

CAN A SOUTH AFRICAN EXPORT CREDIT AGENCY NAVIGATE DOMESTIC AND GLOBAL HEADWINDS?

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1. Context

- **Working Paper** - Can a South African Export Credit Agency Navigate Domestic and Global Headwinds?
- SAIIA – economic development (trade, investment, industrialisation, GVCs)

2. Background - Export Credit Agencies

- Characteristics, Objectives and Critiques

3. Stocktake of SA Financial Services

- Public Exim Facilities
- Private Exim Facilities
- Non-banking financial Sector

4. International ECA Dynamics

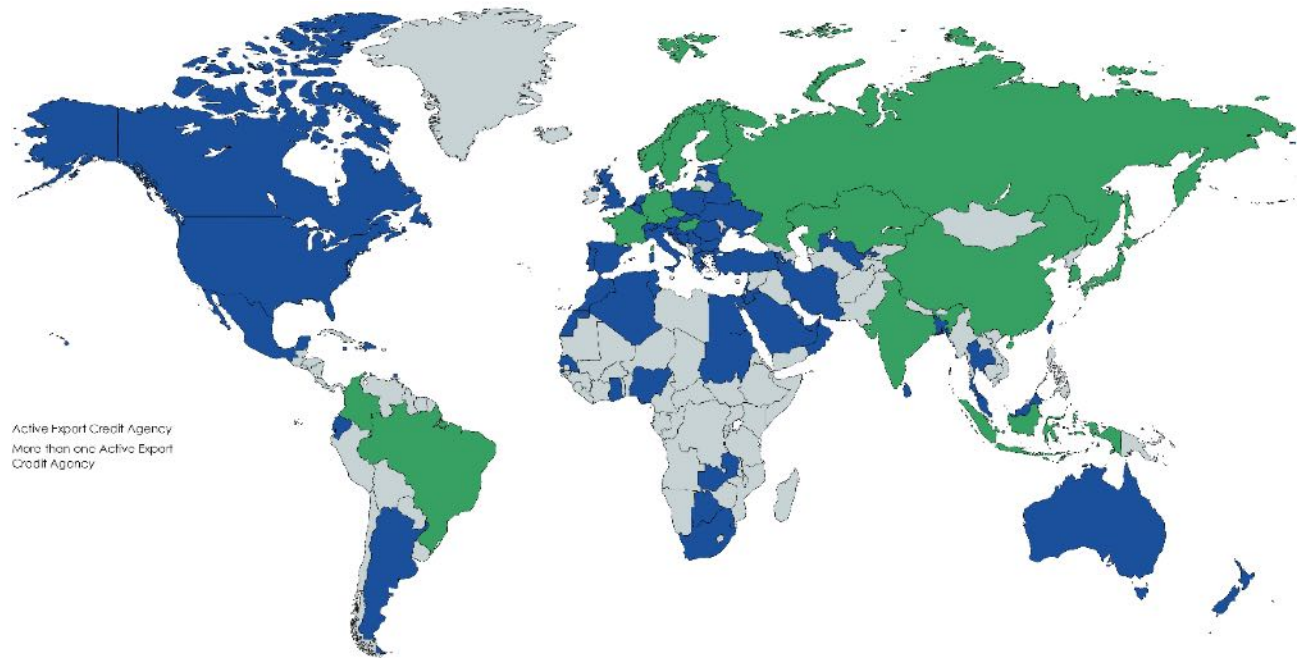
1. BACKGROUND: EXPORT CREDIT AGENCIES

- **Characteristics**

- Public owned
- Core Services: Credit; Insurance; and Guarantees
- Concessional finance

- **Objectives**

- Facilitate economic growth by promoting domestic production and exports and creating jobs
- Address market shortcomings (e.g. SMEs, Risk)
- Foster economic local development



1. BACKGROUND: EXPORT CREDIT AGENCIES

- **Critiques of ECAs**
 - **No universal consensus of benefits of ECAs**
 - *'different econometric modelling approaches, factoring in different constants and variables and arriving at different conclusions'*
 - **'Boeing's Bank'** - only cater for large firms (e.g. US Exim Boeing, GE and John Deere constitutes 75% of financing, 10% of transactions)
 - **Corporate Profits** - subsidies are employed to boost corporate profits, but despite overall welfare increased (e.g. due to a higher number of jobs), there is still an overall net loss for economies
 - **Crowding Out** - no private financing alternatives (e.g. acting as the lender of last resort) vs subsidised rates against which private financiers cannot compete

