Providing support

LAST MONTH'S ISSUE REVIEWED THE SERVICES PROVIDED BY CREDIT REFERENCE COMPANIES AND CREDIT INSURERS. THIS MONTH **GRAHAM BUCK** LOOKS AT THE ROLE OF EXPORT CREDIT AGENCIES AND OTHER STATE-BACKED ENTITIES AND CONTRASTS THEIR FORTUNES.

As noted in last month's feature, harder economic times have seen a renewed focus from the main players in the markets for credit reference and credit insurance such as Dun & Bradstreet and Experian. But before the private market developed a range of insurance products catering for UK manufacturers and investors trading overseas, many companies relied on the cover offered by the Export Credits Guarantee Department (ECGD), set up by the government shortly after World War One in a bid to revive British trade and exports.

ECGD did this by underwriting guarantees and insurance policies to protect companies against the risk of customers failing to pay for goods and services supplied. As a pioneering export credit agency, its basic model was subsequently adopted by other countries.

Executive summary

- Set up at the end of World War One to benefit the British economy, the Export Credits Guarantee Department (ECGD) has seen its important role diminish over the past 30 years. By contrast, the equivalent French credit export agency, Coface, has gone from strength to strength and extended its operations across Europe in recent years. Combined with the success of what's happening across the Atlantic with the likes of OPIC and Ex-Im, the differences look set to continue despite accusations of "Washington's wasteful spending". EBRD and MIGA also work hard to support growth in developing countries.

WHAT ECGD DOES Today, ECGD's mission statement shows little fundamental change after nearly 90 years. Its stated aim is to benefit the British economy, by helping exporters of goods and services to win business and UK firms to invest overseas by providing guarantees, insurance and reinsurance against loss. These goals are intended at the same time to take into account the government's international policies on issues such as sustainable development, human rights and good governance.

The department is also required by the government to maintain a modest profit by prudent underwriting so that premium levels are adequate to meet the perceived risks and also costs.

However, having reached its zenith in the 1970s, when 37% of UK exports were supported by ECGD-backed guarantees or insurance policies, the department's role has steadily declined over the past 30 years. In 2007, ECGD-supported business totalled around £1.8bn, or less than 1% of the UK's total exports.

The privatisation of ECGD's short-term export credit insurance business in 1991 (it was sold to Dutch credit insurance group NCM, now Atradius) contributed to the decline as it supported the bulk of exports covered by the department, but a range of factors contributed. Britain's shrinking industrial base, the liberalisation of world trade, the growing maturity of foreign markets, increased competition from the

CHASING MONEY THAT'S OWED TO YOU IS BECOMING EVERY BIT AS IMPORTANT AS CHASING SALES.

commercial insurance market and pressure on governments to reduce export subsidies all played their part.

As a result, although part of ECGD's operations still consists of underwriting long-term loans to support the sale of capital goods, military equipment has come to represent an increasingly large proportion of the budget, which also goes on aircraft, bridges, machinery and services. Support can be given for very minor contracts with a value no more than £25,000 as well as major ones worth in excess of £100m.

ECGD maintains that it still performs a valuable role by complementing the insurance available from the private market. In its own words "private sector insurance tends only to be available for contracts with buyers in the developed world and for orders that involve relatively short delivery/credit periods and where contract values are reasonably small".

COFACE INCREASES OPERATIONS Across the Channel, France set up a state-backed export credit agency at the end of World War Two. In contrast to the diminishing influence of ECGD, the French agency, called Coface, has extended its operations across Europe in recent years since making its first foreign acquisitions in 1992, when it extended into the UK and Italy. The group also set up the CreditAlliance network of credit insurers the same year – which was later extended to include credit information – and was privatised by the French government in 1994 (Natexis Banques Populaires, which has since become France's fourth largest bank Natixis, became Coface's majority shareholder in 2002).

In 1996, Coface further developed operations outside France with acquisitions in Germany and Austria. Today, while it has maintained its original remit of managing public procedures for export guarantees provided by the French state, Coface's operations have expanded to a total of 190 companies offering services in 65 countries.

Coface UK's commercial director Phil Prunty says the group has followed the maxim that truly understanding its customers' export markets involves developing a physical presence in each country they sell to. This in turn provides a base from which to access new markets.

The process has also involved acquiring export credit and ratings agencies in various countries as well as insurers both private and state-owned. So the group now also offers trade credit insurance, risk information on companies, and debt collection services. The latter can move to litigation if necessary and Prunty says that this step has become necessary more frequently because of the tougher economic climate.

