SECTION 5

MEDIUM AND LONG TERM TRADE AND PROJECT INSURANCE AND FINANCING

CHAPTER I

O.E.C.D. ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS* - SYNOPSIS

LOAN STRUCTURE - ARRANGEMENT

- Amount of cash payment
- Minimum interest rates
- Maximum repayment term
- Level principal payments
- Starting point & pattern of repayments

CONCEPTS: ARRANGEMENT

- Commercial Interest Reference Rate (CIRR)
- Tied Aid
- United Aid
- Cosmetic Interest Rate
- Local Cost

Copies of the arranegement are available from the O.E.C.D. Financing and Other Export Questions Division 2, Rue Andre Pascal 75775 Paris Cedex 16, France

CHAPTER II - SYNOPSIS

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Buyer and Seller/Supplier Credit Finance.

I. a) What is Buyer Credit Finance?

Arrangement when for medium/long term finance:

- Buyer purchases capital goods and services from a Seller/Supplier under a Commercial Contract, which provides for payment to the Seller/Supplier as it performs or on completion of its contractual obligations.
- Buyer enters into separate arrangements with a Financier or Financiers, which provide or arrange funds to finance the payments to the Seller/Supplier.
- Can allow for tax effective financing arrangements, e.g. leasing, capital markets, multilateral agencies and export credit agencies.
- Can be used for purchase of individual items of equipment, projects or lines of credit.

I. b) What is Seller/Supplier Credit Finance

Arrangement when:

- Buyer purchases capital goods and services from a Seller/Supplier under a Commercial Contract, which provides for payment to the Seller/Supplier over time after the Seller/Supplier has performed its contractual obligations.
- Seller/Supplier funds the deferred contract payments from its own balance sheet or enters into separate arrangements with a Financier, which provides the funds to finance the payments to the Seller/Supplier under the Commercial Contract.
- Financing options not always as flexible.
- Financing terms influenced by financial strength of the supplier.
- Most suitable for purchase of individual items of equipment.

II. a) Reasons for and consequences of using Buyer Credit Finance.i. Type of project being financed.A project with multiple suppliers may be easier to finance.

ii. Separation of supply contract and finance arrangements allow both to be negotiated separately and the real cost of both equipment and finance to be clear. Reduces possibility of cross subsidisation.
Buyer can negotiate financing structure most suited for the project.
Separates commercial and financial rights and obligations.

iii. Seller/Supplier avoids having to also act as Financier.
The Seller/Supplier is not required to assume the role of Financier or to deal with Financiers with respect to the period after project completion. Less likely to have to accept some residual liability for the finance provided.

iv. Can allow Buyer to more easily control finance and coordination of finance terms when multiple sourced equipment supply is involved.

II b) Reasons for and consequences of using Seller/Supplier Credit Finance.

i. Financial strength of the Seller/Supplier
If the Seller/Supplier is financially strong, better financing terms may be secured.

ii. Type of project being financed

If the project being financed has a relatively simple structure, for example involving supply only, the simplicity of Seller/Supplier Credit Finance may be attractive.

The value of the project may be too small to warrant the cost of the Buyer negotiating finance directly with Financiers.

iii. Seller/Supplier rather than Buyer has to organise finance.

The Seller/Supplier is required to assume the role of Financier or to deal with Financiers with respect to the period after project completion. Buyer only has obligations of creditor, not borrower. Seller/Supplier may have to accept some residual liability for the finance provided.

Buyer can avoid the need to negotiate separate finance and commercial terms and agreements.

III Parties involved in Buyer and Seller / Supplier Credit Finance

a) Buyer

- Party undertaking project involving purchase of capital equipment and / or services.
- If an established company and project relates to an existing facility or plant it may be able to fund purchase from balance sheet. However using balance sheet may not be most efficient use of capital - should be able to generate a return greater than the cost of borrowing. Similarly return from asset for which funds borrowed should be greater than cost of funds.

- If a major new project is being undertaken a new project company may be established, which might then not have a balance sheet that can support financing the project. In that case the buyer will certainly need debt finance with repayment dependent on the project revenues.

- May wish to negotiate the price of capital equipment and / or services separately from price of finance to avoid possibility of cross-subsidisation.

- Negotiating finance directly may allow the buyer to coordinate financing facilities more easily than with Seller / Supplier Credit Finance and allow access to a wider range of financing options.
- The buyer may not always be the borrower for Buyer Credit Finance.

b) Seller/Supplier.Role is supplying equipment and services for the project, not acting as financier.

- Will usually prefer to have obligations limited to period of supply and warranty irrespective of whether Buyer and Seller/Supplier Credit Finance.