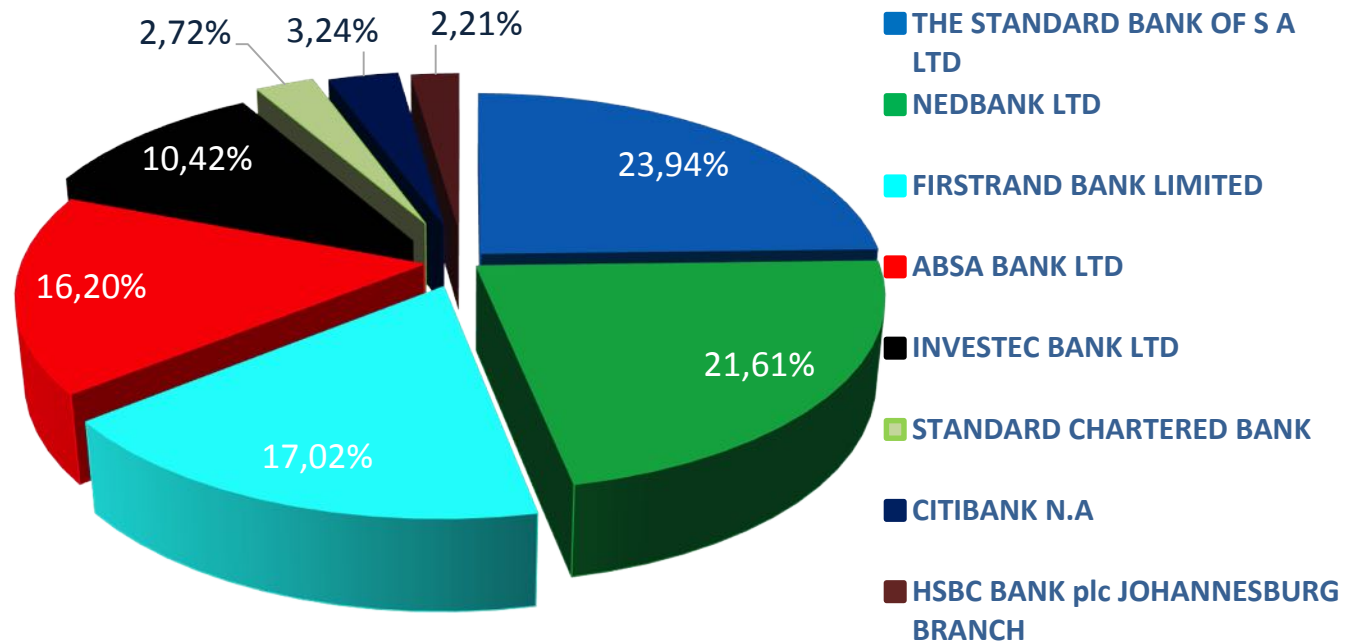
- **Export Credit Insurance Corporation**
 - State-owned enterprise (only shareholder is the dti)
 - **Mandate:** Facilitating international trade (esp. intra-Africa) through commercial and political risk **insurance** to domestic exporters of capital goods and services (which, in turn, facilitates loans)
 - Differentiates from other insurers by large appetite for risk and underwriting large, long-term projects with flexible conditions
 - Expresses need for fully-fledged SA ECA
 - Commissioned independent study in viability of SA ECA – but would require significant financial resources
 - Become shareholder of the African Export-Import Bank – November 2017
 - Offer services of Afreximbank & capacity building

- **Industrial Development Corporation**
 - Lender of last resort in the South African **trade finance market** (S,M,L)
 - Guarantees – one of IDC’s most popular trade finance solutions
 - Objective: advancing sustainable industrial development
 - Aligned with SAG efforts to promote industrialisation
 - IDC’s risk appetite is higher than PS – e.g. Sudan and Mozambique
 - IDC offer competitive medium-to-long term loan facilities
- **Other initiatives** - e.g. dti’s Capital Projects Feasibility Programme (cost-sharing grants for feasibility)

