ECIC plays a pivotal role in sub-Saharan projects and development

By Kutoane Kutoane, chief executive officer, Export Credit Insurance Corporation of South Africa (ECIC)

Following the international trend in the creation of export credit agencies (ECAs) after World War II, South Africa began to offer official support for export transactions in 1957. Instead of creating a dedicated ECA, reinsurance cover was made through the Department of Trade and Industry, the dti (then known as the Department of Economic Affairs) and the Credit Guarantee Insurance Corporation of Africa Limited (Credit Guarantee). This relationship lasted for more than 40 years.

Over the years, a review of the export credit insurance market gap showed that private participation in the short-term trade finance market was adequate and that government involvement was crowding out (instead of complementing) private sector participation. However, in the case of medium to long-term transactions, government involvement was still very much required, especially in respect of emerging markets.

Subsequently, as from 1 July 2001, the South African government decided to discontinue its involvement in the provision of reinsurance cover for short-term transactions and focused only on medium to long-term export transactions. With effect from 2 July 2001, a dedicated ECA was established in the form of Export Credit Insurance Corporation of South Africa (ECIC).

The ECIC was established as part of a broader government policy in the context of industrial policy, trade and investment promotion. As the official export credit agency of South Africa, the ECIC acts as an "insurer of last resort" by providing insurance for export transactions that will otherwise not take place because commercial lenders are either unable or unwilling to accept the risks (politically or commercially) inherent in long-term transactions.

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The corporation's enabling act is the Export Credit Investments Insurance Act 1957, as amended. The ECIC is an independent, limited liability company, with the government as the sole shareholder.

Our vision is clear: we are determined to be the leaders in the medium- and long-term export credit and investment insurance business, focusing on project finance underwriting, customer needs, and prudent portfolio and risk management.

Facilitating projects throughout Africa

Accordingly, our mission is to facilitate and encourage South African export trade by underwriting export credit loans and investments outside South Africa, which will help contractors win international capital goods and services contracts.

The ECIC fosters a stronger South African economy by supporting exports of South African goods and services that can drive domestic job creation, contribute to fixed capital formation, to GDP and generate fiscal revenue for the country. The rationale for the positive impact of the ECIC on economic development is based on the assertion that,

with ECIC support and participation, exports from South Africa are enabled to take place.

The South African content requirement for export projects supported by ECIC ensures economic benefits for both South Africa and the host economies. For illustration purpose, in the financial year ended March 2015, the ECIC signed insurance policies for export transactions to the value of ZAR6.7 billion ($489 million), which generated a total of 12,272 job opportunities in South Africa. Of these, a substantial number of job opportunities were recorded for unskilled workers, which is a high priority for South Africa. Equally, in the host countries 14,943 job opportunities were created during the construction phase and 17,662 job opportunities are expected to be sustained on an annual basis (for the next 20 years) during the operational phase of the projects supported.

The corporation has also been a generator of tax revenue for governments, having returned approximately ZAR831 million ($60.6 million) and ZAR3.6 billion ($262.4 billion) in additional tax revenue to the South African and host economies finances, respectively.

Since inception, ECIC has played a remarkable role in facilitating and supporting the construction and expansion of projects on the continent in different sectors and at different levels. The ECIC's participation has enabled various economies to optimise their production and export potential in strategic sectors such as mining, agriculture, energy and infrastructure.

In agriculture, the ECIC's support extended from simple plantation (e.g. sugar plantation in Mozambique) to agro-processing (ethanol production from sugar cane in Sierra Leone), whereas in mining ECIC helped ease the funding of extractive activities and associated processing plants (e.g. copper plant in Zambia, gold mining in Liberia and diamond mining in Lesotho). In the energy sector we have recently concluded a PPP (public-private partnership) renewable energy project in Ghana for the generation of power.

Providing an equal footing in finance

Capital projects involve large amounts of money. Whilst some of the required funds are normally contributed through equity by project sponsors, the bulk of the requirement is mostly likely to come in the form of loan finance. In order for a potential exporter to successfully tender for a project it is often essential to be able to offer term finance.

Naturally, the price of the insurance products offered and the cost of finance to be offered have to face international competition. This cost of finance is affected by a range of factors, including South Africa's sovereign rating, which is currently in the lowest bracket of investment grade.

Hence, in order to bring South African exporters on an equal footing with international competitors, the interest levied on loans which are insured with ECIC are benchmarked on the Commercial Interest References Rates (CIRR) set by OECD or the Libor. To make the interest rates on the ECIC supported loans economical, the DTI provided an incentive – interest make-up (IMU) – through the ECIC to enable competitive bids for export transactions.

The ECIC therefore acts as an agent on behalf of the dti in administering IMU payments to South African exporters or financial institutions in respect of qualifying projects. The IMU payment to South African financial institutions enables them to offer term finance at internationally competitive interest rates, thus securing the export of South African goods and services to qualifying projects. In other words, the IMU assists in leveling the playing field by facilitating competitive borrowing terms to foreign buyers of South African capital goods and services.

Since the 2008 global economic crunch, developing countries have been able to record high economic growth rates and propelled global growth. These economies are expected to remain the most important drivers of the world economy and global trade in the medium to long run. In the past three years, six out of 10 of the fastest growing economies have been in Africa.

The continent is rich in natural resources which include arable land, minerals, and hydropower, to name just a few. In the extractives sector, for example, it is estimated that the region accounts for about 30% of all global minerals reserves. Its proven oil reserves constitute 8% of the world's reserves and those of natural gas amount to 7%. Minerals account for an average of 70% of total African exports.

However, the region is considered as one of the world's higher-risk markets. The continent is characterised by political instability, uncertainty in the regulatory issues, mounting terrorism activities, data and information unreliability and lack of adequate infrastructure. It can be assumed that ECIC is well positioned on the continent

to better understand the problems which are faced by the leaders, economic operators and the realm of foreign investors in general. About 90% of our current portfolio is located in Africa, where Zambia, Zimbabwe and Ghana account for 25%, 16% and 15% respectively.

As a dynamic institution, scanning the environment and working to meet the needs of SA economic operators, we are working hand in hand with our shareholder (the dti) and all stakeholders, through market research and business development units to develop new insurance products to ensure that our support for government's export promotion policy objectives are met. We are in the process of launching the Performance Bond insurance cover. We are working on the coverage of credit lines and return of plants and equipment, among other products.

Moreover, to help release more lending capacity for our financial institutions, we have entered into various agreements with other ECAs to establish a framework for co-insurance and re-insurance. A major case to mention, ECIC has recently adopted a comprehensive plan of action along with the BRICS partner-ECAs aimed at actualising the cooperation programme for mutual benefits as envisioned in the MoU signed in 2014 in Fortaleza, Brazil. To this end, ECIC will actively pursue re-insurance and co-insurance opportunities with the BRICS ECAs, especially across sub-Saharan Africa.

Actually, the major region in the composition of the ECIC exposure is Africa. Being based on the continent, we consider that we have a better understanding of the problems which are faced by the leaders, economic operators and the realm of foreign investors in general.

To bring a sustainable growth and development path, the extraction of resources should be buttressed by a mineral transformation process on the continent. This prevails for agricultural activities as well. Exports should not be made of raw commodities only but processed goods as well. To achieve such a transformation, Africa will need to overcome four major obstacles: access to capital markets, transfusion of the technological know-how, overcoming infrastructure hurdles and lack of political will (saying and doing it). And the ECIC has a role to play in addressing some of these obstacles, through facilitation and increase of funding capacity for the construction of infrastructure and acquisition of processing plants. ■