

AID-FOR-TRADE: CASE STORY

PRICEWATERHOUSE COOPERS

Creating an Engine for Growth and Development - Export Credit Agency

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Creating an Engine for Growth and Development - Export Credit Agency

1. Executive Summary

For many centuries trade has shaped the world. There are innumerable benefits for every country to be or to become an integrated part of global trade.

Export Credit Insurance for trade operations, invented more than a century ago, is a vital factor for boosting cross border trade volumes, for fostering prosperous, sustainable development and thus creating wealth for a nation and its people (Aid for Trade Initiative Point: Trade Development).

A recent research paper by the World Bank noted that “Export Credit Agencies (ECA) are institutions that can – under appropriate circumstances, rules, and discipline – help alleviate market failures in trade finance, but conditions for their effectiveness are demanding in terms of economic environment, institutional design, and governance.” The paper further stated, “Given the fact that restructuring, reforming or abolishing a public institution is more difficult than establishing one, the decision to set up an ECA should come as a result of a comprehensive evaluation process.”¹

PricewaterhouseCoopers together with Euler Hermes have been operating in the field of export credit and investment insurance for the account of the Government of Germany since 1949. The success of Germany’s export industry and of German companies investing abroad has been strongly supported by this public-private partnership. By sharing our experience, PwC and Euler Hermes can help to create the necessary environment to develop and foster foreign trade structures in developing countries.

2. Issues Addressed

The development of the private sector plays an important role within the AfT initiative. This sector is often described as the ‘engine of growth’ and is key in spurring economic development in developing countries. Additionally, exports and strategic investments abroad are vital for growth and successful international trade integration. Private companies engaging in cross border transactions often face significant long term financing needs as well as inherently increased risks. Especially when it comes to large scale projects in challenging foreign environments, private companies may be unable to obtain financing or to adequately mitigate the risks of their involvement, unless they can draw on official sources of funding or official trade and investment insurance schemes.

¹ Jean-Pierre Chauffour, Christian Saborowski and Ahmet I. Soylemezoglu, “Trade Finance in Crisis: Should Developing Countries Establish Export Credit Agencies?,” Policy Research Working Paper 5166, World Bank, January 2010, p.17.

3. Objectives Pursued

The absence of a fully-fledged ECA leaves companies at a disadvantage on the international stage. This gap can be effectively closed by the conception and implementation of an Agency on Export Credit and Investment Insurance. Their common aim is to safeguard and to enhance the competitiveness of national exporters and to diversify the local economy. Moreover, it is in exporting companies, especially in the SME sector where many highly qualified jobs are created and secured by Export Credit Agencies' activities.

Typical needs of countries that want to develop their national export and trade structure by establishing or improving an ECA are:

- ECA consulting which means:
 - Design and implementation of fully-fledged Export Credit Insurance schemes
 - Custom-tailored optimization for existing ECA-Solutions
- Capacity Building to provide staff members of ECA's with the knowledge they need to successfully operate an ECA.

4. Design and Implementation

The 5 phases of **setting-up** an Export Credit Agency

- *Phase 1* will be based on a Technical Assistance Agreement which, at a later stage, can be complemented by a Service Level Agreement. In this phase, a Target Operation Model will be build which is suitable to the countries specific needs.
- In *Phase 2*, the basic design of the ECA with essential organisational capacities to operate future services independently and/or in cooperation with external partners will be developed. The ECA's future role in the promotion of SME exports and the country's role in an international context should be determined..
- *Phase 3* encompasses the actual construction work, i.e. the development of a legal framework, premium tools, the products and corresponding manuals, market penetration plans as well as workflow analysis and defining human resources requirements. It is also strongly recommended to develop internal procedures such as risk guidelines, risk management procedures and a Corporate Governance including the respective Institutional Bodies during this phase.
- *Phase 4* contains capacity building activities in order to prepare the ECA to operate on a standalone basis.
- Finally, *Phase 5* accompanies the start of the actual operation of the ECA and ensures the necessary benchmarking and performance analysis after the initial kick off.

5. Factors for Success/Failure (Problems Encountered)

First of all, most poor countries lack the sufficient financial resources required for setting up an ECA. This is an experience we have made during the last 2-3 years. A lot of developing countries showed interest in setting up an ECA but had not had the financial resources in doing so. Access to existing financial aid programmes proved to be difficult.

Other factors which influence the implementation of an ECA are:

- national developmental priorities,
- export capabilities,
- the strength of financial and real sectors,
- institutional capacities and
- the state of political economy.

Therefore, a one-size-fits-all strategy is counter-productive; rather, every country needs an individual assessment and a tailor made solution.

6. Conclusion (applicability to other programs)

PwC and Euler Hermes have already gained experience with the establishment and development of ECAs in different countries with different development status (industrialized as well as least developed countries). Therefore we can always adapt our approach to the special needs of the different countries. We are sure that the content of our projects is applicable to other programs.