ECIC NEWS

STAKEHOLDER NEWSLETTER | ISSUE 2 | JANUARY - MARCH 2016

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MESSAGE FROM THE CEO

Towards the new paradigm for ECIC:

THE ROAD AHEAD

KUTOANE KUTOANE

Fading lights of yesterday

South African economy has been battered by strong head winds of distress in recent times. The adverse effects of the global depression in commodity prices spelled disaster for most natural resource based African economies, and demonstrated vividly the fault lines in South Africa's economic structure due to industrial policies which have not been very successful in transforming the industrial landscape and diversifying our export base away from resources dependency.

The structural impediments to growth seem to be caused as largely by the global economic vicissitudes as by our own domestic economic factors. One can point at such structural weaknesses as rigid labor market structure, poor economic policy framework, rigid regulatory landscape and weak infrastructure performance. We all decry the rapidly increasing government debt burden, the deteriorating balance of payments, poor consumer and producer indices, pressure on competitiveness and stagflation which sees inflationary pressures and increasing monetary tightening in the midst of recessionary environment with resiliently high unemployment rates. All these point to the real threat of a possible sovereign credit downgrade which many analysts see as looming later in the year.

Were this to happen it would spell havoc on our ability to emerge out of the perilous economic position we are presently in as a country.

The lights have slightly dimmed for the ECIC in this narrative as well. Let's all recall the successes we have had up until now with our ability to service the South African export community. Our successes of yesteryears were largely underpinned by our reliance on the competitive advantage premised on the government subsidy in the form of the interest make-up (IMU) scheme. We have further been favored by our official ECA status fully backed by the South African treasury, with our insurance policies perceived as having the full faith of the sovereign. In the current narrative, there will be no new IMU funds over and above what has already been committed by the government due to government budgetary constraints. This means that our offerings must stand on their own strength and be competitive and attractive to our customers without such subsidy support. We should also anticipate the responses of the market to the changing environment. For instance what would be our response in terms of our offerings if the credit status of South Africa were to be downgraded?

Responding to new paradigm

To date we have done well in our engagements with the key DFIs and other public financing institutions such as IDC, DBSA, PIC, AfDB, IFC and NEPAD Business Foundation Investment Integration Desk (AVID). These engagements are continuing and assist us in evaluating the possibilities and opportunities. What has emerged strongly out of discussion with these institutions is the need to pursue the Africa infrastructure development agenda from a united/uniform platform; the SA Inc. approach.

The unfolding landscape before us requires us to apply a rigorous look at our offerings, the manner in which we engage with the banks, exporters, SA government and host countries. We also need to be more effective in our engagement with our principals in government.

We have to be more change oriented and avoid often defaulting to the old habits of doing business. What I suggest should be done is to engage with the government by researching and presenting in various platforms issues like challenges of national content, mandate execution, new product research and advisory, structural changes taking place else where regarding the manner in which countries contract and finance their exports and the changing ECA landscape. We should see the changing landscape as presenting unique opportunities for collaboration and business optimization in tomorrow's ECIC business model.

Let us recall the position of the Minister of Trade and Industry, the Dti that the government policy needs to be informed by the industry players such as us. ECIC has not taken this window to engage very vigorously. We need to provide more bespoke survey and research findings to the government on all areas of concern by the industry and of cause the financiers. The Dti has pledged unwavering

MESSAGE FROM THE CEO CONTINUED...

support for us to adopt new ways of doing things in pursuance of our mandate in today's intolerable business landscape. Otherwise we would be failing in our bid to be the trusted advisors and executors of the national export drive for growth and jobs.

We welcome the proposal by Minister Rob Davies that ECIC should explore the idea of transforming into the Exim bank structure which would allow us to bulk together debt funding products for exports and strategic capital imports with our current export credit insurance offerings. This move will enable us to create a one-stop window to ramp up our support for the exporters and alleviating many challenges facing especially our small and medium sized exporters. This will greatly benefit South Africa and lead to a more vibrant and exporter-friendly institutional arrangement. We have started working in earnest on the business case for an Exim bank for South Africa, and will begin a process of consultations with key stakeholders in the near term.

