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Credit agencies set for bigger role

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With the global credit squeeze reducing the availability of finance, export credit agencies are becoming increasingly important as sources of funding for projects in the region.

Export credit agencies (ECAs) are playing an increasingly significant role in funding strategic projects in the Middle East. From providing credit support and payment insurance to companies from their home markets, to the provision of loan guarantees to international banks, and even direct loans and advisory services to project sponsors, the range of support they provide is often the key element in ensuring that a project moves forward.

The recent tightening of the global credit markets triggered by the collapse of the US sub-prime mortgage sector has made ECAs more important to the region than ever.

Available liquidity

"We have plenty of liquidity available," Rajesh Sharma, vice-president and head of structured finance at Export Development Canada (EDC), told MEED's project finance conference in Bahrain in February. "We have had no sub-prime impact and this is the largest project finance region in the world. In the past 10 years alone, we have been involved in 16 deals. Our footprint is really expanding."

Projects tracker MEED Projects estimates \$2 trillion worth of projects are planned or under way in the Gulf. Private involvement is growing and project finance structures are maturing. Sponsors need to tap into as many debt sources as possible.

Although in general all ECAs play a similar role, essentially promoting exports from their home markets by providing an insurance service to companies and lending organisations, they have varying requirements for project finance participation. The value of content required for them to be involved depends on both the agency and the project. For example, some agencies require contracts worth a minimum value of, say, \$500m being awarded to companies from their home markets. Others may require a certain percentage of the value awarded to local companies - 20 per cent is a common figure.

"We don't have a fixed condition," says Barbara O'Boyle, vice-president of project finance at the US' Exim. "If it is a \$20bn project and only \$100m involves the US, then it does not make sense to come to us."

But, she adds, if it is worth \$1bn, then they will take it to the board.

Of course, for all ECAs, each project is evaluated on its individual merits and the benefits for the ECA's relative market are assessed.

The involvement mechanism also varies. Not all ECAs lend money directly. Some, such as the UK's ECGD, provide credit guarantees to UK companies, while others, such as Exim, more commonly offer loan guarantees - although Exim also lends money.

Perhaps the most prolific ECA in terms of direct lending in the Gulf is the Japanese Bank for International Co-operation (JBIC). It estimates that the current value of its regional exposure is \$6.5bn, which is 10 per cent of its entire portfolio. In 2007 alone, JBIC invested \$1.8bn. Despite these figures, it considers itself to be a low-profile investor. "I am surprised to see so many people talking about the role we play," Moriuyuki Aida, JBIC's chief representative in Dubai, tells MEED.

Japanese loans

JBIC's total budget for loans in 2007 was \$8.6bn and the Japanese parliament is debating the investment available for 2008. "Our budget for 2008 is undergoing approval, so it is too early to say if it is an increase on last year," says Aida.

It is widely expected that it will be.

The agency is also in the middle of a restructuring plan under which JBIC will be incorporated into the Japan Finance Corporation in October 2008, and it is refining its objectives accordingly. A previous department of JBIC, the Overseas Economic Co-operation Operations division, which mainly covers loans and aid finance to developing countries, is to be absorbed into a new body called the Japan International Co-operation Agency.

Considering that 83 per cent of all Japanese energy requirements come from the Gulf, it is no surprise that JBIC is active in regional energy-based projects. "We want to become more involved in the international energy sector to secure more resources for Japan," says Aida.

It is intended that by splitting the commercial from the development roles, JBIC will be better able to meet its main goals of ensuring Japanese energy security, strengthening Japanese companies' competitive advantage and working towards stable growth in the Middle East.

In future, the bank will focus on enabling Japanese companies to take equity stakes in oil, gas and petrochemicals ventures, oil and gas infrastructure finance and IWPP projects. It is also keen to invest in environmental and energy-saving schemes, and signed a memorandum of understanding in December 2007 with Abu Dhabi's Mubadala, owner of the Abu Dhabi Future Energy Company (Adfec), which is working on environmental development projects.

However, despite the need for finance, some sponsors are wary of using ECAs in the future. "They had a reputation of being sluggish, picky and bureaucratic," says Tim Holder, director of US financial firm Taylor DeJongh. "But they now show greater flexibility.

"There has been global criticism that ECAs are slow and policy driven," says Shama. "All I can say is that our model is different. We have followed how the industry is progressing and we are approaching projects in a much broader way, acting like a facilitator."

