

Chapter 4: Comparison of Major Program Structures

Section C: Co-Financing “One-Stop-Shop”

Introduction

“One-stop-shop” arrangements allow an exporter to market a single ECA financing package to a buyer interested in procuring goods and services from two (or more) countries. Without co-financing, the parties would need to secure separate financing contracts with two (or more) ECAs to ensure support for exports from various countries. The location of the largest share of the sourcing and/or the location of the main contractor will generally determine which ECA leads the transaction.

The lead ECA provides the applicant (buyer, bank or exporter) with export credit support for the entire transaction. Behind the scenes, the follower ECA provides reinsurance to the lead ECA for its share of the procurement. Thus, the lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures for the entire transaction. All parties benefit from the administrative ease of a streamlined financing package. As use of intra-European and international co-financing has grown, exporters continue to confirm that availability and ease of co-financing has become an important and measurable competitive issue.

Ex-Im Bank’s Co-Financing “One-Stop-Shop” Arrangements

In 2001, Ex-Im Bank signed one-stop-shop bilateral agreements that allow the Bank to either lead or follow in a co-financing transaction with ECGD (UK) and EDC (Canada), and initiated discussions with other G-7 ECAs to sign bilateral agreements. During 2003, Ex-Im Bank continued to gain experience by processing transactions under these co-financing arrangements. In addition, Ex-Im Bank approved a number of “one-off” co-financing transactions with GIEK (Norway) and Coface (France).

Ex-Im Bank negotiations for bilateral framework agreements with Hermes (Germany) and Coface led to the resolution of many outstanding issues and continued to evolve during 2003, but no agreement has yet been reached on the bilateral provisions to be included in a framework agreement. Specifically, two technical issues remain unresolved and continue to stymie bilateral negotiations to conclude framework co-financing agreements with the major insurer ECAs. First, in the event of a default, insurer ECAs have been unable to agree to provide Ex-Im Bank with the right to obtain an assignment of rights to the **entire** Ex-Im Bank guarantee portion of the debt – not just the installment that triggered the default.

Second, Ex-Im Bank’s foreign currency program requires the borrower to accept the conversion of the debt into a U.S. dollar obligation in the event of a default. That is, Ex-Im Bank would pay out the guaranteed lender in the foreign currency of the loan, and subsequently Ex-Im Bank would convert the debt to a U.S. dollar obligation. Other ECAs do not take foreign currency risk. However, foreign ECAs have accounts in certain foreign hard currencies (e.g.,

euro and yen accounts), add a surcharge onto transactions denominated in a foreign currency or cap their liability to a specific amount of foreign currency.

As Ex-Im Bank policy and practice in both of these areas differs from insurer ECA policy and practice, the ECAs continue to search for a technical solution that will allow co-financing framework agreements to be concluded that would ensure compliance with internal (and U.S.) policies, while at the same time be acceptable to other ECAs. Nevertheless, Coface and Ex-Im Bank have been able to approve one-off deals in the absence of a framework agreement. Discussions with SACE (Italy) to establish a bilateral framework agreement have been positive. [Note: On March 22, 2004, Ex-Im Bank and SACE entered into a bilateral framework co-financing and reinsurance agreement that could serve as a model for future agreements with other insurer ECAs.]

Unlike most other ECAs, Ex-Im Bank does not require a formal bilateral framework agreement before considering co-financing transactions. Thus, Ex-Im Bank will process co-financing requests for transactions with ECAs on a case-by-case basis.

Figure 14 details the one-stop-shop co-financing transactions that the Bank has authorized in 2003. In summary, the Bank authorized six co-financing transactions (three long-term and three medium-term) in Turkey, Brazil, Mexico and Russia, totaling approximately \$75 million.

Figure 14: Ex-Im Bank “One-Stop-Shop” Co-finance Transactions in 2003

Ex-Im Bank & Co-financing ECA	Market	Project	Amount
France: Coface	Turkey	Power Plant	\$45 million
France: Coface	Turkey	Power Plant	\$13 million
Norway: GIEK	Turkey	Power Plant	\$13 million
Canada: EDC	Brazil	Agricultural Aircraft	\$460,000
Canada: EDC	Mexico	Concrete Pumps	\$420,000
France: Coface	Russia	Automated Teller Machines	\$2 million

G-7 ECAs' Policies and Practices

As shown below in **Figure 15**, the bulk of co-financing agreements exist among the European ECAs who have signed multiple framework agreements between themselves and have been processing co-financed transactions since 1995. These agreements were originally designed to help European ECAs manage their exposure. In addition, most ECAs have seized upon the administrative efficiency that results from the one-stop-shop for export financing as a means of improving their customer service and competitive image.

Figure 15: G-7 Co-financing “One-Stop-Shop” Agreements (as of December 2003)

	Ex-Im	ECGD	EDC	Hermes	Coface	SACE	NEXI
Ex-Im		X	X				
ECGD	X		X	X	X	X	
EDC	X	X			X		
Hermes		X	X		X	X	X
Coface		X	X	X		X	X
SACE		X		X	X		X
NEXI				X	X	X	

When determining which transactions are eligible for co-financing, most ECAs agree that this program can be used across sectors and transaction size. While certain ECAs prefer to use co-financing for larger transactions, no fixed dollar limits currently exist on Ex-Im Bank co-finance transactions. In addition, due to the complex nature of project finance transactions, ECAs typically do not use the one-stop-shop to support exports to non-recourse projects.

Exporter and Lender Survey Results

About half of the survey respondents who commented on co-financing indicated that Ex-Im Bank's lack of signed bilateral agreements makes the co-financing program less competitive than its foreign counterparts. In particular, several exporters and lenders remarked that the lack of co-financing arrangements diminishes Ex-Im Bank's competitiveness vis-à-vis the other G-7 ECAs. On a positive note, several survey respondents rated Ex-Im Bank as competitive with (and sometimes more competitive than) its ECA counterparts in terms of Ex-Im Bank's willingness to consider co-financing transactions absent a bilateral agreement.

Conclusion

Ex-Im Bank's co-financing program is less available (and, to that extent, is less competitive) than the programs of most of the other G-7 ECAs. The lack of signed bilateral agreements with insurer ECAs is the main contributor to the Bank's disadvantage vis-à-vis foreign export credit agencies. Nonetheless, Ex-Im Bank has addressed transaction-specific requests for co-financing. In this regard, Ex-Im Bank is unique in that it will consider co-financing transactions absent a bilateral framework agreement.

