



Growth through global trade

**CABRI's - RAISING AND MANAGING PUBLIC DEBT FOR POST-COVID RECOVERY**

What role can ECAs play in supporting the market to issue sustainably and in a cost-effective manner?

*6-7 July 2021*

# Sustainability is about ... Long-term & Low-cost



A Great Example:

West African Sovereign

€326m Contract

To build 6 new hospitals

13.5 Year Financing

One ECA

With Direct Lending at the OECD CIRR

Coupon in €0.32% - Fixed

Signed 1<sup>st</sup> Quarter 2021

Public announcement expected July 2021

# ECA Overview



- ECA's are **government institutions** in major exporting countries that provide support to facilitate international trade and export transactions through bank guarantees and/or direct lending
- ECAs provide the following benefits to African Borrowers:
  - **L**onger tenors
  - **L**ow cost (low margins - no cost of carry)
  - **L**iquidity
- Very well suited to infrastructure projects
- Greater scope to structure a flexible package (i.e. interest rate, local currency, multicurrency options)
- Generally covenant lite

General OECD benchmark terms	
<b>ECAs can Cover</b>	<ul style="list-style-type: none"> <li>▪ 85% of export content</li> <li>▪ Interest during construction</li> <li>▪ Up to 50% cover for local costs</li> <li>▪ 100% of ECA Premium</li> </ul>
<b>Drawdown</b>	<ul style="list-style-type: none"> <li>▪ Mirrors contract payments</li> </ul>
<b>Repayment</b>	<ul style="list-style-type: none"> <li>▪ Grace period for construction</li> <li>▪ Up to 18 year tenors</li> <li>▪ Instalments are generally equal semi-annual</li> </ul>
<b>Premium</b>	<ul style="list-style-type: none"> <li>▪ Dependent on credit &amp; tenor</li> <li>▪ Paid upfront or financed within the facility</li> </ul>
<b>Interest</b>	<ul style="list-style-type: none"> <li>▪ Commercial - floating or fixed</li> <li>▪ ECA direct lending - CIRR</li> </ul>
<b>Guarantees</b>	<ul style="list-style-type: none"> <li>▪ Up to 100% of the ECA loan value for both political and commercial risks</li> </ul>

# Some of the major ECAs



Australia 	Austria 	Belgium 	Canada 	China 
Denmark 	France 	Finland 	Germany 	Italy 
Japan 	Luxembourg 	Netherlands 	S. Korea 	Norway 
Spain 	Sweden 	UK 	USA 	Islamic Countries 

# Direct Lending



- Not all ECAs are the same - some ECAs provide “Direct Lending”
- Rates are publicly quoted. Based on the OECD Commercial Interest Reference Rate (“CIRR”)
- Fixed rate funding (with no commitment fees on the undrawn portion)
- Considered the most attractive form of funding
- All in costs (even with the ECA premium added) is substantially lower than bank or bond market
- And long term: E.G. Renewable Energy Projects 20 year financing
  - 2 years Drawdown
  - 18 years Repayment
  - Fixed rate CIRR: Currently US\$2.82% or in Euro €1.06%
  - With an annualised ECA premium circa 1%p.a. – which can be 100% financed via the ECA

# ECAs Provide a number of Advantages



## But it is important for the Sovereign to take control of the whole process

- ECAs may not offer their best terms and conditions – there is a lot to negotiate on
- Need to introduce competitive tension to get full transparency and best terms
- The banks will be keen to secure the financing – but their pricing will differ from one to another
- **CARE:** In many cases the banks will **NOT** disclose to the Sovereign the CIRR rate (CIRR is cheaper than Bank funding)

## Don't assume that your interest as the Sovereign and that of the ECA are aligned

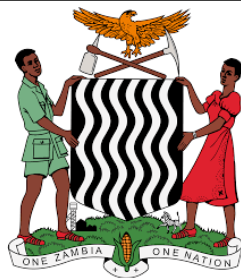
- The ECA wants to support the Exporter to ensure they win the deal
- The Exporter wants a payment mechanism to ensure they get paid - but often have little to no interest to ensure that the financing is the cheapest in the market
- The relationship between the Exporter and its ECA is different from that between the ECA and the Sovereign Buyer. This needs careful managing to protect the Sovereign's interest
- Sovereign will need to seek transparency but at the same time ensure the project goes ahead smoothly in a timely manner

# ECA Funding – Tender Panel



- Tender panel process where potential funds providers compete for the funding
- Creates maximum price competition and drives liquidity
- Provides internal accountability and true price transparency for the Sovereign – both now and for future records / scrutiny
- 2 stage approach
  - a soft sounding to potential fund providers - different providers have different pricing for specific ECAs
  - followed by full International Tender Panel – that can include the OEMs banks
- Access to the whole host of investors – both bank and non-bank
- Bids into the ECA Advisor with a copy to the Sovereign
- Selection based on a key matrix – with Sovereign having the ultimate say
- Using the OECD fixed rate CIRR (Direct Lending) as the backstop rate, where applicable

# Republic of Zambia – A recent Case Study



## Republic of Zambia

USD 291m  
13.5 Year UKEF Direct Financing  
For Hospitals & Health Clinics

Advisor  
2020



### GKB's Role

- Sole Advisor to Ministry of Finance Zambia
- Advised on funding strategy for both uncovered and ECA covered tranche
- Advised on the optimal market structure, strategy and timing with MoF
- Advised on securing the maximum level of Direct Lending
- Appointed to secure the lowest funding cost for MoF

### What Was Achieved?

- 100% Direct Lending – the largest ever direct lending facility in Africa
- Secured a fixed interest rate of 2.64% for the full 13.5 year tenor
- Locked in a lower premium rate for the MoF
- Delivered a low all in cost for MoF
- Enhancing affordability and saving MoF c. \$40m across the life of the facility



# Why Appoint an ECA Advisor?



- The banking market is increasingly regulated, volatile and fragmented
- Bank pricing in the ECA market is also volatile with little to no transparency
- Many international banks have retrenched from Africa
- ECAs may not lead with the best offer – you need to negotiate on what is possible
- Having an ECA Advisor on your side of the table ensures
  - Transparency & Accountability
  - That the debt is properly structured to the needs of the project
  - That you take advantage of potential embedded risk management tools to suit your Debt Management goals
  - That you get the best terms and conditions
  - That issues like premium, covenant and legal package are all at “market”

**Pick an ECA Advisor with the specialist skills & importantly  
WHO ARE INDEPENDENT...**

# Summary & Contact Details



- ECAs - are the cheapest form of long term debt into Africa
- Value up to 85% of the Contract Value. Up to 18 years repayment terms (post delivery)
- Low Fixed Rate Finance – but you need to negotiate
- BUT it is important to start early - prepositioning is key
- If you are not totally familiar with the ECA process - get an ECA advisor

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