- Depending upon size of company, it may not have balance sheet to provide Seller/Supplier Credit Finance.
- It may not have the capacity to assume any administrative obligations during the repayment period, and will usually want to avoid any residual liability after the supply and warranty periods are completed.
- Will usually seek trade insurance, etc. against risks of non-payment during the post-completion period.

c) Financier

- Since the financier is assuming the risk on the capacity of the Buyer to meet its repayment obligations may prefer to deal directly with the Buyer. Separating commercial contract and finance reduces commercial disputes affecting repayment obligations.

- Dealing directly can allow closer monitoring of performance during the performance and repayment periods.
- Seller / Supplier Credit Finance can avoid the need to negotiate detailed documentation which may not be cost effective. The financier may provide finance under Seller / Supplier Credit Finance and may require non-payment trade insurance or guarantee. The Financier may take direct risk on the Buyer repaying the loan, may reinsure, or may obtain insurance from an export credit agency or commercial insurers.

d) Guarantor/Insurer

- Provides insurance or guarantees to the Financier and/or Seller / Supplier in relation to the risks of non-payment by the Buyer.

IV. Agreements needed for Buyer and Seller/Supplier Credit Finance.**Commercial Contract.**

What is required in a Commercial Contract?

- Details of the parties to the contract.
- Detailed description of the goods and services to be supplied by all parties to the contract, including land at project site and access to the site.
- Detailed description of the objectives of the contract.
- Details of the shipping and delivery arrangements.
- Detail schedule for all aspects of project implementation.
- Obligations of all parties with regard to the payment arrangements under the contract.
- Mechanism for dispute resolution and contract law.
- Date for the contract to become effective.

- Details of Buyer's obligations such as import licences, approval to borrow and repay foreign currency, etc.
- Agreement as to who carries the foreign exchange risk.
- Compliance with local laws.
- Details on inspection arrangements.
- Details of arrangements for contract variations.
- Clarity.
- Force Majeure.
- Language to apply.
- Enforceability.

For the supply of standard type equipment the contract may be limited to details of goods to be supplied, the currency of payment, the amount to be paid, delivery requirements and method of payment.

Loan Agreement.

What are the features of a Loan Agreement?

- Loan Agreement can be between Financier and Buyer under Buyer Credit Finance or between Financier and Seller/Supplier under Seller/Supplier Credit Finance. Other parties can also be signatory to the Agreement if required, e.g. parent companies of Buyer or Seller/Supplier.
- States the purpose for which the funds can be borrowed.
- Sets out conditions under which funds can be borrowed and basis on which they must be repaid.
- Sets out circumstances when Financier will be entitled to treat the Borrower as being in default.

- States the amounts to be repaid, the dates for payment, the rate of interest payable and the currency of payment.
- States any costs and fees to be paid.
- States the law to apply and the language of the Agreement.
- States what the Borrower represents and warrants.

Agreement between Seller/Supplier and Financier.

Sets out the rights and obligations of all parties during the contract performance and repayment periods.

Guarantee(s)

A Guarantee can be provided by a third party in the Buyer's country or by a credit insurer or guarantor in respect of risk of non-payment by the Buyer.

Trade Insurance Cover

Trade insurance provided by a credit insurer in respect of risk of non-payment by the Buyer.

APPENDIX I

A: THE CREDIT FACILITY

The credit facility and its permitted uses

A1 **We will lend you money to help you finance part of the amount payable under the export contract described in item 2 of the Schedule. We will do so by way of a single drawdown or a series of drawdowns. The total amount of all drawdowns will not be more than the amount set out in item 3 of the Schedule. You must not use money we lend you under this credit facility for any purpose except to finance the contract with the exporter to buy:**

- new capital goods wholly manufactured or produced in Australia, and
- services provided wholly by people usually resident in Australia.

A2 If the exporter named in item 2 of the Schedule has disclosed the origin of the following types of goods or services to us and we have agreed, you may use the credit facility to finance these goods and services under the contract:

- goods which are only partly manufactured or produced in Australia; or
- services that are only partly provided by people who are resident in Australia; or
- goods or services from the country named in item 6 of the Schedule valued at up to the amount in item 7 of the Schedule; or
- goods or services from somewhere other than Australia or the country named in item 6 of the Schedule.

It is entirely up to us to decide whether to give that permission.

B: <u>DRAWDOWNS UNDER THE CREDIT FACILITY</u>

We must receive a request for a drawdown under this credit facility

Bl Before we make a drawdown under this credit facility, we must receive a request for a drawdown that is substantially in the form set out in Attachment 1. We will make the drawdown *if* it is within the amount available under this credit facility, *if* it is to be made during the drawdown period set out in item 4 of the Schedule, and *if* the conditions set out in clauses B2-B6 below are met.

1.1 If a drawdown is to be paid to the exporter, the exporter must make the request, and the drawdown must be approved in writing by you or approved on your behalf.

