Introduction to UK Export Finance:
Making exports happen

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Presentation on UK Export Finance (‘UKEF’)

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Scope

1. Who are we?
2. What do we do and who can we support?
4. Eligibility criteria
5. Product summary
6. Export business – challenges and risks
7. Product review and analysis (optional)
8. FAQs, co-operation, future engagement and Case Studies.
1.1 Our mission

► UKEF’s mission is to ensure that no viable UK export fails for lack of finance or insurance from the private sector

► We help UK exporters:
  ► Win export contracts by providing attractive financing terms
  ► Fulfil orders by supporting working capital loans
  ► Get paid by insuring against buyer default

► We work with colleagues in DIT, HMT and other departments in the UK and overseas to support HM Government’s export aspirations
1.2 About UK Export Finance

We:

► Are the UK’s export credit agency (ECA)

► Were established in 1919 as the Export Credits Guarantee Department – the world’s first ECA

► Support the export of goods, services and intangibles

► Complement rather than compete with the private sector

► Operate at no net cost to the taxpayer – we charge a premium that covers the risk plus a contribution to our running costs

► Provide award-winning support for UK exporters:
  ► We received the TXF News Exporters’ Choice Award in 2015 and 2016
1.3 Key statistics – 2015-16

We supported 279 companies this year – 23% more than last year.

77% of exporters benefiting from our support in the UK are SMEs.

An estimated 7,000 companies indirectly benefited from UKEF’s support in 2015–16 through exporters’ supply chains.

In 2015–16 we provided £1.8 billion of support for exports to 69 countries.
2. What do we do?

- **Exporter**
  - Export Contract
    - Export Contract Insurance
    - Bond Insurance
    - UKEF
      - Guarantee of repayment
      - Working Capital Facility
      - Bonding Facility
    - Bank
  - UKEF
    - Supplier Credit
    - Buyer Credit
    - Direct Lending

- **Foreign Buyer**
3. Export Finance Advisers

- Exporters
- UKTI and Associations
- Banks
- Export Finance Advisers
  - Short term products (2 years)
  - Medium term Products (2 to 18 years)
  - Direct Lending
  - Private Market
  - Trade Associations
4. Eligibility criteria

- Must be an underlying commercial contract between a UK domiciled company (seller) and an overseas domiciled company (buyer).

- Export contract must include at least 20% UK content, this can be a service, design, engineering or project management element and which may include some profit.

- UKEF credit risk is on the UK exporter; we only share in contract-related security.

- No minimum nor maximum contract value nor business size.

- Work closely with banks and or alternative fund and insurance providers.
## 5. Product Summary

<table>
<thead>
<tr>
<th>Product</th>
<th>Cover (Up to)</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Insurance</td>
<td>100%</td>
<td>Support for exporter insurance.</td>
</tr>
<tr>
<td>Bond Support</td>
<td>80%</td>
<td>Support for bank issued bonding.</td>
</tr>
<tr>
<td>Working Capital</td>
<td>80%</td>
<td>Support for bank provided working capital.</td>
</tr>
<tr>
<td>EXIP</td>
<td>95%</td>
<td>Support for exporter contract insurance.</td>
</tr>
<tr>
<td>Letter of Credit</td>
<td>95%</td>
<td>Support for L/C (performance) risk.</td>
</tr>
<tr>
<td>Supplier Credit</td>
<td>85%</td>
<td>Support for supplier extending credit to buyer</td>
</tr>
<tr>
<td>Buyer Credit</td>
<td>85%</td>
<td>Support directly to extend buyer/borrower credit</td>
</tr>
<tr>
<td>Direct lending</td>
<td>85%</td>
<td>Support for funding/liquidity.</td>
</tr>
</tbody>
</table>
6.1 Export customer wins an export order!

- May be its their first, or represents a large portion of your revenues?
- This is a new buyer or market they’ve not worked with before.
- Is this first time exporting, need a helping hand?
- Have they been thinking about overseas expansion?
- Have they tried to raise bank finance for an export without success
6.2 What financing questions do they face?

- Do I need to provide bonding?
- How to I get paid?
- How do I manage exchange risk?
- What cash flow needs might I have?
- Should I insure my contract?
6.3 Export business - challenges and risks

- **Payment risk**: Help through insuring your export contract against non payment risk, (and when private market insurance is limited).

- **Delayed payments**: Working capital support to provide cash flow cushion.

- **Currency (availability) risk**: Support from insurance of export contract (as above) and letters of credit insurance and payment mechanism. Also Direct lending scheme provides hard currency support.

- **Political risk (specific or general)**: Insurance and support for working capital and bonds if issued.

