German Export Credit Guarantees and how they support your trade activities during the COVID-19 crisis

Program of the Webinar:

- Euler Hermes, the Mandatory of the Federal Government
- Framework and OECD rules
- Covid 19 and Euler Hermes Support
- Products and key take-aways

Eva Roesler, Competence Centre for German Export Finance, Nairobi

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Supported by:

- Federal Ministry for Economic Affairs and Energy
- AHK Delegation of German Industry and Commerce for Eastern Africa
- Delegation der Deutschen Wirtschaft für Ostafrika

on the basis of a decision by the German Bundestag.
Federal Government Guarantees

Export Credit Guarantees and Untied Loan Guarantees have been effective instruments of the Federal Government for decades.

- **Export Credit Guarantees ("Hermes Cover")** protect German exporters and the banks financing their activities against political and commercial risks.
- **Untied Loan Guarantees** are being utilized to support raw material projects abroad that are regarded eligible for the promotion by the Federal Government.

Both promotion instruments play an important role in fostering economic growth as well as protecting and creating jobs.

They are managed on behalf of the Federal Republic of Germany by Euler Hermes AG as the mandatary of the Federal Government, and hence Euler Hermes is considered the national Export Credit Agency (ECA) of Germany.
In Figures

Euler Hermes

Active on behalf of the Federal Government since 1949, combining the expertise of 400 employees.

Current portfolio EUR 86.5 bn is fully underwritten by the Federal Republic of Germany with AAA rating.

Overall volume of cover EUR 21bn (YE 2019)

For Africa: EUR 2.95bn

Doing business with 1,600 exporters and banks.
German suppliers offer a diverse range of goods and services – EH supports (almost) all industries, sectors and/or structures.
German Export Finance “Ecosystem”

Federal Government

German Exporters

International Banks

Chambers of Commerce

ECAs

Competence Centers for ECGs @ AHK

Dubai | Nairobi | Singapore

Euler Hermes

Export Credit Guarantees of the Federal Republic of Germany

Hermes Cover
Financial Experts in Importer Markets

Competence Centers for German Export Finance

Singapore - Markus Leichum  
markus.leichum@sgc.org.sg  
+ 65 6433 5330

Dubai - Eva Steinhaus  
eva.steinhaus@ahkuae.com  
+ 971 4 876 9007 | + 971 52 255 7725

Nairobi - Eva Rösler  
eva.rosler@kenya-ahk.co.ke  
+ 254 20 6633 000 | + 254 721 752540

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Hermes Cover Framework

Manufacturing Risk Cover
Insurance of production costs in event of buyer insolvency or contract termination

Supplier Credit Cover
Whole turnover policy (light), revolving cover and single transaction cover, insurance of costs of buyer default and insolvency

Cover for Specific Risks
Cover for service providers, leasing cover or cover for constructional work

Supplementary Cover
Insurance against confiscation risk

Buyer Credit Cover
Cover in the event of borrowers default on loans extended to finance procurement of goods; revolving buyer credit cover and framework credit cover

Bank Guarantee Cover
Cover in the event the exporter fails to indemnify the bank on bid bonds, counter guarantees, securitization guarantees

LC Cover
Cover in the event of loss from LC confirmation
Export Credit Guarantees – Hermes Cover

• *Protect export transactions* in difficult and high-risk markets, against a payment default for commercial and political reasons

• *Hermes Cover* is *only* to be had where the private industry does *not* offer appropriate or sufficient insurance cover

• Consequently, the Federal Government concentrates on export credit guarantees *for emerging economies and developing countries* (*new rule Covid 19*)

• Hermes Cover helps to *open up markets*, which are difficult to access, and to maintain business relations in challenging circumstances

• *Commercial* and *political* risk: *Improving cover policies for selected African counties*: Reduction of uninsured portion for countries within the G20-initiative "Compact with Africa“ to 5 %
What does an export credit guarantee cost

The policyholder pays a processing fee and a risk-based premium in return for receiving cover.

The amount of this premium primarily hinges on three factors:

- the duration of the contract
- the OECD risk category of the importing country (1-7)
- the buyer’s credit rating
- the currency

ECA premiums are harmonized under the OECD rules, the country risks are determined by the OECD export committee.