1.2 If a drawdown is to be paid to you (because you have already paid the exporter the relevant amount) you must make the drawdown request.

1.3 Drawdowns will be in United States dollars.

Conditions to be met before the *first* drawdown is made

B2 We do not have to make the first drawdown under this credit facility until each of the following conditions is met.

2.1 We are satisfied that the export contract is acceptable from our point of view as a lender.

2.2 We have received, and have accepted as satisfactory, each of the following:

- a legal opinion from a lawyer approved by us which is substantially in the form set out in Attachment 2.
- a signed agreement between us and the exporter relating to the export contract and this agreement.
- specimens of the usual signatures of each person authorised to sign on your behalf (see for example Attachment 3).
- specimens of the usual signatures of each person authorised to sign on behalf of the exporter.
- evidence that the Central Bank of the country named in item 6 of the Schedule has authorised you to enter into this agreement and has approved the borrowing, if an authority or approval is required.
- evidence that any currency or exchange control requirements that apply in relation to this agreement or which you need to carry out your obligations in relation to this agreement and which can be obtained now, have been obtained and satisfied.

2.3 You have paid us all the fees and charges that are due under this agreement in accordance with clause C.

2.4 We are satisfied that any approval required in relation to the export contract, or your performance of this agreement, has been obtained.

2.5 You have paid the exporter the non-refundable deposit set out in item 5 of the Schedule.

No drawdown until we approve documents

B3 We will not make any drawdown under this credit facility unless we have approved the following documents relating to the request for the drawdown:

- the exporter's declaration required under the agreement between us and the exporter.

- if the drawdown is to be paid to the exporter, documents which prove that the exporter is entitled to a payment under the export contract.

if the drawdown is to be paid to you, documents which prove that. the exporter was entitled to a payment under the export contract and that you have paid the exporter the amount in question.

No drawdown in case of payment default or other adverse event

B4 We will also not make any drawdown under this credit facility if any of the following has happened:

4.1 You have defaulted in making a payment under this agreement for 5 days after it became payable.

4.2 One of the other events listed in clause D has happened or we reasonably expect it to happen.

4.3 The exporter is in breach of its agreement with us.

4.4 We have received evidence that a dispute exists in relation to the export contract, unless you have specifically authorised us to make the drawdown despite the dispute and we agree to do so.

No drawdown unless in accordance with money limits

B5 We will not make a drawdown in any of the following cases.

4.1 The drawdown sought is for an amount that is more than the exporter is entitled to be paid at the time under the export contract

5.2 The request is for a drawdown of less than US$50,000, unless the drawdown is for the balance of the credit facility, or is to be the last drawdown.

5.3 The request for a drawdown is in relation to costs to be incurred in your country, and, together with all other drawdowns in relation to such local costs, the drawdown would be more than the amount set out in item 7 of the Schedule.

5.4 The export contract has been altered, or you have permitted it to be performed, in a way that affects its nature, level of Australian content, scope, price, or time for performance.

Payment of drawdowns

B6 Drawdowns will normally be paid to the exporter. However, if **you have already paid the exporter, we will pay the drawdown to you.**

C: YOUR PAYMENT OBLIGATIONS

You must repay the drawdowns

Cl You must repay the drawdowns. You must repay by installments. Installments must be paid on the dates set out in item 12 of the Schedule. The amount of each installment is to be the total of all drawdowns made under this agreement, divided by the number in item 13 of the Schedule.

You must pay interest

C2 You must pay interest on the amount of the drawdowns you have yet to repay.

2.1 Interest accrues daily.

2.2 The rate depends on whether you have chosen a fixed rate or a floating rate. The rate may also depend upon the interest period (a term we explain below). You should choose between the fixed and floating rate and notify us in writing of your choice by the day you sign this agreement. if you don't choose or you don't notify us on time, the floating rate will apply.

2.3. You must pay accrued interest on the dates set out in item 9 of the Schedule.

Calculating the interest rate

C3 if you have chosen the fixed rate, the rate of interest for the entire term of the loan is set out in item 10 of the Schedule.

If you have chosen the floating rate:

3.1 For the first interest period for each drawdown the interest rate is the rate chosen by us in our absolute discretion using the display page "LIBO" of the Reuters Monitor System at about llam London time two business days before the beginning of the first interest period (rounded upwards, if necessary, to the nearest four decimal places) plus the margin specified in item 11 of the Schedule. The first interest period for each drawdown begins on and includes the day of the drawdown. It ends on and includes the day before next date for payment of interest set out in item 9 of the Schedule.

3.2 After the first interest period for each drawdown, the interest rate is 6 month LIBOR plus the margin specified at item 11 of the Schedule. The second and later interest periods begin on and include each date for payment of interest set out in item 9 of the Schedule and end on and include the day before the next date for payment of interest.

