

EXPORT CREDIT AGENCIES ARE PLAYING AN INCREASINGLY IMPORTANT ROLE IN FINANCING INFRASTRUCTURE IN THE GCC. ALI SHERWANI EXPLAINS WHY

In 2012, the governments of the Gulf Cooperation Council (GCC) spent an estimated $112bn on infrastructure projects, figures from Qatar National Bank show.

And there is no sign of this heavy spending on infrastructure letting up in the near term. Earlier this year, data from intelligence provider MEED put the combined value of infrastructure and industrial projects being planned, or already under way, in the Gulf region at nearly $2.46 trillion – more than 150% of the GDP of the entire GCC.

Many treasurers in the GCC will work for companies that are involved in construction in one way or another and they will be aware of the huge sums of money that are being ploughed into infrastructure projects.

One notable example is the preparation for Expo 2020, for which Dubai authorities are expected to spend $6.5bn on infrastructure projects, including exhibition centres, an additional 50,000 hotel rooms and an extension to Dubai's metro line.

While the GCC governments have traditionally backed their own infrastructure projects, project sponsors are increasingly looking to diversify their funding sources by turning to alternative suppliers of financing beyond the public purse.

Source of support

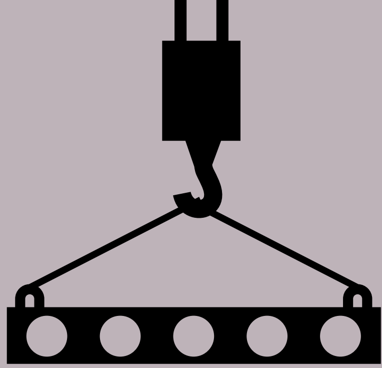
This is where export credit agencies (ECAs) come in.

ECAs are government institutions or private companies working on behalf of governments, in support of national exporters. They can provide guarantees to banks, for loans they provide to project sponsors. Alternatively, some ECAs can consider providing funding directly to sponsors. They can also provide credit insurance directly to companies that want to export their goods and services overseas.

Unlike banks, ECAs are not profit-making organisations – they principally exist to support national exporters.

When they provide finance, they can often offer competitive interest rates and enable longer-term funding – from two years up to 10 years and beyond – than might otherwise have been possible, in line with the timescales of large infrastructure projects.

The involvement of an ECA allows project sponsors to take advantage of the long-term funding on offer. UK Export Finance (UKEF), the UK's ECA, has additionally introduced schemes to assist with working capital and help companies to raise contract bonds in favour of project sponsors.



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In April, the Export Refinancing Facility (ERF) was launched to ensure that long-term funding is available to overseas buyers of UK exports when they are supported by UKEF. The ERF will provide an undertaking to banks that make export loans of at least five years in tenor that UKEF will buy the loan at a fixed date – 12 months after the final drawdown – if it has not already been refinanced, for example, in the debt capital markets.

Long-term security

From the point of view of treasurers working in the Middle East, ECAs perform a very useful function. If their company wants to use the services of a supplier from an overseas market – which is common in infrastructure projects because of their scale and complexity, and the skills shortage in the GCC – they can seek support from an ECA.

This can take many different forms but, broadly for UKEF, we will provide access to loan financing that is repayable over five, seven or 10 years, or longer, in addition to any construction or delivery period, to finance the cost of imports. Often UKEF will allow the loan to be used to finance the cost of supplies from other countries, where such supplies are the contractual responsibility of a UK company.

Additionally, ECAs have also been approached by project sponsors in the GCC that may be looking for credit in order to allow cash reserves to be spent in other ways. This enables more effective management of their portfolio, combined with the benefit of repaying the loan with fixed payments over an agreed period.

Project requirements

So what will an ECA look for when it is considering offering financial support to an infrastructure project in the GCC? Different agencies have different requirements, but the main considerations for UKEF are:

- **Project feasibility.** We assess the viability of the project and ensure that the overseas borrower is making realistic assumptions on timescales and costs. We will ask to see market and economic analysis that supports the overall feasibility of the project and sometimes we will visit the project site.
- **Level of involvement from a UK contractor.** As our goal is to support exporters from the UK, we will want to review the commercial terms of the project to ensure that the UK content meets our required level.
- **Market exposure.** We set limits on how much exposure we take in any particular market. For example, we have plenty of capacity to do business in Dubai, but there is also a lot of competition from UK businesses wanting to use this risk capacity.
- **Competence of contractor.** As we are underwriting the work that will be carried out by the UK contractor, we need to feel confident that the contractor has the experience and capability to undertake the project successfully.
- **Environmental, social and reputational impact.** We look to ensure that projects will not be harmful to the local environment or involve poor working practices. We carry out due diligence on projects, which includes studying the environmental and social impacts.
- **Financial risk.** This is a key aspect of the due diligence. We need to assess the risk of the loan not being repaid, so we will ask the overseas borrower to provide extensive financial information to assess the ability of the project sponsors to service the loan on a timely basis.

EXPORT CREDIT AGENCIES: A SUPPLIER'S VIEWPOINT

Zafar Khan leads export credit at UK-based construction services company Carillion, which has a long history of working with UKEF, including in the Middle East.

"Carillion's experience of working with UK Export Finance has been very positive," says Khan. "Its requirements in terms of assessing various projects are well documented and clearly understood. It also has a very good understanding of the markets we operate in and is generally able to give us an indication of its appetite without much delay." Khan has recently helped to secure a credit guarantee from UKEF for one of Carillion's customers in the Middle East, which is running a large infrastructure project.

"A guarantee provides a number of benefits to borrowers," he says. "Because UK Export Finance is a UK government department, and therefore represents UK sovereign risk, banks can reflect this in reduced pricing, as well as provide longer tenors than might otherwise be available. A guarantee also opens up an additional source of liquidity for borrowers, allowing them to preserve existing bank limits for other financing requirements."

He concludes: "The combination of long-term tenor, competitive all-in pricing and additional liquidity is a compelling proposition for many borrowers – hence the substantial increase in demand in recent years for export credit agency-supported financing facilities in the Middle East, as well as globally."

Treasurers in the GCC who are thinking of using UKEF products and services should get in touch with us at a very early stage in the project, to maximise the time to carry out due diligence, to analyse the financial data and to review the project for which financing is required.

While you may need to put in some initial effort to secure financial support from an ECA, the reward will be your ability to tap into cost-effective funding from a safe source and to help to diversify your business's pool of lenders.

There is a good reason why ECAs are playing an increasingly important role in financing infrastructure projects in the Middle East. So why not find out for yourself?

Ali Sherwani is acting head, project business development division, at UK Export Finance. To find out more, see www.gov.uk/uk-export-finance