Regulation and legislation review

The Dti is leading the process to review the ECIC founding legislation in order to align it with modern trends as well as allow ECIC to better execute its mandate. We support this initiative as it will open new opportunities for innovation. We should also take into cognizance the changing regulatory landscape. Soon the new solvency management regime (SAM) is going to kick in. While change in insurance regulation is to be welcome, for an organization such as ECIC we should seek the regime that mimics the rest of the ECA world. SAM principles should not be applied to ECIC business in a blanket fashion as they will limit the ability of ECIC to maximize its impact on the export finance and foreign trade space. Our proposal is to seek the statutory positioning in which our export credit insurance business is regulated in line with the specific ECIC Act. The legislation we seek to craft should also take some learning points from other ECAs Acts such as that governing the EDC of Canada, EFIC of Australia, EKN of Sweden etc.

We look forward to getting support from all our stakeholders and partners in shaping this new paradigm and working together towards the realization of our short term objectives while defining and relentlessly pursuing the long term growth opportunities.

Kutoane Kutoane
Chief Executive Officer

FEATURES

NEW MOZAMBICAN POWER STATION CAN BENEFIT SOUTHERN AFRICAN REGION

A 120MW gas-fired power station at Ressano Garcia, on the border between South Africa and Mozambique, was officially inaugurated last week.

Castigo Langa, chairman of Gigawatt Mozambique, who developed the power station,said the $200m (R3.2bn) investment is also a first step in the harnessing of Mozambique's huge natural gas resources not only for the benefit of Mozambique and its people, but also for whole of the Southern African region.

"The power station is strategically located close to the main transmission lines that connects South Africa and Mozambique," said Langa.

"The project is also an excellent example of successful collaboration across borders between several stakeholders including the public and private sectors." He said equity support for the shareholders was provided by Old Mutual and WBHO and debt funding was secured from Standard Bank.

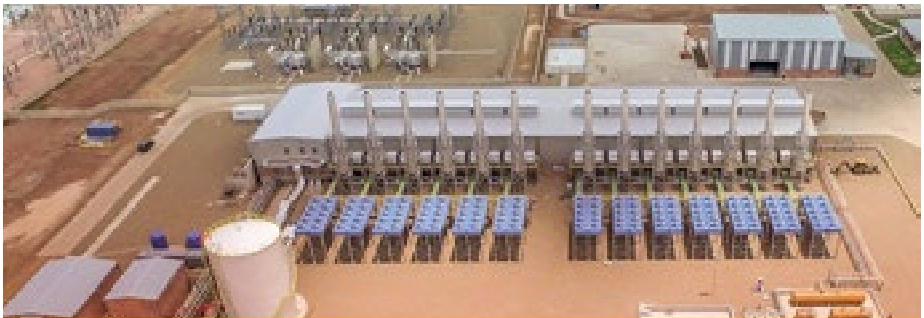
Funding insurance was provided by the Export Credit Insurance Corporation (South Africa) and the Multilateral Investment Guarantee Agency (World Bank Group).

Jobs created

Langa pointed out that during construction as many as 600 jobs were created with the vast majority locally recruited. The plant generates electricity to the equivalent of 250,000 households and will make a substantial contribution to the Mozambican power supply capacity. Gigawatt Mozambique supplies the power to EDM (the Mozambican power utility) under a long-term power purchase agreement for use in Mozambique and for on-selling into the regional grid. The first temporary power stations became operational at Gigawatt's site in July 2012. Currently 170MW of temporary gas fired power stations are operational on this site and in the Matola district near Maputo.

The gas for these power stations is supplied by the Matola Gas Company (MGC) and originates from the Temane and Panda gas fields, from where it is pumped along a 600km long pipeline to Ressano Garcia.

Johan de Vos, managing director of Gigawatt Mozambique, said the success of the project could herald the beginning of a whole new era for the development of the natural gas sector in Mozambique. With 160 trillion cubic feet of natural gas, the country has the fourth largest reserves globally.



A 120MW gas-fired power station at Ressano Garcia, on the border between South Africa and Mozambique, was officially inaugurated last week.

Source: *Bizcommunity*

FEATURES CONTINUED...

SA FAR FROM DEBT TRAP

Cape Town - Government debt will be stabilised over the medium term and South Africa is far from a debt trap, according to the Budget Review.

It states that SA's deep and liquid domestic captial markets, and its access to international borrowing, continue to provide resources for government's financing needs. Domestic capital markets will remain the main source of borrowing but over the medium term, government's borrowing strategy focuses on reducing the risks presented by the sharp increase in loan repayments beginning 2016/17.