3.3 6 month LIBOR means, in relation to an interest period, the annual percentage rate of interest determined by us as the average of the offered rates of all banks appearing on the display page "LIBO" of the Reuters Monitor System for a period of 6 months at about 11 am (London time) two business days before the beginning of the interest period (rounded upwards, if necessary, to the nearest four decimal places).

3.4 If the display page "LIBO" of the Reuters Monitor System is unavailable, LIBOR will be the rate quoted to us by a reputable bank selected by us in our sole discretion.

3.5 If you have chosen the floating rate, you may elect to change to a fixed rate instead at any time until 1 year before the last date set out in item 12 of the Schedule. However, you cannot exercise this choice if you are not in compliance with all your obligations under this agreement or if an event has happened (or is more likely than not to happen) which entitles us to accelerate the repayment of all drawdowns. (Please refer to clause Dl).

To change to a fixed rate, you must notify us 30 days before the first date for payment of interest from which you want the fixed rate to apply. Your notification, once given, is irrevocable. The fixed rate will apply until the loan is repaid and you cannot change back to a floating rate or change to another fixed rate. The fixed rate will be the rate nominated by us as the applicable fixed rate on that date for payment of interest under the "Arrangement On

Guidelines For Officially Supported Export Credits" plus the margin specified at item 11 of the Schedule.

3.6 A rate per cent (%) per year referred to in this agreement or in the Schedule, or calculated under this agreement or the Schedule, is the rate per cent (%) for a year of 360 days, not 365.

You must pay a commitment fee

C4 You must pay us a commitment fee on the amount set out in item 3 of the Schedule which, at any particular time, we have not lent to you.

The charge is 0.25% per year, accruing daily from the date of this agreement until (and including) the last day of the drawdown period in item 4 of the Schedule.

4.1 You must pay the accrued charge on those of the dates set out in item 9 of the Schedule that fall within the drawdown period and on the first of those dates to occur after the end of the drawdown period.

Fees, taxes, costs and expenses

C5 You must pay us each of the following amounts within 7 days after we send you a request for payment:

- the establishment fee set out in item 8 of the Schedule.

- our legal and incidental costs (including reasonable costs for the work done by our in-house lawyers) in connection with any aspect of the credit facility or your transaction with the exporter, including the legal opinion referred ton in clause B2.2.

- stamp duty and any other tax payable in relation to this agreement or the credit facility it establishes.

- reasonable costs incurred by us for a consultant or one of our Australian based employees to make an annual visit to premises you occupy or any site connected with the export contract in order to inspect your business or assets.

- Our costs in connection with any event which has happened (or is more likely than not to happen) which entitles us to accelerate the repayment of all drawdowns (please refer to clause D.)\

- Our costs in connection with the administration, enforcement or attempted enforcement or protection of our rights in relation to this agreement.

5.1 You must pay each of these amounts in United States dollars, or in another currency we specify

Your payments must not be Subject to deductions

C6 You must make sure that nothing is deducted or withheld from any amount due Under this agreement. In particular you must not reduce it by any set-off or counterclaim .

6.2 If a law requires you to deduct tax or any other amount of any kind from an amount due or payable to us, and you deduct that amount before paying it to us, then you must separately pay us enough to ensure that we receive the full amount due to us under this agreement. You must make this separate payment just before you pay the amount from which the deduction is made.

6.2 You must make sure that we do not receive less than the amount due or payable to us because of the deduction of bank charges.

Only we have a right of set-off

C7 We are entitled to set off any amount you owe us against any payment we are to make to you. However, you are not entitled to set off any amount we are to pay you against any amount you owe us.

You take the risk that your payments to us can be avoided

C8 If we have to pay an amount to someone else because a payment that you made to us is, or may be, avoided by operation of law, you must pay us that amount again on demand. This obligation continues even after this agreement is terminated.

How to make payments to us

C9 **You must make any payment to us under this agreement on the following conditions**

9.1 Pay in United States dollars, or in another currency we have nominated in writing.

9.2 Deposit the payment to the following bank account:

Account Name:	Export Finance and Insurance Corporation
Bank:	Bank of New York, New York
Account No:	890-0330-813
Fed ABA:	021000018
Chips No:	0001
SWIFT:	IRVTUS3N

or to any other bank account we have notified to you.

9.3 Your deposit must become available for our use no later than 12 noon (New York time) on the due date.

9.4 If payment is due on a day which is not a business day, you must pay on the next business day. Business day or date means a day on which banks are open for domestic and foreign exchange business in London and New York.

