

What's new at ECGD?

UK exporters and investors can be assured of ECGD's continuing commitment as it embarks on a series of reforms to improve its services. Rachel Davies reports

The Annual Report and Resource Accounts of the Export Credit guarantee Department (ECGD), published last December, shows that last year it provided UK project exporters and investors with £5.5bn of guarantees to secure business in a number of areas of the world.

In announcing the publication of the report, Richard Caborn, the Minister for Trade, said: "ECGD has recorded another excellent year for supporting UK exporters – certainly the best since its short-term operation was privatised in 1991. Investment insurance in the developing world is also now at an all-time high. These results provide a firm base for ECGD to build on as it implements the reform process following this year's Mission and Status Review."

Showing support

But just how does ECGD help UK exporters and investors? How are ECGD's operations funded? And what are the implications of the Mission and Status Review?

Since ECGD was founded in 1919 it has supported UK exporters in a number of ways and has continuously evolved to meet their various needs and the policies of successive governments. One of the biggest changes came in the early 1990s when its short-term credit business was privatised. This left ECGD in a position where it was complementary to the private market, concentrating its efforts on the provision of insurance and financial guarantees for exporters of capital and light capital goods and associated services mainly to the emerging markets. At the same time, its financial objectives were tightened.

A good starting point for this current round of changes (probably the most extensive envisaged when taken all together) is ECGD's revised Mission Statement, published with the Review's conclusions: "To benefit the UK economy by helping exporters of UK goods win business and UK firms to invest overseas, by providing guarantees,

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insurance and reinsurance against loss, taking into account the Government's international policies".

ECGD, although a department of government, operates in much the same way as any other insurance company – charging customers a premium to take on risk, and building up reserves to meet claims when things go wrong. In our case, the risks being covered are those an exporter or investor might face when trading with countries in the developing world – the risk of not getting paid after goods have been shipped – the political risk of not receiving returns on overseas investments, or the risk of negative cashflow if the buyer



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requires lengthy credit terms.

For some time ECGD's operations have been run at no net cost to the taxpayer. The reserves of premium it has built up are sufficient to meet future expected losses. Furthermore, the combined premium income and recoveries of past claims exceed the value of the claims it pays out.

Commenting on the 1999/2000 Annual Report and Resource Accounts, Vivian Brown, the Chief Executive of ECGD, said: "ECGD has had a dual remit to support as much export business as possible while limiting the risks to the taxpayer. The Report and Accounts demonstrate, once again, that we have been very successful in doing just that. We are now working hard to drive through the recommendations of our Mission and Status Review. We must ensure that the future actions of ECGD contribute to the creation of long-term wealth, both at home and abroad."

Going forward

The results of our Mission and Status Review were announced by Stephen Byers, Secretary of State for Trade and Industry last July. This fundamental, year-long review of ECGD's operations reaffirmed its role in supporting UK exporters and overseas investors and set an extensive work programme designed to benefit not only its customers, but also developing countries. This has already led to a number of announcements as steps are taken to implement the changes needed to take ECGD forward into the 21st century.

ECGD still exists to help UK exporters and investors, but a wider view encompassing non-financial considerations has to be taken as well. ECGD's work must be seen to fit in with and support the Government's wider objectives, not conflict with them. Its activities must benefit the UK economy, which means exports cannot be supported without taking these criteria carefully into account. But what does this mean in practice?

Highlights of the agenda

Perhaps the best illustration is our newly-published Business Principles, which state clearly and publicly how ECGD conducts its business and what its approach will be to achieving its Mission. You may already have received a copy and they are available as a download from the ECGD's website at www.ecgd.gov.uk.

The Business Principles emphasise a responsible approach to business, a customer-oriented service, an honesty and openness as well as the recognition of the need to consult widely with its stakeholders when developing services. The policies through which these principles will be put into action are grouped under several headings, which are:

- ECGD in business;
- sustainable development and human rights;
- developing countries; and
- business integrity and transparency.

Examples of some of the policies being introduced to put these principles into effect may already be familiar to those of you who deal with ECGD on a regular basis. Under the sustainable development heading, ECGD recently introduced a new impact questionnaire designed to provide it with more detailed information at an early stage about the likely social and environmental impacts of business it is asked to cover. While issues of this kind have always contributed to the underwriting judgement of cases, this new procedure ensures that the ECGD obtains the information needed to do this – and can be seen to be doing, thus also supporting the aim of making its operations more transparent.

