

Session B 4
Strengthening service and networking capacity
of business organizations

**„The experience of an Export Credit Agency“ – Oesterreichische
Kontrollbank, Vienna**

General information on OKB

OKB was founded in 1946 in order to provide certain specialized services for the Austrian economy outside routine commercial banking functions. OKB is a privately-owned joint stock company whose share capital of EUR 130 million is held by the leading Austrian commercial banks.

OKB is active in two main business areas, namely **export services** and **capital market services**.

OKB fulfils two functions in the Austrian export promotion system: we provide export guarantees and export finance within one institution and, therefore we differ from most other export credit agencies (ECAs), which usually provide export insurance only.

The administration of export guarantees

Since 1950 OKB has acted as the agent of the Republic of Austria in the field of export guarantees. We are responsible for the examination of the applications and the issuance and administration of the guarantees. In this field we act on behalf of the account of the Republic.

All export transactions or investments abroad, that enhance the Austrian current account or which are in the Austrian interest, are eligible for cover.

Cover is given for the so called **non-marketable risks** only. These are basically:

- all political risks, including those relating to contracts with public buyers, borrowers or guarantors

- commercial risks relating to contracts with private buyers, borrowers or guarantors in non-OECD-countries and the Czech Republic, Hungary, Mexico, Poland, South Korea and Turkey and
- commercial private buyer risks in the remaining OECD-countries with a risk period of two years or more.

As there is a variety of export transactions we offer different guarantee products which are designed to meet the individual needs of our clients. These products include various types of guarantees:

- a) consumer goods shipments
- b) capital goods exports
- c) investments abroad and
- d) project financings

a) **Consumer goods** shipments:

The so-called wholeturnover guarantee is especially designed for small and medium-sized companies and it covers shipments to all buyers in 120 countries. Albania, Bosnia & Herzegovina, Croatia, Serbia & Montenegro, Belarus, Azerbaijan and Usbekistan are among these countries. The premium has to be paid quarterly in arrears. Furthermore, the self-participation for political risks is 5 % and up to 100 % of foreign content is acceptable.

b) Capital goods exports

Our guarantees for exports of capital goods cover commercial and political risks, usually on a comprehensive basis. Depending on the transaction, up to 30 % or 40 % foreign content is acceptable.

c) Investments abroad

Investment insurance is also available for political risks only.

d) Project financings

We have also been very supportive of limited-recourse or non-recourse transactions, and from the early nineteen eighties up to now we have gained a lot of experience. Following the normal application procedure for export guarantees and export financing, a project assessment is carried out on the basis of an independent feasibility study by an in-house project assessment group, in some cases together with external consultants. In assessing project risks, key elements are mainly the sponsors, the percentage of equity, and the risk-sharing and security structure which should include suppliers, operators and offtakers with an established track record. Forecast-scenarios should demonstrate robust cash-flows, sufficient to cover all repayment obligations in addition to operating costs.

Cooperation agreements

Increasingly projects are being multisourced and realised in cooperation among different parties of different countries. Typical reasons are e.g. costs, risk sharing, availability of components, availability of cover or availability of financing.

To support cooperation among companies, ECAs have developed different forms of cooperation

depending on the ties between the exporters and/or financial institutions when contributing to the realisation of the same project in a third country:

- **Parallel Insurance Agreements:** each participant has a separate direct claim for payment under his respective export or loan agreement
-> two or more separate export credit insurance policies
- **Joint Insurance Agreements:** the main contractor has a direct claim for payment under the export or loan agreement, the subcontractor(s) has(have) an “if and when” claim to the main contractor
-> two or more separate export credit insurance policies
- **Reinsurance Agreements:** the main contractor has a direct claim for payment, the subcontractor holds a claim independent of that of the main contractor
-> one export credit insurance policy issued by the leading ECA which covers the export contract or loan agreement as a whole. The leading ECA asks the ECA(s) of the other partner(s) involved to grant reinsurance for its (their) share in the export contract or loan.

In the wake of the harmonization in the field of export credits (EU Directive, Knaepen package on the setting of premia and related conditions), the network of reinsurance agreements has expanded rapidly.

OKB already entered into reinsurance agreements on specific cases in the seventies. So far it has been possible to conclude such agreements among others with COFACE (France), SACE (Italy) or HERMES (Germany) and currently we are in talks concerning a reinsurance agreement with the Chinese Export Credit Agency.

As the ties between companies in Austria and in CEE countries are increasingly becoming closer, any agreements to be concluded with the local ECAs could entail advantages for both sides.

Up to now, joint insurance and reinsurance agreements have already been concluded with MEHIB (Hungary), EGAP (Czech Republic), KUKI (Poland) and SEC (Slovenia). Some deals are being realised in third markets benefiting Czech, Polish and Austrian companies.

Export financing

The second export service activity is refinancing of banks which finance exports or investments. The refinancing scheme is operated on OKB's own account. The scheme is recognized as "Market Window", which means that for its EURO refinancing OKB is able to offer market rates which are lower than the official Commercial Interest Reference Rates (CIRR) published by OECD.

OKB's refinancing scheme is operated partly on the basis of a floating rate and partly on a fixed rate basis. The longer the tenor of a transaction, the higher the portion which is refinanced on a fixed rate basis. The floating rate portion is to be repaid first, the financing of the long term portion is done on a fixed rate basis. Therefore, it is the low average (blended) rate itself as well as the fact that the calculation of a project can be based on a fixed rate for quite a substantial portion of a medium or long term transaction that makes this scheme so attractive.