9.5 You must pay the amount due on time, even if we do not give you notice of the amount due.

You must reimburse our currency losses

C10 If, for any reason, you pay us in a currency other than United States dollars, or another currency which we have specified in writing, we **will convert the amount we receive from you into United States dollars or that other currency as soon as we can. We will notify you of any shortfall between the amount we receive after that conversion was due under this agreement. You must immediately pay the shortfall to us in United States dollars or that other currency due under this agreement**

10.1 The conversion will be at the rate quoted to us by the bank which is performing the conversion for value on the day we deliver the other currency to that bank. We can choose any bank we like to perform the conversion.

10.2 If we suffer a loss because a judgment or order of a court or tribunal is based on an exchange rate which does not reflect the rate we certify to be the buying rate for United States dollars or that other currency on the date or dates payment is required under the terms of this agreement, we will notify you of the amount of our loss. You must immediately pay that loss to us in United States dollars or that other currency. In determining the buying rate for United States dollars or that other currency on a date we will rely on a rate quoted to us (either before or after the date in question) by a reputable bank we select in our sole discretion.

Rules for early repayment

C11 You can repay all - or part of - the drawdowns early if:

11.1 you give us 30 days irrevocable notice in writing of your intention to make an early repayment,

11.2 the amount to be paid to us is not less than the amount of an installment calculated in accordance with clause C1, and

11.3 the payment is made on one of the dates set out in item 12 of the Schedule.

You must pay our funding losses in connection with early or late repayment

C12 You must pay us, and keep us indemnified against, all funding losses connected with this credit facility, if:

- you pay or repay us early,
- you pay or repay us late, or
- we give you notice requiring immediate repayment of all drawdowns not repaid.

Those funding losses include all our losses plus all our expenses less all gains to our account whether incurred or foregone, in connection with:

- our changing, rearranging or ending any financial arrangements entered into by us,
- or to which we are committed, in relation to the funding of this credit facility, our closing out, re-arranging or unwinding of transactions in the nature of futures contracts, swaps/ foreign exchange agreements, forward rate agreements, options or hedge agreements or arrangements having similar purpose or effect,

- Our paying interest or giving up the right to receive interest, and

- identifying the losses, expenses or gains

Financial arrangements include financial arrangements that involve amounts greater than the amount of this credit facility.

How payments are to be allocated

C13 **We will allocate any amount which you pay us –** ***or which someone else pays us on your behalf*** **– in relation to this agreement in the following order:**

1. fees, taxes, costs and expenses payable under clause C5,
2. commitment fees,

3. interest on overdue amounts (Please refer to clause E),
   any other amounts due in relation to this agreement, except interest and repayment of drawdowns,

4. interest,

5. repayment of drawdowns.

D: ACCELERATION OF PAYMENTS ON DEFAULT OR OTHER ADVERSE EVENT

Acceleration of payments

D1. We are entitled to accelerate the repayment of all drawdowns under this agreement and all accrued interest ***if*** **you default in making any payment for 5 days after the payment became payable, or** ***if one*** **of the other adverse events listed in this clause occurs. When we give you notice of acceleration, you must immediately pay us all drawdowns not already repaid, together with accrued interest and any other payable amount under this agreement.**

1.1 You have failed to comply with an obligation (other than a payment obligation) or breached a term or condition of this agreement for 10 days.

1.2 A representation or warranty by you proves to be materially incorrect.

1.3 The export contract has been altered, or, you have permitted it to be performed, in a way that affects its nature, level of Australian content, scope, price, or time for performance.

1.4 We have become entitled (subject to giving notice or any period of grace) to declare that all money owing under another agreement with you is immediately due and payable.

1.5 You have disposed of or encumbered any right you have either under this agreement or under the export contract.

1.6 You have become liable to someone other than us, either in your own right or as a surety, because of your default or someone else's in paying money when it became payable and you have failed to pay the amount for which you are liable.

1.7 You have stopped carrying on business (or a material part of your business), or have undergone a reconstruction or amalgamation of your corporate structure, assets or undertaking, or have threatened to do any of these things, without first getting our written approval.

1.8 Someone has resumed, appropriated, expropriated, confiscated, nationalised, acquired, or taken custody, possession or control of all or a material part of your issued capital or assets.

1.9 You have stopped payment of your debts generally or stopped payment of a class of debts, or- have reduced or tried to reduce your capital (except from a share premium account) or you have made or tried to reduce your uncalled capital incapable of being called up.

1.10 Distress or execution for more than US$50,000 (or its equivalent in another currency) has been levied or attempted on you or any of your assets, or an encumbrance has become enforceable against you or any of your assets.

1.11 Any of the following has happened:

- You have declared a moratorium on payment of your debts.

- You have admitted that you are unable to pay your debts as they become due.

- You have gone into liquidation or provisional liquidation or have become bankrupt.

- A resolution has been passed or you have a petition made against you (which is not frivolous and/or dismissed within 14 days) for your winding up.

