



BExA Commentary ECGD Bond Issue Support

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The Government announced in the Trade White Paper that from April 2011 it will provide support to enable exporters to arrange financial guarantees in support of their performance. This should enable exporters to compete for international business on an even footing with other OECD suppliers.

Bonds Exporters regularly have to provide on-demand bank guarantees in support of export tenders and contracts. These guarantees, known as bonds, can be very costly: not only must the exporter pay the bank to issue the bond, but also the exporter has to use its borrowing line to support the bond, and smaller companies may be required to lodge a cash deposit to the value of the bond.

Need BExA has been aware for many years of the need for bond support. BExA lobbied continuously, presented research showing how UK exporters are disadvantaged in this respect by comparison with other OECD exporters, and stepped up its campaign during and after the banking crisis. BExA has had an active involvement in the establishment and implementation of the new bond support facility from ECGD, the UK Government's Export Credit Agency.

ECGD Bond Issue Support facility Bonds supporting UK contracts that have a minimum 20% UK content (of goods or services) for export to either OECD or non-OECD destinations will be eligible. ECGD bond support will be provided on a contract-by-contract basis.

There will be real advantage in relation to Advance Payment Guarantees (APGs) (or equivalent cash-related bonds), where ECGD can guarantee up to 80% of the value of the bond, enabling the bank either to issue the bond without taking cash or debentures as security or to disburse the advance payment monies to the exporter as required for its working capital needs on that contract. This should enable the exporter to avoid having to use its working capital borrowing limit for APGs. Subject to normal risk criteria, there are no restrictions regarding the destination country and no upper limit of bond value. The Bond Support Facility should lead to individual banks being able to support larger bonding requirements by leveraging their existing limits.

Application process Applications are made through the exporter's bank. The exporter completes the first part of a form, and its bank completes the second part then submits the application to ECGD. ECGD will conduct its own research and make an assessment of creditworthiness. If approved, ECGD will typically guarantee the bank up to 50% of the value of the bond or up to 80% for APGs. There is no obligation to buy cover from ECGD for the credit and political risks on the contract or unfair calling cover on the bonds. BExA members recommend the purchase of unfair calling cover, either from ECGD or commercially, because it is good business practice.

Lower value bonds Bond support from ECGD is intended to support bonding lines of £1m or more for a single contract. For lower value bonds, exporters will be invited to apply for BIS' "Export Enterprise Finance Guarantee" (ExEFG) which would allow a bonding line to be put in place as part of a working capital facility. The ExEFG involves strict lending criteria and can only provide facilities for UK companies turning over less than £25m annually.

- BExA is keen that ECGD should provide support for bonds of less than £1m, especially as there will be minimal benefit, initially, in relation to performance bonds.
- BExA is also keen that ECGD should provide bond support to companies with turnover of less than £25m but which are not eligible for ExEFG funding.

BExA understands that ECGD expects to be flexible on both these points for creditworthy exporters where it is clear that the ExEFG is not suitable.

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DISCLAIMER: You are advised to undertake your own research and take professional advice