Payable upfront as a flat fee or financed under ECA facility.
OECD Consensus
Arrangement on officially supported Export Credit Terms for transactions with credit periods > 2 years

Rules governing credit terms, e.g.
- Credit: 85% of the order values at most (15% advance / interim payment)
- Local costs: 23% of the total order value at most (30% export contract value)
- 49+ rule of the German Government
- Payment terms: equal instalments
- Starting point: at the latest 6 months after delivery / commissioning

Rules governing minimum interest rates (CIRR rates*)

Rules governing minimum premiums on the basis of
Risk: country and buyer risk, collateral
Horizon of risk (maximum repayment terms/sector/category)

Objective: Level playing field for all exporters receiving official support
Country Risk Categories for Eastern Africa
ETHIOPIA: Compact with Africa Country

Reduction of uninsured portion for countries within the G20-initiative “Compact with Africa“ to 5 %

Short-term Business:
There are no formal restrictions on cover

Medium/long-term Business
Cover facilities are available on a case-by-case basis. In addition, cover is available for project financed and other structured finance deals, where necessary based on countertrade transactions. Transactions with public buyers are governed by the OECD’s sustainable lending principles

Collateral
For transactions with private buyers bank security is required if the foreign buyer’s creditworthiness is inadequate. For transactions with public buyers a guarantee from the Ministry of Finance or the central bank is always required. For medium/long-term transactions with public buyers additional, project-related risk mitigation measures must be agreed in case of doubt. For medium/long-term transactions with public buyers which are established as private sector organizations the same collateral requirements as for private buyers apply.
KENYA

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Collateral:

For transactions with credit periods of less than 360 days collateral is not normally required

As a rule, guarantees from the Ministry of Finance or the central bank are required for medium/long-term transactions with public buyers
RWANDA
Compact with Africa Country

Reduction of uninsured portion for countries within the G20-initiative "Compact with Africa" to 5%

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**TANZANIA**

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For credit transactions with public buyers the uninsured percentage under buyer credit cover is 10%. The amount of the uninsured percentage’s mark-up may only be passed on to the exporter. In connection with supplier credit cover the uninsured percentage cannot be reduced to 5%.

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Covered volume in sub-Saharan Africa\(^1\) (million EUR)

**TOP 10 countries (2019)**

- **South Africa**: 199.7
- **Angola**: 111.9
- **Kenya**: 87.3
- **Nigeria**: 51.3
- **Uganda**: 50.8
- **Togo**: 33.4
- **Côte d'Ivoire**: 32.3
- **Senegal**: 23.2
- **Tanzania**: 20.6
- **Ghana**: 12.7

\(^1\) Africa without Egypt, Algeria, Tunisia, Morocco, Libya
COVID-19 and how Euler Hermes can support your activities in Eastern Africa
Newly covered exports

in EUR billions*

Financial Crisis

Euler Hermes an important partner during crisis times

*Rounding differences
Covid-19 and the support from Euler Hermes

- Euler Hermes instruments are still available - even in these times
- Euler Hermes will provide cover against commercial and political risks
- The risk perspective from Euler Hermes remains unchanged
  - Risk analysis: last three annual reports + substance and stability of the risk counterpart (track record buyer)
- Different Instruments to provide cover from the manufacturing period to the period after delivery
- Euler Hermes and the Federal Republic of Germany: decisions will be made as quickly as possible
- Task force to provide legal support for guaranteed transactions during the Covid-19 crisis.
How Euler Hermes can help you to effectively support your activities

Euler Hermes offers third-party credit support to German exporters and their banks by virtue of comprehensive insurance and / or guarantees.

Euler Hermes enable banks to benefit from the AAA-credit rating of the Federal Republic of Germany, limiting banks’ capital requirements and thus freeing up lines to you as importer.

Euler Hermes enables but also requires (at least partial) German sourcing as a core prerequisite to access our product suit.
Supplier Credit Cover - Exporter

- Target group are German exporters (and German branch offices of foreign companies)
- Receivables arising from the export of goods & services
- Credit period: short-term < 2 years*, medium / long-term > 2 years
- Covered risks: protracted default for 6 months after due date, additional commercial (e.g. insolvency) and political risks (e.g. war)
- Uninsured percentage: 5% for political risks, 15% for commercial risks (currently 5% possible)

* < 2 years credit period; no cover of „marketable risks“ (EU member states and OECD cover countries)

- Premium: certain percentage of the order value
- Fees depending on the order value
- Forfaiting possible
- Supplementary cover: manufacturing risk cover, confiscation risk cover, contract bond cover and Counter-guarantee
Supplier Credit Cover – Structure

1. Exporter & buyer enter into a Commercial Contract, buyer pays 15% Downpayment
2. Hermes issues its insurance or guarantee for the benefit of the Exporter
3. The Exporter delivers the goods & services and completes the project
4. Upon completion of the project/mean delivery period, the buyer starts repayment

A. Refinancing

B. Assignment of claims related to:
- the Guarantee
- Receivables under the export contract

- Additionally, the exporter can enter with a bank into a forfaiting contract which would enable him to sell all the arising claims under the Supplier Credit Guarantee may together with the title to the amounts receivable under the export contract.