Helped by the backing of Natixis, Coface can also offer funding in addition to insurance, typically of 70% or 80% against a company's export sales.

As a result of this geographic and business spread, the group has its finger on the pulse of the corporate world but recent reports about its health are not encouraging. Coface recently warned that the level of claims under trade credit insurance policies was rising at an alarming rate as large companies delayed paying suppliers and the number of resulting business failures increased.

The most "troublesome" countries – those where the problem of delinquent payments has intensified – are the UK and Ireland, the US, Spain and Estonia. The situation in other major European countries such as France and Germany has been relatively stable to date, although Prunty expects the situation there to deteriorate as business and consumer confidence erodes.

STILL WORSE TO COME Here at home, the worst is yet to come as the problems afflicting house building and retail spill over into many other sectors. "Chasing money that's owed to you is becoming every bit as important as chasing sales," says Prunty.

Rates for trade credit insurance will inevitably rise to become more commensurate with risk. Prunty expects increases of 15% to be typical, although some insurers are already applying heavier premium loadings.

ECGD and Coface in their original form have two US counterparts. Overseas Private Investment Corporation (OPIC) was set up in 1971 as a US government agency to help countries in transition to market economies.

OPIC's declared mission is to "foster economic development in new and emerging markets, support US foreign policy and create US jobs by helping US businesses to invest overseas".

In practice, this means OPIC acts as facilitator for US private capital to get involved in social and economic development in these countries. OPIC provides US companies with finance ranging from small business loans to major structured finance, and assists the private sector in managing risks related to foreign direct investment, while also supporting US foreign policy. The agency also provides political risk insurance against the risks of inconvertibility, political violence or expropriation.

However, OPIC is not without its critics, who suggest that the organisation funnels "taxpayer dollars to companies capable of competing on their own", and cite it as an example of Washington's wasteful spending. This could see OPIC become a victim of any initiatives to cut the government's budget.

Another US government agency is the Export-Import Bank (Ex-Im), which, like OPIC, lends to private companies doing business overseas and also guarantees projects that are too big or too risky for the tastes of banks and financiers. This year has seen several OPIC and Ex-Im initiatives for developing US trade and investment links with sub-Saharan Africa, including five new private equity investment funds supported by OPIC to develop healthcare, housing, telecoms and small and medium businesses in the region.

ECGD, OPIC and Ex-Im all have significant exposure to the 1,100-

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mile oil pipeline stretching from Baku in Azerbaijan to the Turkish city of Ceyhan and passing through Georgia. Ex-Im provided a $160m guarantee to banks that lent to companies involved in the project, OPIC provided political risk insurance capacity of $100m and ECGD backed BP, which has a stake of more than 30% in the pipeline. All three were at risk during Russia's military action in Georgia, when BP temporarily shut down the pipeline.

SUPPORTING GROWTH IN DEVELOPING COUNTRIES Two other entities, both of more recent origin, have supported the growth of trade in less developed markets. Project financing for banks, industries and businesses in many countries is provided by the European Bank for Reconstruction and Development, set up in 1991 following the dismantling of the Berlin Wall. EBRD is owned by a total of 61 countries and two intergovernmental institutions, but despite its public sector shareholders it mainly directs investment to private enterprise, often in partnership with commercial organisations.

EBRD's mission statement is to use the "tools of investment" to develop market economies and democracies in countries from central Europe to central Asia. It limits its investments to countries committed to "democratic principles". This also involves EBRD working with publicly owned companies to support privatisation, restructure state-owned firms, improve municipal services and work with regional governments to promote policies that bolster the business environment.

The Multilateral Investment Guarantee Agency, or MIGA, is a unit of the World Bank established in 1988 with the stated mission of promoting foreign direct investment in developing countries to support economic growth and cut poverty. This investment is focused on "markets that traditional investors and insurers shy away from". MIGA insures investments against political risks, acting as mediator in any investment disputes affecting the projects it guarantees and assisting developing countries in their efforts to attract and retain private investment.

MIGA is likely to be closely involved with the World Bank's recently announced plan to accelerate its support for infrastructure projects in developing countries. Its director of operations, Edith Quintrell, says the agency helps reduce risks typically associated with infrastructure investment such as contract breaches when dealing with untested local governments. It also enables investors to secure the large amounts of financing needed for such projects at more favourable rates and for longer periods.

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