- You have gone into controlled, extraordinary or insolvent administration.

- An administrator, custodian, judicial manager, receiver or receiver-manager has been appointed to you or any of your assets.

- You have entered into a reorganisation, composition, assignment or arrangement with, or for the benefit of, your creditors or a majority of them.

- An order for distress, execution or sequestration has been made against you.

- You have done something, or something has happened, which is similar in effect to any of the events listed above.

- You have taken irreversible action to achieve or enable any of the happenings listed above.

1.12 The person or persons who have effective control of you when this agreement is entered into cease to have effective control of you.

1.13 A security that you have given for the performance of your obligations under this agreement, or a third party's guarantee or indemnity given in relation to that performance:

- becomes enforceable, or
- is, or is arguably, void, voidable or unenforceable.

1.14 A government authority or approval in connection with this agreement or the export contract has been withdrawn, has lapsed or has been made subject to conditions which are not acceptable to us.

1.15 Any event or combination of events occurs which we reasonably believe have a material adverse effect on you or your ability to comply with this agreement.

Time of notice

D2 We can give notice of accelerating payments at any time after we are entitled to accelerate, even if other things have happened since your default or the happening of the other adverse event. However, we cannot give notice if the default or other adverse event is not continuing

E: CONSEQUENCES OF BREAKING THE CONDITIONS IN THIS AGREEMENT

El You must pay a special rate of interest on amounts not paid on time

1.1 You must pay extra interest on any amount that you do not pay on time. A special rate of interest applies since our risk is greater when you do not pay on time than when you do pay on time - partly because it is risk we did not expect to happen, and partly because the risk of lending to a person who has not kept a promise to pay on time is higher than lending to a person who has. This special rate is designed as a genuine pre-estimate by both of us of the risk-based cost to us of being paid late and the extra risk we carry by lending to a person who has failed to pay on time.

1.2 This interest accrues daily. It is payable on demand made by us.

1.3 We determine the special rate of interest as follows.

- the special interest rate applicable to the amount that you did not pay on time is the rate 1% higher than one month LIBOR plus the margin specified at item 11 of the Schedule for so long, as you do not pay us in full.

- one month LIBOR means:

  - the annual percentage rate of interest determined by us to be the average of the offered quotations for a period of approximately one month of all banks appearing on the display page "LIBO" of the Reuters Monitor System at about 11 am (London time) on the relevant setting date (rounded upwards, if necessary, to the nearest four decimal places).

  - The setting dates will be:

    - the date two business days before the day the payment in question should have been made and

    - the same day of each following month (or if that day is not a business day, the next business day) until we are paid - in full - the amount which was not paid on time plus interest accrued at the special rate.

- If the display page "LIBO" of the Reuters Monitor System is unavailable, LIBOR will be the rate quoted to us by a reputable bank selected by us in our sole discretion.

E2 **In addition to amounts payable to us under clause El, you must pay us for any funding losses under clause C12.**

E3 **You must also pay us any costs we incur enforcing or attempting to enforce our rights under this agreement or any document provided in relation to it.**

3.1 Those costs will include costs of travel by our representatives, accommodation for our representatives, legal costs (as billed to us by our internal and external lawyers), notaries' costs and consultants' costs. We do not need to obtain your prior approval or consult you in any way before incurring these costs.

F: <u>YOUR PREPRESENTATIONS, WARRANTIES AND UNDERTAKINGS</u>

Your representations and warranties

Fl **You make the following representations and warranties to us each time you request a drawdown, and each time an amount becomes payable by you. We rely on your representations and warranties in making a drawdown and in deciding whether or not to exercise our right to accelerate payments.**

1.1 You are a legal person with capacity to enter into and perform all your obligations under this agreement and the export contract. You do not have immunity from the jurisdiction of any court or from any legal process.

1.2 You have obtained and undertake to maintain all authorisations and approvals that are needed for you to enter into this agreement and the export contract and to perform your obligations under them.

1.3 In entering into this agreement and the export contract, you will not exceed your powers, or breach any law or regulation in any place, or breach any order or obligation, which binds you or your assets.

1.4 Your obligations under this agreement and the export contract are binding and enforceable and there are no steps you could take to avoid them.

1.5 You have fully and accurately disclosed to us in writing everything which is material to our assessment and acceptance of the risks we undertake in this agreement.

1.6 Each person on your list of specimen signatures has authority to sign a document on your behalf until we receive written notice from you withdrawing that authority.

1.7 There has been no default or other adverse event, and no material event which could lead to a default or other adverse event, apart from any that you have told us about in writing,

1.8 You are not aware of any litigation, threatened litigation or dispute involving you or anyone else that might seriously affect your ability to comply with any of your obligations under this agreement or the export contract.