- **Private Financial Services**
 - **Four Major Banks (ABSA, Nedbank, FirstRand, Standard)**
 - Letter of Credit / Documentary Credit facilities;
 - Documentary collections;
 - Local and foreign guarantees;
 - Business global accounts;
 - Foreign exchange;
 - Collateralised stock financing;
 - Financing of inventory, receivables and materials in transit; and
 - Logistics and equipment import finance.
 - **Bulk of financing to MNCs and listed companies**

2. STOCKTAKE OF SA FINANCIAL SERVICES

Average market share for Guarantee facilities extended between July 2014 and February 2017



- **Non-Banking Financial Sector**
 - International Finance Corporation
 - Guarantees, on-lending to large financial institutions
 - China Construction Bank
 - Full range of trade finance solutions
 - Credit Guarantee Insurance Corporation
 - Largest (private) trade credit insurer

2. STOCKTAKE OF SA FINANCIAL SERVICES

- Summary?
 - Broad range of services already available from public, private and non-banking financial service providers already available
- Challenges?
 - Small Medium Enterprises
 - Better coordination between DFIs (e.g. CDB, CEXIM, Sinosure)
 - Lengthy loan-application process (fast-tracked process)
 - Pre-shipment finance (SA Capital Equipment Export Council)
- Nevertheless, intent from industry and SAG is still to create a SA ECA – financial constraint

3. INTERNATIONAL ECA DYNAMICS

New Major Medium- and Long-Term Official Export Credit Volumes

In 2016, 26 countries provided noteworthy levels of export credit for MLT transactions. Among this group, the United States provided the least amount of financing.¹⁹

in billions USD

OECD Countries/Participants to the OECD Arrangement

- Austria (0.8)
- Belgium (3.3)
- Canada (2.1)
- Denmark (1.9)
- Finland (1.1)
- France (9.4)
- Germany (9.7)
- Hungary (0.5)
- Italy (10.3)
- Japan (1.6)
- Korea (7.4)
- Netherlands (2.7)
- Norway (1.6)
- Spain (2.4)
- Sweden (4.8)
- Switzerland (1.2)
- United Kingdom (3.9)
- United States (0.2)
- Other OECD Countries (0.8)

Non-OECD Countries/Non-Participants to the OECD Arrangement's General Provisions but Participants to the Aircraft Sector Understanding