This illustrates another advantage of credit agencies: some, such as EDC, act as matchmakers for sponsors and the companies that eventually win work. For some buyers, ECAs can make transactions more complex. "I don't want to be told who to award work to and risk losing finance if I don't make awards to certain firms," says one energy company executive based in the UAE. "Then there is the politics. If I use an ECA from a certain part of the world, that means another one will drop out."

But Exim, which in November 2007 agreed a \$930bn loan guarantee for the Qatargas II liquefied natural gas project, says politics is not a major problem. "We don't have country or transaction limits," says O'Boyle. "We co-lend with our fellow ECAs a lot. Most sponsors try to limit the number of ECAs so that it is not overwhelming. We are fairly agnostic about contracts and operate wherever the good projects are."

However, she says Iran is obviously not a market for the agency. "For example, Saudi Kayan started out with a large group. Pretty much all the ECAs were involved for a few months - ECGD, Sace, the Koreans, JBIC, us - but Sabic did not need all of them. Sometimes we hope to get into deals but when the contracts are awarded there is no US content."

It is common for credit agencies to revise their offers based on the final content of a deal. However, most ECAs no longer engage in directive procurement and are looking for both strategic and long-lasting benefits from the project.

This stability can be attractive to financiers and margins on loans are relatively low. An increasingly common trend is for ECAs to provide loan guarantees that are then flipped into direct loans. "It provides a natural hedge to fluctuations," says O'Boyle.

The volume of finance available varies from agency to agency. JBIC has the largest lending appetite but nevertheless applies lending limits to deals. "Sixty per cent would be the largest of total debt," says Aida. "We would not lend the maximum on a major project as we have a spread of projects to look after."

Another potential change in the form of ECA lending is to take equity stakes in projects. More such stakes are being offered as governments in the region move forward with privatisation plans and realise that, in the current market conditions, equity may be a better offer than debt, and may just get the finance required before a rival project does.

In such a competitive market, a growing number of international firms are heading into the region. The role of export credit agencies will only increase and project sponsors are getting used to the idea.

OECD rules

The world's biggest export credit agencies are signed up to the Organisation for Economic Co-operation & Development (OECD) arrangement on export credits. Within this group, the 29 agencies agree to adopt a series of rules that are intended to ensure exporters compete on the basis of who offers the best quality of service to projects or contracts, rather than who can bring the best financial support from their government. Minimum insurance premiums are agreed based on country risk classifications and minimum interest rates decided based on local relevant commercial interest rates.

Country risk classifications are ranked from 0 (low risk) to 7 (high risk) and the award is based on payment experience and the financial and economic performance of the country. Qatar, Saudi Arabia and the UAE all rank as 2, whereas Lebanon and Iraq are 7.

The OECD arrangements are under constant revision and new requirements for anti-bribery activity and for evaluating the environmental impact of projects were introduced in 2007.

The members are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the UK and the US.

Table: JBIC recent deals

Date	Location	Project	Japanese firms	Amount (\$m)
Dec 2003	Oman	Sohar refinery project	JGC	262
Jul 2004	Oman	Highway project	na	80
Feb 2005	Bahrain	Bahrain Petroleum Company	JGC	158
Mar 2005	Saudi Arabia	PetroRabigh	Sumitomo Chemical	2,500
Apr 2005	UAE	Taweelah B IWPP	Marubeni	1,100
Apr 2005	Oman	Sohar international urea and chemical industries project	MHI	199
Dec 2005	Qatar	Qatargas 3 LNG project	Mitsui	1,000
Apr 2006	Bahrain	Al-Hidd IWPP	Sumitomo Chemical	1,000
May 2006	Saudi Arabia	Sharq Expansion	Mitsubishi	1,170
Nov 2006	Oman	Sohar Port expansion	na	90
Apr 2007	Qatar	Mesaieed IPP	Marubeni	836
Sep 2007	Oman	Duqm Port	na	660
Dec 2007	UAE	Abu Dhabi National Oil Company	Japanese oil importer	3,000
Dec 2007	UAE	Fujairah F2 IWPP	Marubeni	1,336

na=not available; IWPP=independent water and power project; IPP=independent power project; LNG=liquefied natural gas. Source: Japan Bank for International Co-operation

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