→ You will receive 95% of the covered amount.
Financing for Buyers

typical Hermes covered Financing Structure (Buyer Credit)

1. Exporter & buyer enter into a Commercial Contract, buyer pays 15% Down payment; Bank & buyer enter into a Loan Agreement

2. Hermes issues its insurance or guarantee for the benefit of the Bank, Hermes enters into a Recourse Agreement with the exporter

3. As and when the Exporter delivers the goods & services and/or achieves milestones under the commercial contract/loan agreement, the Bank disburses funds

4. Upon completion of the project/mean delivery period, the buyer starts making repayments of principal amount and interest to the bank as per the Loan Agreement

Commercial Contract

1. 15% Downpayment

3.1 Capex Deliveries

3.3 Disbursement

3.2 Present Disbursement Certificates on Contract Performance

Loan Agreement

4. Interest and Repayment

Recourse Agreement

Guarantee / Insurance Policy

Importer
Financing for Importers

Buyer Credit

Advantages Importers:

✓ Access to attractive long term USD and EURO financing
✓ Tenor 5-10 years (longer if sustainable energy)
✓ Competitive Pricing
✓ Premium financed under ECA facility

Advantages Exporters:

✓ Reduction / Elimination of country risk and payment risk of the importer (→ ECA)
✓ Financing solution as an competitive advantage
✓ Immediate liquidity (cash)
✓ Improvement of balance sheet & accounting ratios (KPIs* ) - no negotiations on finance terms
FINANCING OF INVESTMENT OF A SPECIAL PURPOSE COMPANY

Euler Hermes is supporting the project during all cycles:

- Structure
- Agreement
- Construction/Implementation/Running

**Attention:** Project risks (legal, technical, market and commercial) are continuously monitored. Due Diligence reports, term sheets, technical reports, financial models, project-contracts, …. have to be delivered (Costs!)

**Analysis based on (future) income of the SPC**

For example: Wind-energy, High-speed rail projects, Hydro Power, Solarparks

Average amounts/project: ~ 50 Mio E
Manufacturing risk insurance - Exporter

- Manufacturing risk insurance provides protection against financial consequences of a production stoppage
- For example because of the coronavirus situation:
  - it is at least unreasonable to continue production and/or the shipment of manufactured goods
  - It is no longer expected that your customer will continue to comply with the export contract

- Covid-19:
  - Political cover: Covid-19 and consequent government actions are not considered political risk events; however the protection and right to a claim may arise due to the
  - Commercial cover, if the buyer’s obligations under the to supply contract are still valid (i.e. there is no force majeure clause that would give the buyer the right to cancel the contract)

Recommendation:
- In cases where your buyer is unable to continue the contract please inform Euler Hermes immediately
Why are Export Credit Guarantees important during crisis times?

- Exporters and Banks:
  - The Federal Government offers extensive protection especially for the risk of debt default of your customers → also your reliable long-term customers can suddenly run into payment difficulties
  - Existing guarantees are not limited or will be canceled because of Covid-19
  - **Important:** Please ensure that payment obligations are still decisive and that a force majeure clause does not apply in case of Covid-19
    - Please check your export contract:
      - How are the risks of unforeseen events occurring during the performance of the contract distributed?
      - Are there rights of termination?
      - Do you bear the procurement risk if your subcontractors cannot deliver on time due to unforeseen circumstances or do you yourself have the right to terminate the contract in order to prevent the drawing of contract bonds?
Can all exports now be covered?

- Exports of German registered Companies can still be covered if the criteria of eligibility for promotion and risk justifiability are both checked and approved for each individual case during the application procedure.
  
- The economic impact of the Covid-19 crisis may play an important role in this context.

- The Government will insure that enough funds for granting cover will be available to support your exports or the financing provided for an export transaction.
Key Takeaways

Euler Hermes:

• Provides cover for political and commercial risks even in these complicated times
• Risk policy remains unchanged
• Is a reliable partner especially during and after a crisis
• Offers a wide variety of products to supports Exporters and Importers
• Export Credit Guarantees are important to implement a financing structure which benefits buyers
• Employees in Hamburg or the financing experts in Dubai, Nairobi and Singapore are here to support you. **Please contact us 😊!**
For more information, please visit / contact:

Eva Roesler
Competence Centre for German Export Finance
Tel: +254 20 6633000
Mob: +254 721 752 540
eva.foesler@kenya-ahk.co.ke

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