Refinancing is available for the share of a project that is insured by OKB (including a reinsured portion) or by another ECA in connection with a joint insurance agreement, provided the financing bank to be refinanced under OKB's scheme qualifies and it is legally possible to assign the rights under the insurance policy.

Reasons to run an Export Promotion System

Some years ago, the Austrian Institute of Economic Research carried out a study about the economic impact of the existence of an Export Promotion System. The study outlined the economic benefits of having such a system. The specific results for Austria have been:

- Austria's exports to Non-OECD-Countries would have been lower (by 20%),
- this would have caused an undesirable regional concentration of Exports on the EU-15 countries, whereas markets such as South-East Asia or other regions like North Africa would have been neglected,

- the overall impact of discontinuing the Export Promotion System would have had a negative impact on tax incomes and growth perspectives.

These results are not only true for Austria, but for other smaller economies as well, which heavily depend on exports and internationalisation of their economy.

As a rule of thumb, an increase in exports of one billion EUR translates into 1.000 additional jobs in Austria.

Austria - Gateway to Central and Eastern Europe

Because of Austria's geopolitical location and historical reasons, the economic relations between the Central and Eastern European countries and Austria have traditionally been very close.

Austrian exports to and direct investment in the region increased significantly during the nineties. Today, Eastern European Countries belong to Austria's most important trading partners.

Austrian companies have also been forerunners of joint-ventures in these countries.

Through our commitments to non-recourse or limited-recourse financing we have supported projects among other countries in Romania and Russia.

Austria's share in the trade with CEE countries is quite considerable, but still can and should be increased. Austria has been able to maintain and develop the traditionally good relations despite the increased competition on these markets.

Looking at the Austrian Export Statistics of 2003, Croatia ranked sixteenth in terms of importance to Austria. Countries such as Serbia & Montenegro, Ukraine and Bosnia & Herzegovina are more important to Austria than for example India and Brazil.

How have Austria and OKB contributed to the integration process of CEE countries?

- OKB applies an open cover policy. Austria is traditionally among the first countries to

accept cover even on an unsecured basis.

- most of the CEE countries are eligible for the attractive wholeturnover guarantee program. Within these guarantees buyers may be covered on the basis of their good track record only. Under such guarantees, goods of non-Austrian origin may be covered as well.
- by way of example OKB has been the first ECA that opened its cover policy for Bosnia. OKB started to complement the facilities offered by the Investment Guarantee Agency, a World Bank subsidiary. In the meantime, investments as well as bank-guaranteed short-term transactions can be insured and financed on a case-by-case basis, even without IGA's involvement.

What support is offered to assist CEE countries to develop and increase their exports?

- high foreign-content portions are acceptable under OKB's insurance policies. For short-term exports, it is possible to include goods and services originating in CEE countries in OKB's insurance policies, provided these goods and services are exported via a company (e.g. a trader) located in Austria
- consulting services are rendered to different institutions dealing with exports, be it ministries, newly established Eximbanks or export credit agencies, and in some cases even the training of staff could be arranged
- bilateral meetings and consultations are held to exchange views and to share experience in insurance and financing issues
- cover is available for investments in production facilities as well as in the financial sector in CEE countries.

CEE countries account for more than 70 % of OKB's investment insurance portfolio, i.e., €2.8 billion.

By covering and financing shareholder loans in joint ventures, OKB contributes to the increase in production of competitive exportable products as well as to the development of a reliable and sound banking structure in these countries. An increase in exports may be achieved, since most of the investments are made by companies with international distribution channels

- OKB encourages Austrian companies to cooperate with companies in CEE countries when

realising big projects on third markets. OKB is happy to cooperate with ECAs in CEE countries and has already concluded a series of cooperation agreements. They are to be considered as major steps towards of a full integration into the globalised world of export credit insurance.

Attractive refinancing facilities are available in case of cooperation agreements, also for non-Austrian shares.

We also see positive effects on both sides brought about by the investment of Austrian Banks in Central and Eastern European Countries, especially in South-East Europe. These investments do not only have a favourable impact on the investors. They are also beneficial to foreign companies which want to deliver goods and services as the local representatives of international banks can provide business information or bank guarantees, based on their in-depth knowledge of the business environment. But this is also beneficial to the buyer itself, because it is an opportunity to gain access to know-how and equipment for the modernisation of its plants.

Foreign investments of banks, along with international financial institutions, can also help to introduce sound banking principles in difficult markets. The know-how transfer based on the comprehensive training programs provided by these banks is also valuable.

In an economic system which increasingly becoming more open we have to pay particular attention to international developments.

OKB's guarantee conditions for Central and Eastern European countries are at least on a par with if not better than those offered by their western European counterparts. For most of the countries in the region we provide a rather open cover policy.

In connection with international developments I would like to stress that ECAs are not entirely free in pursuing their business activities. On the contrary, they are increasingly constrained by adherence to international regulations, the most important of which being the OECD-Consensus which arranges the repayment terms, conditions for soft loans and the premium rates. The European Union has also focused on the harmonisation of medium and long-term export credit insurance. The discussions about short term insurance have been finished so far. And there are several regulations concerning payment terms within the Berne Union, the umbrella organisation

for export credit agencies.