

EXPORT CREDIT  
FINANCING SYSTEMS  
IN OECD MEMBER  
COUNTRIES AND  
NON-MEMBER  
ECONOMIES

United Kingdom

## UNITED KINGDOM

### 1. ORGANISATION AND STRUCTURE

#### 1.1 Insurance and guarantees

##### 1.1.1 *Representative organisation*

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##### 1.1.1.1 *Function*

ECGD's mission is: "to benefit the UK economy by helping exporters of UK goods and services win business and UK firms to invest overseas, by providing guarantees, insurance and re-insurance against loss, taking into account the Government's international policies".

ECGD's main functions are therefore to facilitate UK exports by providing insurance to UK exporters against the risks of non-payment by overseas buyers and guarantees to banks against non repayment of loans which they make to overseas borrowers to finance the purchase of goods and services from UK suppliers.

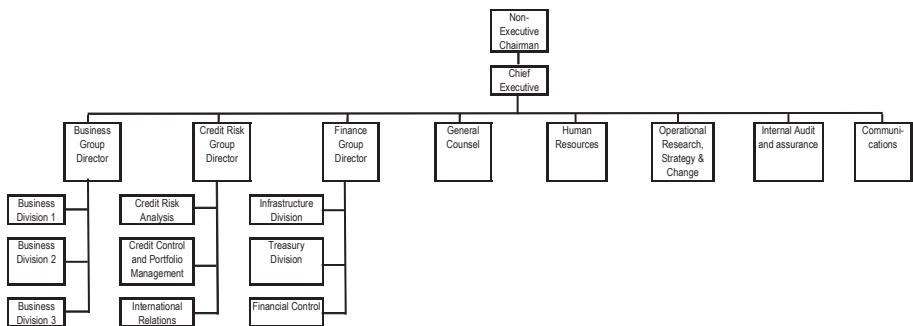
ECGD derives its statutory powers from the Export and Investment Guarantees Act 1991 (the "Act"). Guarantees are given to banks which provide

finance to overseas buyers in respect of the performance by UK contractors of major projects outside the UK and the supply by UK exporters of capital goods, construction works and services. Investment insurance is covered under Section 2 of the Act. Re-insurance may also be given to private-sector insurers to whom ECGD's term credit insurance activities were transferred for short-term export credits.

ECGD is expected to run its credit insurance operations so as to generate sufficient reserves to give the assurance that it will break-even which is required by the UK Government. ECGD publishes trading accounts and carries out all the administrative work necessary to meet these objectives. This includes processing applications for cover from initial receipt to issuing guarantee documents and the supporting tasks of obtaining relevant commercial and economic information about buyers, borrowers and countries; determining premium rates and methods of risk control; collecting premiums; handling and paying claims; keeping records of income, expenditure and reserves; and maintaining relations with similar institutions in other countries.

1.1.1.2 Summary of organisation

ECGD is a government department reporting to the Secretary of State for Business, Enterprise and Regulatory Reform and the Minister of State for Energy. ECGD's Executive Committee is responsible for the day to day management of ECGD's activities. It supports the Chief Executive in the discharge of his responsibility as ECGD's Accounting Officer for the overall management of ECGD within the policy and resource framework set by Ministers. ECGD is supervised by a Management Board which includes a Chairman, the Chief Executive and a number of Non Executive Directors.



#### *1.1.1.3 Resources*

ECGD derives its income primarily from premium charges for its policies. At the end of each day ECGD pays its cash surpluses into, or as the case may be, funds its cash deficit from, the UK Consolidated Fund. ECGD earns or pays interest on the positive or negative balance it holds in the Consolidated Fund. Recoveries of claims payments, interest on Consolidated Fund balances when in credit, interest receivable under international debt rescheduling agreements and funds voted to it by Parliament are the main sources of secondary income. There are currently statutory liability ceilings on commitments in respect of trading operations of GBP 35 billion for sterling business and SDR 25 billion for foreign currency business; these limits will be reviewed in April 2008.

#### *1.1.1.4 Other organisations involved*

The Export Guarantees Advisory Council is a statutory body whose members are appointed by the Secretary of State for Business, Enterprise and Regulatory Reform. ECGD provides a small secretariat service from its own resources.

The Council advises on the principles that should guide ECGD's in the performance of its statutory functions and on how these principles should inform ECGD's business policies.