- **Buyer and borrower risk**: Utilise borrower finance through supplier and buyer credit to advance credit but improve documentary and political risk support.
6.4 The payment risk ladder

- **Import**
  - HIGH RISK
  - Advance payment
  - Transferable letter of credit
  - Letter of credit
  - Avalised bill
  - Documentary collection
  - Open account

- **Export**
  - LOW RISK
  - HIGH RISK
6.5 Export Finance Universe

- Banks
- Trade Credit Insurance
- Non Bank finance providers
- UKEF
6.6 Export Finance Universe

- Banks
- Non Bank
- Trade Credit
- UKEF

Solution
7.1 Trade Finance and Insurance Solutions

Primary focus - contracts of less than 2 years

Bank Guarantees

- Bond Support Scheme (7.2)
- Export Working Capital Scheme (7.3)

Insurance Policies

- Bond Insurance Policy
- Export Insurance Policy (7.4)
- Letters of Credit
7.2 Bond Support Scheme (‘BSS’)

- Driven by bank to secure support for their customer bonding requirements. Participating bank issues a contract bond (or indemnifies another bank issuing the bond) for UK export contract.

- We guarantee up to 80% of the bond if our minimum risk standard is met.

- UKEF credit risk is on the UK exporter; - we only share in contract-related security.

- Flexible as to bond type: tender, performance, advance payment, retention, but not warranties per se.

- Most popular as easily fits within existing bank products.

- Can be combined with a wider bond and export working capital facility.
7.3 Export Insurance Policy (‘EXIP’)

- Insures exporter against risk of –
  - (i) non payment or
  - (ii) political risk or
  - (iii) non-performance due to external factors

- All sectors and up to 95% cover
- Can be introduced by broker
- Not for EU / rich OECD markets below 2 year risk horizon
  - (except Greece, Israel, South Korea)
- Export contract specific i.e. not whole of turnover business
- Exporter to have attempted to obtain cover private insurer
- The exporter applies to UK Export Finance for cover.
7.4 Export Working Capital Scheme

- Relates to specific export contracts / buyers
- Guarantee to banks to cover the credit risks of export working capital facilities
- UKEF guarantees up to 80% risk
- UKEF credit risk is on UK exporter not bank’s fixed and floating charge
- Useful where a UK exporter wins an overseas contract higher in value than is typical wins more overseas contracts than it has done before

- Minimum 20% UK content
- Maximum loan-to-contract percentage is 75%
- Maximum loan repayment term is 2 years (no minimum)
7.5 Medium term buyer/borrower financing.

- **Buyer and Supplier Credit**
  - Bank Loans to overseas buyers guaranteed by UKEF
  - Up to 85% contract value
  - Supplier Credit < GBP5 million
  - Buyer Credit > GBP5 million

- **Direct Lending (3.4)**
  - Upto 85% contract value
  - No fixed upper or lower limits
  - 5 years+ repayment terms. Fixed interest.
  - Panel of 20 banks supporting the initiative
7.6 Supplier Credits.

- Relates to specific export contracts / buyers
- Guarantee to banks to non payment risk by buyer/borrower up to 85% of facility amount.
- Designed to reflect simpler export for goods and services where payment is against pre-agreed documentation.
- For example could support one or more L/Cs raised and issued by borrower’s bank in country.
- Simple documentation process and advancement of payment under secure arrangements to both exporter and buyer.
7.6 Supplier Credits cont., (Diag. 1)

- **UK exporter**
  - The exporter supplies capital goods and/or services to the buyer.
  - The bank pays the exporter.

- **Foreign buyer**
  - The buyer pays with bills or notes.
  - The buyer makes payments under the bills or notes.

- **Bank**
  - The bank purchases the bills or notes from the exporter.
  - We provide a guarantee to the bank that the buyer will pay the amounts due under the bills or notes.

- **UK Export Finance**
7.7 Buyer Credits.

- Relates to specific export contracts / buyers.

- Guarantee to banks to cover 100% non payment risk by buyer/borrower and or their bankers, i.e. 100% political and commercial risks.

- Designed for more complex exports where for example there is a underlying commercial contract requiring stage payments, payment against pre-agreed contract terms and template documentation.

- Typically requires a loan agreement to reflect the commercial contract and against which payment is made.

- Credit periods can be extensive (up to 18 years).
7.7 Buyer Credits cont., (Diag. 2)

The exporter sells the capital goods and/or services to the foreign buyer.

The bank uses the loan to pay the exporter for goods and/or services delivered.

The loan agreement is between the overseas buyer and the bank.

We provide a guarantee to the bank that the loan will be repaid.

UK exporter → Foreign buyer

Bank

UK Export Finance
7.8 Direct Lending.

- Relates to specific export contracts / buyers with funding directly provided by UKEF from a designated fund.

- UKEF acts as lender

- Bank to act as arranger and agent

- Typically used for limited recourse (project) financing for amounts of circa USD50m and above.

- Suited to markets or borrowers where foreign currency is restricted.