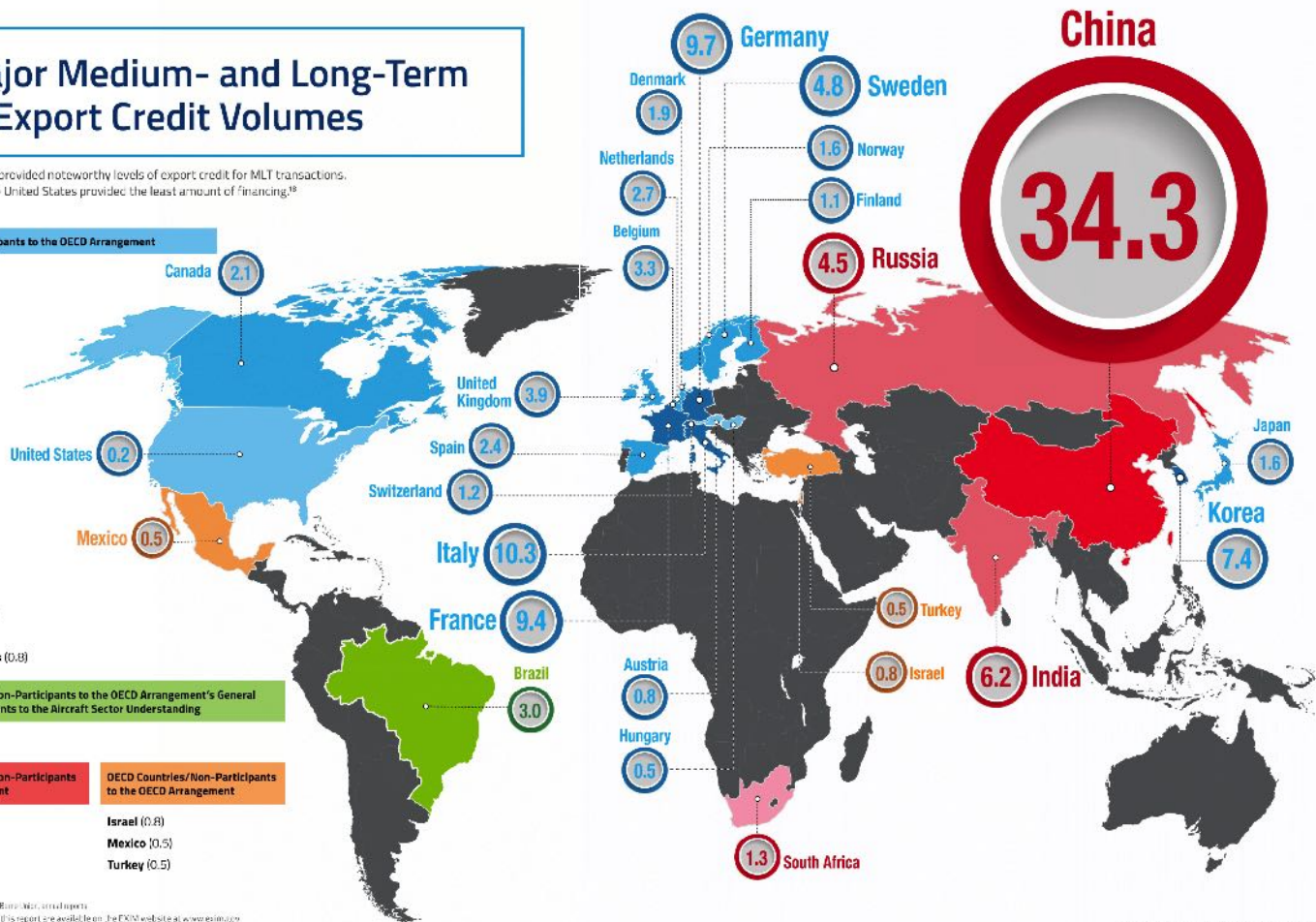
- Brazil (3.0)

Non-OECD Countries/Non-Participants to the OECD Arrangement

- China (34.3)
- India (6.2)
- Russia (4.5)
- South Africa (1.3)

OECD Countries/Non-Participants to the OECD Arrangement

- Israel (0.8)
- Mexico (0.5)
- Turkey (0.5)



¹⁹ Based on data from the OECD Arrangement's General Provisions but Participants to the Aircraft Sector Understanding. For more information, see the OECD website at www.oecd.org.

- **Global Financial Crises**
 - **Dramatic impact on trade and trade finance broadly**
 - Reduced **production** and trade finance (decline in trade growth from 7+% pre-GFC to 1.5% in 2016)
 - Developing countries perceived ‘more risky’
 - Basel III - tighter capital and liquidity requirements and leverage ratios
 - **Trade Finance Gap Remains**
 - 2012 - \$1.9 trillion; 2014 - \$1.6 trillion; 2017 - \$1.5 trillion
 - Trade as a catalyst for economic development globally

3. INTERNATIONAL ECA DYNAMICS

- **OECD Agreement**
 - Subsidy heavily distort global supply and demand trends
 - OECD ‘gentleman’s agreement’ in 1973 to prevent subsidy war
 - Set parameters for financing (e.g. interest rates, risk fees, and repayment terms)
 - Non-OECD countries not bound to this Agreement: in 2011 more than half of ECA activity was still done under the OECD Agreement, but by 2017, less than a third of activity was conducted under the Agreement

Participant to the OECD Arrangement Arrangement MLT Programs	Participant to the OECD Arrangement Non-Arrangement MLT Programs	Non-Participants to the OECD Arrangement
	Australia	Brazil
	Austria	China
	Belgium	India
	Canada	Israel
Denmark		Mexico
Finland		Russia
France		South Africa
	Germany	Turkey
	Italy	
	Japan	
	Korea	
	The Netherlands	
	Norway	
Spain		
	Sweden	
Switzerland		
United Kingdom		
United States		

4. CONCLUSION

- **Conclusion?**
 - SA has range of trade finance providers that caters for market needs
 - Yet, seems strong drive to set up SA ECA – financial constraint
 - Changing international dynamics to consider – trade finance market more competitive and unpredictable
- **Working Paper** – welcome comments and feedback