#### *1.1.1.5 Relations with the state*

ECGD is a government department which derives its powers from the Export and Investment Guarantees Act of 1991. This Act requires ECGD to obtain the consent of Her Majesty's Treasury for every transaction it enters into. The Treasury has given a standing consent to ECGD transacting routine business within the constraints of ECGD's risk management system. ECGD consults the Treasury and other UK government departments which might have an interest in any transaction which ECGD is considering entering into if that transaction seems likely to breach those constraints, or might in any way be considered novel or contentious.

#### *1.1.1.6 Relations with the private sector*

On 1 December 1991, ECGD's short-term credit insurance function was privatised by means of a trade sale of the relevant policies and guarantees to NCM (now Atradius). Since then, no new ECGD short-term comprehensive policies have been issued. Insurance for non-project related short-term export credit is the available to the private sector. See also 2.3.4.

### **1.2 Export finance**

There is no official institution in the United Kingdom for export credit financing or refinancing (see 3.3).

### **1.3 Aid finance**

#### *1.3.1 Representative organisation*

The Department for International Development (DfID) is the government department responsible for managing Britain's programme of development assistance to poorer countries, including trade, investment and agricultural policies, taking account of developing country issues.

## **2. INSURANCE AND GUARANTEE PROGRAMMES**

### **2.1 Cover for exporters**

#### *2.1.1 Policies available*

There is no direct official support in the United Kingdom for short-term business, (see 1.1.1.6 and 2.3.4).

ECGD offers direct insurance to exporters for individual export contracts under its Export Insurance Policy (EXIP). The risks covered include purchaser's insolvency or failure to make payment, and other contractual non-performance, together with a range of political risks from transfer delays in the transfer of funds to the occurrence of hostilities that affect performance of the insured contract. Cover can be provided for both the cost incurred during the period when goods are being manufactured or works and services are being performed and for amounts owing from the purchaser under the contract in respect of delivered goods

and services. The maximum percentage of loss covered is 95%, but exporters are free to select a lower percentage.

### **2.1.2     *Eligibility***

EXIPs are provided to exporters carrying on business in the UK. For credits in excess of two years, the normal OECD Arrangement rules on credit terms and down payments apply, with a 5% down payment usually required on signature of the insured contract. UK content must be at least 20% of the eligible contract value.

ECGD reviews the economic and financial standing and prospects of all overseas markets on a continuous basis. For some countries, it sets limits on the total amount it will insure and may introduce other market restrictions, such as stipulations about methods and timing of payment. Additionally, ECGD operates controls at the portfolio level, which apply to business in markets where exposure is already significant or the risk is deemed to be high. The review process that forms the basis of these market and portfolio controls is based upon the use of an econometric model, which assesses the risk of default in each market via the use of economic forecasts and expert judgements of political risk.

An assessment of all the risks is made before each guarantee or policy of insurance is issued, and additional security may be required. The assessment includes all the factors relevant to the case and the market, and how they may affect ECGD's whole portfolio of risks. There are therefore controls at portfolio, market and case level. Subject to these controls, the availability of cover is normally regulated by a "first come, first served" basis.

### **2.1.3     *Cost of cover***

See 2.2.3.

## **2.2        *Guarantees for banks***

### **2.2.1     *Policies available***

#### **2.2.1.1   *Supplier credit***

The supplier credit financing facility provides an unconditional guarantee to banks for 100% of the amount financed. This is a multi-transaction facility in the form of a master guarantee issued to a financing bank which agrees to

purchase the full principal value of bills of exchange or promissory notes accepted or issued by buyers. ECGD may require bills or notes given by a buyer to be unconditionally guaranteed by a third party. It is also possible under this facility for banks to arrange loans to buyers or establish lines of credit; bills or notes need not be required for these transactions. Contracts to be financed are approved individually by ECGD. In most cases there is no recourse to the exporter in the event of a claim.

As an optional extra, exporters may take out an EXIP to cover the commercial and political risks of non-payment during the period between signature of the contract and the sale of the bills or notes issued under it to the bank. This cover is not available separately.