1.9 There is no outstanding dispute in relation to the export contract.

1.10 The export contract has not been altered/ and you have not permitted it to be performed, in a way that affects its nature, level of Australian content, scope, price, or time for performance except after obtaining our prior written approval.

1.11 Your most recent audited financial statements give a true and fair picture of your financial position, disclose all your liabilities (actual and contingent) and any encumbrances on your assets, and have been prepared in accordance with generally accepted accounting principles and practices consistently applied in the country of your business.

1.12 There has been no material adverse change in your financial position or operations since your most recent published and audited financial statements.

1.13 You are not a trustee of any trust, except one which you have told us about in writing and which we have approved.

Your undertakings

F2 You undertake to do each of the following:

2.1 To give us written details of any of the following events as soon as you become aware of them:

- an adverse event listed in clause DI, or another event which might lead to an adverse event.
- a dispute in relation to the export contract.
- any circumstance beyond your control which is likely to prevent you from making a payment under this agreement.

2.2 To take all reasonable steps to overcome any event, dispute or circumstance referred to in F2.1, and to keep us informed of your progress.

2.3 Not to assign, dispose of or encumber any of your rights or benefits under this agreement.

2.4 To provide us promptly with any report or information we reasonably require in relation to you, the exporter or the performance of the export contract.

2.5 To allow us at any reasonable time to inspect, your books, records and accounts relating to the export contract and any goods supplied under. it; and to give us your full co-operation in relation to our inspection.

2.6 Not to incur liabilities, or to reduce your assets, or to conduct your business, in a way which would prejudice your ability either to comply with your obligations under this agreement or the export contract, or to pay your debts.

2.7 Not to dispose of or encumber a substantial part of your assets without our prior written consent except in the ordinary course of business. -

2.8 Not to permit a substantial change to occur in your business or business activities.

2.9 To provide us, as soon as they become available, but in any case within 120 days after the end of each financial year, with a copy of your audited financial statements as at the end of the financial year.

2.10 To arrange and maintain (for as long as any amount remains due to **us** in connection with this credit facility) a policy of insurance which is acceptable to us and is with an insurer we have approved; and which covers you - to their full insurable value - against loss of, or damage to, all the goods to be supplied under the export contract.

2.11 To comply with all of your obligations in connection with the policy of insurance; to promptly give **us** a copy of the policy and any renewal of it; to notify us promptly of any event which could give rise to a claim; to make any claim diligently; to do everything we reasonably require in relation to making a claim under the policy; and to inform us regularly in connection with all claims made.

F3 You now assign to us proceeds of claims under the insurances required under clause F2.11, and promise promptly to notify each insurer of our interest, and to ensure that the policy:[LGLDK1]

- names us a co-assured, and
- requires the insurer to pay us, in priority to anyone else, any claims proceeds.

Where a claim **is** paid for the total loss of the goods insured, you agree that the claim payment will be used to reduce your obligations under this agreement.

G: MISCELLANEOUS

We make no representations etc

G1 We make no representations of any kind to you and give you no warranties of any kind in relation to the export contract. You acknowledge that you have not relied on any representation made by us. Your obligations under this agreement do not depend on the exporter's performance of the export-contract.

Time for currency exchange

G2 Unless an exchange rate is specified for that purpose, any amount which needs to be converted into another currency will be converted at the rate quoted to us for value on the conversion day by a reputable bank which we choose, at our discretion.

Proof

G3 **You acknowledge that a notice from us stating that an amount is payable under this agreement, nominating an interest rate or stating how we arrived at an interest rate, is sufficient proof that the amount is payable or the interest rate is correct.**

Notices

G4 **We must give one another any notice or other information in English and at the addresses set out in item 1 of the Schedule, or at a substitute address that is notified to the other party in writing. This may be done by delivery, by post, by fax or by telex.**

4.1 A fax is only effective if the sender's machine prints a report that the whole fax has been successfully transmitted to the recipient's fax number, or to a substitute number notified to the other in writing.

We may require original documents in relation to a request for a drawdown.

Severability

G5 **If any part of this agreement is illegal, void, voidable or unenforceable, it is to be deleted and is not to affect the operation of the rest of this agreement. We must both negotiate in good faith to amend this agreement to replace as far as possible the part deleted.**

Choice of law and jurisdiction

G6 **This agreement is governed by the law of New South Wales, Australia. You submit unconditionally to the jurisdiction of the courts of New South Wales and any other courts in Australia or elsewhere which we, in our absolute discretion, choose. You will not object to the jurisdiction of any of those courts or argue that it is not a convenient forum.**

Waiver of sovereign immunity etc

G7 You waive any right you have or may obtain to rely on sovereign immunity or any other immunity from the jurisdiction of a court or from legal process of any kind affecting you or your assets. You acknowledge that entering into this agreement and the export contract, and exercising rights and performing obligations under them, are commercial activities of yours.