- Facility can be entirely Direct Lending or a mix of DL and Buyer Credit facility providing a mix of lending and guarantees from UKEF.
8.1 Co-operation and future engagement

- Early dialogue and engagement is important.
- Ongoing training of key staff.
- Complete and thorough documentation saves time and confusion.
- Always pleased to discuss transactions and join meetings.
- Use EFA network to help with ensuring good three way communication and understanding between UKEF underwriting team, bank team and exporter.
- Avoid ‘kite flying’, key is preliminary internal credit appetite within bank. Please avoid a ‘would you support this’ approach without first internal review and discussion.
8.2 FAQs

- **Timing** - how long and complex is it (*last 3 years account, Management accounts, Business plan / forecast*)?

- **Costs** – will my fees and revenues be diluted - fees split pro-rata so no net increased cost to exporter.

- **Security** - how is any security shared; specific versus general security?

- **Credit and risk** - impact on credit and risk measures and decisions?

- **Black and white credit decisions versus risk mitigation/management and relationship optimisation.**

- **Benefit of UK Government support and involvement right across the export supply chain.**
8.3 Lessons Learned

- Both parties need to have a clear understanding of the business and the transaction(s). If EFA has met and understands the business, they’re in a much better position to convey a message to UKEF underwriters + keep us in the loop!

- Understand role of agent and intermediaries in export contracts.

- Post issue management process needs to be kept on top of – Bank not on cover unless they notify UKEF when loan is drawn / bond is issued

- Ensure UKEF are notified if loans repaid early.

- UKEF support allows company to grow and can be used to facilitate more opportunities.

- Joined up approach critical to success; improve and make seamless UKEF, banks, exporters, and private market solutions to provide a complete competitive solution to the overseas buyer/borrower.
8.4 Website & FAQ

Go to the full list of products and services
Check our country cover policy
Discover what our Export Finance Advisers can do for you
How to access export finance: a guide for banks
Export Insurance Policy: a guide for brokers
Case study: Support for major projects

► UKEF provided a US$870m loan for the US $19bn Sadara petrochemical project in Jubail Industrial City II, Saudi Arabia

► The project was sponsored by Saudi Aramco and Dow Chemicals in a joint venture

► UKEF’s support enabled a number of UK-based contractors, including Foster Wheeler, Jacobs and Fluor, to win contracts
Case study: UKEF helps SME NMS Infrastructure access emerging markets

► In October 2012, UKEF guaranteed a US $162.2m loan to the Ghanaian Ministry of Finance

► This financed a US $175m contract between the Ghanaian Ministry of Health and NMS Infrastructure for the construction of 7 district hospitals. The contract included medical supplies and an integrated IT system

► NMS is a relatively small business itself which has brought together around 50 UK SMEs to fulfil the contract
Alexander Dennis, a Scottish bus and coach manufacturer, won a contract to provide 253 buses in Toronto and Ottawa in Canada.

With the support of a £33 million guarantee from UKEF for a contract bond issued by HSBC, Alexander Dennis was able to access the working capital needed to fulfil the order.

“It was important for us to keep the negotiations moving at pace, to receive our advance payment. Principles were agreed quickly with the UKEF team, and we didn’t have to cut through layers of red tape to get a decision.”

Robert Davey, Group Commercial Director, Alexander Dennis
Case study: Supacat (SC Group)

- When SC Group won a significant contract to provide Supacat special operations vehicles for the Australian Government, it received a £10m advance payment to help it fulfil the order. In return, the buyer asked for an advance payment guarantee from SC Group’s bank, RBS.

- Due to the size of the contract, RBS required additional security, but with UKEF’s bond support scheme SC Group was able to access the finance required to fulfil the order.

“Without UKEF’s support, we would have had to look at less favourable financing options in order to deliver these contracts. Working with UKEF meant that we were able to access the finance we needed to sell to Europe and beyond and drive core revenue growth.”

Simon Haynes, Group Finance Director, SC Group
Case study: ES Global Solutions

► ES Global Solutions won a £1.2m contract to provide equipment for the triathlon on the celebrated Copacabana Beach as part of the Olympics in Rio, Brazil.

► However, due to the size of the contract, ES needed to mitigate the risk that it might not get paid.

► UKEF was able to provide reassurance in the form of export insurance, helping the company protect itself from any risk of non-payment.

“Without UKEF’s insurance, we would not have had the confidence to fulfil this contract, and we would have had to turn away a high profile customer and lose revenue.”

Olly Watts, Director, ES Global Solutions
Case study: General Electric

► In 2015, UKEF signed a Memorandum of Understanding with GE.
  ► UKEF confirmed appetite and capacity for up to £7.7 billion in support for GE’s exports from the UK
  ► Potential to create up to 1,000 jobs in the UK

► Signed on 24 September at No. 10.

“Export finance is a critical tool we use to support our customers. In today’s competitive environment, countries that have a strong Export Credit Agency (ECA) will attract investment.

“We are fortunate to have the support of UK Export Finance (UKEF) - one of the most flexible ECAs in the world. The UK is pro-export and pro-manufacturing.”

Jeff Immelt, Chairman and CEO, GE
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Thank You