#### *2.2.1.2 Buyer credit*

ECGD guarantees lending banks the repayment of loans made to overseas borrowers for the purchase of major UK capital goods with a contract value usually of at least GBP 5 million. Guarantees are usually for 100% of the principal and interest due under the loan provided in support up to 85% of the amounts due under the relevant export contract. In rare instances, risk sharing may result in a lower percentage of guaranteed principal or interest. ECGD retains a right of recourse to an exporter for amounts it may have paid under a guarantee to a bank at a time when the exporter is in default under the terms of its contract.

For project loans of at least GBP 20 million (UK export credit loan value) where cover is given on a project finance basis (*i.e.* where repayment is not secured by guarantees from project sponsors or third parties but will depend on the revenue-earning capacity of the project), ECGD provides cover for defined political risks only or, alternatively, cover for all risks up to 100% of principal and interest. The guaranteed percentage for all risks cover is decided on a case-by-case basis, depending on the quality of the project, the strength of the participants and the degree of risk sharing among all parties, including the lenders. The basic structure of this facility is the same as for the standard buyer credit.

#### *2.2.1.3 Lines of credit*

ECGD guarantees lines of credit extended by lending banks to certain overseas borrowers to facilitate the placing of orders for British capital goods and

services. The guarantees are for 100% of the principal and interest. The loans are usually repayable over two to five years according to the value of the contract.

**2.2.2     *Eligibility***

The basic eligibility criteria are the same as those set out in 2.1.2 (including the system of controls at portfolio, market and case level). In addition, the minimum credit period for financing facilities is two years, and there are minimum contract values as follows:

|                                     |     |           |
|-------------------------------------|-----|-----------|
| Supplier credit financing facility: | GBP | 25 000    |
| General-purpose lines of credit:    | GBP | 25 000    |
| Buyer credit:                       | GBP | 5 000 000 |

ECGD has also entered into a number of bilateral re-insurance agreements with other export credit agencies to provide a single facility to borrowers who order goods or services from suppliers in the UK and other countries (instead of individual facilities supported by each export credit agency).

**2.2.3     *Cost of cover***

The premium charged by ECGD for any guarantee or insurance is based on an assessment of the risk inherent in the relevant transaction and varies according to the ECGD product, market, type, quality of buyer/borrower and the overall horizon of risk. Premium is calculated as percentage the loan value (or contract value) for each case. The premium amount includes a non-refundable administration charge.

**2.3         *Other insurance programmes***

**2.3.1       *Bond risk cover***

ECGD can insure exporters against the calling of bonds where this is not the consequence of any fault of the exporter. The cover (100%) is available as an optional extra to all ECGD’s normal credit insurance guarantees and is for bonds secured against an exporter’s own resources. The charge for this cover is dependent upon the market risk and the period of validity of the bond, with a minimum charge of 0.3% a year. The premium is charged on the value of the bond except on reducing bonds where it is charged on the mean bond value.

### **2.3.2     *Investment insurance***

ECGD's investment insurance policy insures UK companies that invest directly, by equity or loan, in overseas enterprises. Cover is provided against the risks of war, expropriation and restrictions on remittances. The normal initial maximum period of cover is 15 years, and a premium of between 0.7% and 3.0% is charged annually on the current insured amount. In addition, a commitment premium is charged on any difference between this amount and the maximum insured amount determined at the outset of the cover.

### **2.3.3     *Pre-shipment cover***

This is available under the EXIP (see 2.1).

### **2.3.4     *Short-term re-insurance***

ECGD may provide a residual re-insurance facility for short-term business where this is deemed to be in the national interest. This facility is under review.

## **3.         EXPORT FINANCE PROGRAMMES**

### **3.1         *Direct credits***

ECGD does not provide a direct lending facility.

### **3.2         *Refinancing***

ECGD does not provide refinancing for banks (but see 3.3.1).

### **3.3         *Interest rate support***

#### **3.3.1     *ECGD's Fixed-rate export finance (FREF) scheme***

ECGD's FREF scheme is available in respect of the financing of exports on credit terms of two years or more provided that (1) ECGD is also providing a guarantee in respect of the relevant export credit loan, (2) the maximum amount to be advanced under that loan does not exceed GDP 50 million for UK sterling denominated loans, USD 90 million for US dollar denominated loans, EUR 70 million for euro denominated loans or JPY 10 000 million for Japanese yen denominated loans and all other conditions relating to ECGD's FREF

scheme and its support generally have been satisfied. The fixed rates of interest supported by ECGD are the relevant CIRR, as provided for under the OECD Arrangement. Banks or other lenders participating in officially supported export credit financing in the United Kingdom receive an agreed rate of return for their sterling or foreign currency lending plus an agreed margin. If the agreed rate is lower than the underlying fixed rate, the bank pays the difference to ECGD. In the opposite case, ECGD pays the difference to the bank.