Government's foreign debt remains low, at 10% of gross loan debt. In 2018/19, gross bond issuance in the domestic market will be the lowest since 2011/12, reflecting the outcome of fiscal consolidation. Global investors hold 32% of rand-denominated government bonds. Their holdings are sensitive to any shifts in US monetary policy and South Africa's sovereign credit ratings.

Higher interest rates, rising inflation and the significant depreciation in the exchange rate, partially offset by higher cash balances, have resulted in higher net debt of R1.804trn in 2015/16 relative to the R1.781trn projected in the 2015 budget.

As the budget deficit improves over the medium term, net debt as a share of GDP is expected to stabilise at 46.2% in 2017/18, compared to 43.7% as projected in the 2015 budget.

Government issues guarantees to various state-owned companies. These guarantees will amount to R467bn as at March 31 2016. Of the total guarantee portfolio, 75% is issued to Eskom and 8% to the South African National Roads Agency Limited (Sanral). In 2015/16, one new guarantee for R2.5bn was issued to the South African Post Office (Sapo). Only the portion of the guarantees that these companies have borrowed against – known as the exposure amount – is a contingent liability to government. Creditors can call on government to service or pay off the guaranteed debt on which an entity has defaulted.

Exposure amounts are projected to increase from R225.8bn in 2014/15 to R258bn as at March 31 2016. Most of the increase is accounted for by Eskom (R18.6bn), South African Airways (SAA) (R6bn), the Land Bank (R3.2bn), Sanral (R2.6bn) and Sapo (R1bn). Eskom constitutes 65% of the total exposure amount.

Government's other contingent liabilities include the actuarial deficits of social security funds – the difference between the claims owed by these entities and their total assets. Government commitments to the Export Credit Insurance Corporation of South Africa – the net underwriting exposure of the company and its total assets – also fall into this category, as do claims against government departments, and post-retirement medical assistance to government employees.

Source: *Finance24*

CREDIT FACILITY TO BOOST EXPORTERS IN PROGRESSING MINING PROJECT

ECIC has been featured in Mining Weekly under the topic 'Credit facility to boost exporters in progressing mining project.'

In addition to facilitating export trade and enabling exporters to access mining project opportunities across Africa, the Export Credit Insurance Corporation (ECIC) of South Africa will this year focus on increasing awareness of its latest offering – a multicurrency guarantee facility to assist exporters in securing credit solutions.

Click here to view the article online and to watch the video of ECIC COO, Mandisi Nkuhlu.

Source: *Engineering News*

ECIC FEATURED ON CNBC AFRICA

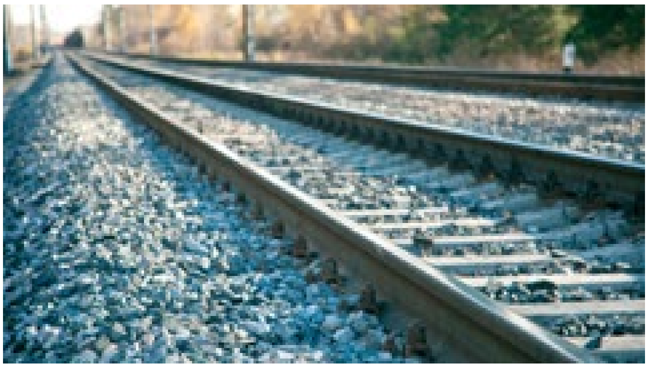
CNBC Africa presenter, Gugulethu Cele speaks to ECIC Management on various topics such as Business into Africa, The Effects of Underwriting in the South Africa Market, Government Incentives in encouraging Cross Border Export Trade on the African Continent, the Role of Risk Mitigation in the Current Macro-Economic and Political Environment, and much more.

ECIC will be featured on the CNBC Africa – 'Closing Bell' show every Wednesday at 16h45 on Channel 410 from the 09th March – 29th June 2016 as we represent the ECIC on both local and international shores.

Click here for more information on this feature.

YOUR EXPORT RISK PARTNER

EXPORTING TO OR INVESTING IN CAPITAL PROJECTS BEYOND OUR BORDERS?



The ECIC provides insurance that enables South African exporters to offer their services and products to the international market, with a particular focus on emerging markets in Africa that are considered too risky for conventional insurers.

If you're planning on exporting to or investing in capital projects beyond our borders, contact ECIC for assistance.

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The ECIC is a registered financial services provider: FSB No. 30656