On ECGD in business, ECGD aims, within overall financial constraints, to provide the most efficient and internationally competitive service possible to its customers. Policies to help achieve this goal include maintaining and developing good relations and co-operation with other credit insurers, and taking a leading role in international discussions to harmonise areas of export credit practice which can lead to distorting competition in export credits.

An area worth highlighting under this category is the aim to make ECGD's facilities more easily accessible to the widest possible range of markets and customers.

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Since ECGD's short-term business was privatised, its direct customer base has naturally contracted, although there is plenty of evidence to show that many smaller companies benefit when a big project is won by a UK exporter through the sub-contracting process. Three programmes have been developed to meet the objective of widening the customer base and you may have heard from us or been contacted as a result.

Building relationships

Looking at both our larger customers and potential customers, a list of targets has been established which includes large multinational companies, project sponsors and foreign-based borrowers. The Destination Marketing Programme, now in its third year of operation, targets big overseas buyers of UK goods and services, informing them of the benefits of ECGD-supported facilities. The Relationship Management Programme, set up more recently, is aimed at establishing closer relationships with companies identified so that the ECGD can learn more about their views and needs.

Smaller companies are also a point of particular focus, for the first time since privatisation. The aim is not to take business away from the private sector but as an initial step to make smaller companies aware of what ECGD can offer them. Especially being targeted are companies selling light capital goods to the emerging markets. The Mission and Status Review identified an 'information gap' on the part of such companies. There is certainly much anecdotal evidence to suggest that many such companies no longer know about ECGD, or if they do, consider it irrelevant to their needs. A package for SME exporters

was announced by the the Minister for Trade, Richard Caborn, in November. The aim is to reach thousands of smaller companies by mail and e-mail and through a series of countrywide seminars being run later this year.

Utilising the internet

In keeping in touch with existing customers, and hoping to reach new ones, the ECGD sees e-commerce as an exciting development. Its new website was launched on 10 October 2000 after a development period involving consultations with a panel of users. The aim was to make the site clear, informative and easy to navigate. The increasing number of enquiries from this source suggests that this is being successfully achieved.

Many of ECGD's publications, as well as application forms for its various products are available from the web site. Later this year, a premium calculator will be added to enable customers to obtain a good estimate of the rate the ECGD would charge for pieces of business they are considering. This will be significantly more convenient than always needing to contact the underwriter for a rate.

Trading fund

Another aspect of ECGD's operations undergoing substantial change at the moment involves the setting-up of a trading fund which involves a shift to a fully capitalised trading system. This could be the most significant of all the changes as far as our customers are concerned. The aim is to give the ECGD greater freedom to make decisions on things such as the amount of business it supports in individual markets. This should provide benefits both to ECGD and to its customers. Beginning in April 2001, the system will be running on a pilot basis, coming fully into operation at the start of April 2002. It has been agreed that there will be no change to the current 'risk-reward' balance. This means that the volume of business that ECGD supports and the premium rates it charges should remain broadly the same. ECGD will continue to work to a robust break-even financial framework.

The new capital regime should give ECGD greater autonomy and provide greater stability. HM Treasury's role will become strategic, with much less involvement in ECGD's day-to-day affairs.

ECGD should be able to take a more proactive stance towards business opportunities – providing always that they fit within its new mandate and the capital and pricing regime. Overall, the ECGD hopes the new regime will be able to streamline its operations and process the vast majority of routine business even more efficiently than now.

Promoting emerging markets

This increased flexibility should also help the ECGD to meet yet another objective set for it by Ministers, that of playing a bigger role in the Government’s aim of promoting sustainable development in the emerging markets. The ECGD will be looking more closely at ways to help UK exporters and investors take part in worthwhile schemes in markets where cover has been unavailable for some time. The Good Projects in Difficult Markets scheme, which allows the ECGD to consider supporting business in developing markets while avoiding the possibility of increasing sovereign debt, is a good example of this type of thinking.

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As well as developing schemes of this kind, we will be maintaining our efforts to encourage other export credit agencies to grant maximum debt relief to the poorest countries and to limit future export credits to productive expenditure, for example, by declining cover for projects which are a drain on the economy of the country concerned.

Closing thoughts

In this inevitably broad description of the change agenda being dealt with, several points become clear.

The Government, through ECGD, remains committed to supporting UK exporters and UK firms investing overseas. But, at the same time, there is also a firm commitment to reform ECGD in line with the modernising conclusions of its Mission and Status Review.

More than ever before, ECGD’s operations will be open to public scrutiny and measured by the standards that it has published. To keep up to date with developments, however, visit the ECGD’s website at www.ecgd.gov.uk or ask to be put on the mailing list for its quarterly publication ECGD News. ■

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