In order to manage its exposure to interest rate risk under its FREF guarantees, ECGD hedges 100% of that exposure through its use of commercial interest rate swap agreements. Additionally, prior to 2003, a privately owned company refinanced some of the loans for which ECGD had provided interest rate support with the objective of reducing the cost of that support. Historically the company has raised fixed-rate funds in the capital market under ECGD's guarantee, and more recently, through fixed-rate funding from ECGD. This fixed-rate funding hedges the open-ended exposure to interest rate changes of the refinancing operation.

### **3.3.2 Eligibility**

Each bank or other financial institution participating in the FREF schemes, whether as agent bank or as lender, must be specifically approved by ECGD. The standard minimum requirement for a financial institution based in the United Kingdom is that it must be an authorised institution under the Financial Services and Markets Act 2000. A financial institution lending from outside the UK must be authorised in the relevant jurisdiction by the appropriate regulatory authority and acceptable to ECGD. A legal opinion must also be obtained on any tax or legal issues that need to be addressed prior to eligibility being agreed. The resources and expertise of each financial institution may also be taken into account, as may its external credit rating.

### **3.3.3 Resulting interest rates**

Pre-shipment financing is normally restricted to buyer credit financing where a supply contract provides for progress payments. Drawings may be made from the ECGD-guaranteed loan to finance these payments at fixed rates of interest in accordance with the Arrangement.

For post-shipment financing, the fixed rates of interest charged are determined by ECGD in accordance with the minimum interest rates set out in the Arrangement, *i.e.* Commercial Interest Reference Rates. In addition, the

banks are sometimes able to charge commitment fees on undrawn balances and other flat commissions on the maximum loan value. The level of these charges is agreed with the borrowers and will normally depend on the size of a loan.

### **3.4 Other credit operations**

#### **3.4.1 Foreign currency (non sterling) operations**

ECGD support for fixed-rate finance for both buyer and supplier credit is available in UK sterling, US dollars, Japanese yen and euros.

The agreed rate of return for banks making ECGD-supported loans in those currencies is normally based on six months' LIBOR.

As at 31 March 2007, of the total amount outstanding under loans for which ECGD has provided interest rate support about 28% of that amount was in sterling, 56% in US dollars, 10% in Japanese yen and 6% in euros.

## **4. AID FINANCE PROGRAMMES**

### **4.1 Associated financing**

The UK's Aid and Trade Provision scheme, which had provided mixed credit funding, was closed in 1997 because it was considered that it lacked a sufficient focus on poverty elimination. This does not preclude deploying development assistance from the bilateral aid programme of the Department for International Development in association with private finance, including in the form of mixed credits. Any mixed credits are managed within agreed country programmes and are subject to agreed strategy and sectoral focus for each country and the same quality control procedures as all other projects. Terms accord with the Arrangement.

## **ABBREVIATIONS**

|             |                                                       |
|-------------|-------------------------------------------------------|
| Arrangement | Arrangement on Officially Supported Export Credits    |
| CIRR        | Commercial Interest Reference Rate                    |
| DAC         | Development Assistance Committee                      |
| EC          | European Communities                                  |
| ECA         | Export Credit Agency                                  |
| HIPC        | Highly indebted poor country                          |
| IBRD        | International Bank for Reconstruction and Development |
| IDA         | International Development Association                 |
| IFC         | International Finance Corporation                     |
| L/C         | Letter of Credit                                      |
| LDC         | Less Developed Countries                              |
| LIBOR       | London Interbank Offered Rate                         |
| LLDC        | Least Less Developed Countries                        |
| ODA         | Official Development Aid                              |
| SDR         | Special Drawing Rights                                |

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- I. The Arrangement on Officially Supported Export Credits (2005)
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- V. OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits (formerly Annex VI)

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\* Annex II in earlier publications, *i.e.* Terms and Conditions Applicable to Project Finance Transactions, is now incorporated in Annex I; accordingly all annexes herein have been renumbered.