Entire agreement

G8 This is the entire agreement between us. It supersedes any earlier agreement or understandings.

Waiver

G9 We may waive any of our rights under this agreement. We are not to be treated as having waived any of your obligations or our rights unless we do so in writing. A waiver by us of any obligation or default by you does not affect your obligations in relation to subsequent performance.

Curing technical defects

G10 We must both do our best to fix or make up for any technical defects in this agreement and in any related agreement or document which might affect their enforcement.

Assignment of rights

G11 We may assign our rights under this agreement without reference to you. You may only assign your rights with our prior written consent which we may withhold at our discretion.

Copy to exporter

G12 We may give a copy of this agreement to the exporter

Authority to fill in blanks

G13 You authorise us to fill in any blanks and make any necessary insertions in the Schedule.

EXECUTED AS A DEED

SIGNED SEALED and		____________________
DELIVERED for and on behalf	]	
of the [ ] by	]	Name:_______________
its Attorney/Authorised Officer	]	
in the presence of:	]	Title:________________

____

Name:________________________

Witness

SIGNED SEALED and	]	
DELIVERED for and on behalf	]	_____________________
of the **EXPORT FINANCE**	**]**	
AND INSURANCE	]	Name:________________
CORPORATION by its	]	
Attorneys/Authorised Officers	]	Title:_________________
in the presence of:	]	

____

Name:_________________________

Witness

Name:________________

Title:__________________

SCHEDULE TO THE CREDIT AGREEMENT

BETWEEN

EFIC and [ ]

Dated [ ] 199[]

Item 1

Your and our details

	US	YOU
Name	Export Finance and Insurance Corporation	
Current street address	Level 5, 22 Pitt Street, Sydney NSW 2000 AUSTRALIA	
Telex number	121224	
Facsimile number	61 2 9201 2290	

Item 2

Details of the Export Contract

Exporter's name	
Current street address	
Type of goods & services	
Date of Contract	
Contract Price	

Item 3

The maximum amount of the credit facility is US$

Item 4

The drawdown period commences on the date of this agreement and ends on
__ / __ / 199__

Item 5

You must pay the exporter as a non-refundable deposit not less than US$

Item 6

Your country is

Item 7

The maximum amount of local costs (that is, costs to be incurred in your country) that can be funded from the credit facility is US$

Item 8

The establishment fee is US$

Item 9

The dates for payment of interest are 15/__/199__ and each subsequent 15 [ ] and 15 [ ] for as long as amounts remain due or payable to EFIC in connection with this agreement. However, if any of these dates falls on a day which is not a business day, the next business day will be taken to be the relevant date for payment of interest.

Item 10

The fixed interest rate is [ ] % per year.

Item 11

The margin is [ ]

Item 12

The dates for payment of instalments of principal are

1. / / 199	8 / / 199
2. / / 199	9 / / 199
3. / / 199	10 / / 199
4 / / 199	11 / / 199
5 / / 199	12 / / 199
6 / / 199	13 / / 199
7 / / 199	14 / / 199

Item 13

The number of installments of principal is

ATTACHMENT 1

REQUEST FOR DRAWDOWN

To: Export Finance and Insurance Corporation
Export House
22 Pitt Street
SYDNEY NSW 2000

Credit Agreement **Date: __/ __/ 199__**

Dear Sirs

1. We ask you to:

* pay the exporter US$___________ Go to 2

* reimburse us US$___________ Go to 3

2. The Exporter is entitled under the export contract to be paid that amount on __/__/199__ for goods or services which qualify for financing under the Credit Agreement.

3. We paid this amount to the exporter on __/__/199__ for goods or services which qualify for financing under the Credit Agreement.

4. Under the export contract, the exporter has so far received US$____

5. * As evidence of the exporter's entitlement to claim this amount, we have signed below.

We also enclose the following additional evidence:

As evidence of our entitlement to claim reimbursement we enclose:

('Strike out whenever inapplicable)

Request for Drawdown dated___________________

6. We repeat the warranties contained in the Credit Agreement.

In particular we confirm that.

- We have no knowledge of any dispute in connection with the export contract which you have not already been told about in writing.

- There has been no variation or any performance of the contract which is inconsistent with its terms (excluding an unimportant variation which does not affect the contract price or the date by which the contract performance is to be completed).

7. After deducting anything that is payable by the exporter to you (whether under the, exporter's agreement or in accordance with any other authority given by the exporter), please pay the amount claimed to:

Account name: ____________________________

Account number: ____________________________

Bank: ____________________________

Address: ____________________________

_________________________ _____________________________

_________________________ _____________________________

Name of person signing for the exporter

Name of person signing for the borrower

_________________________ _____________________________

Position:__________________

Position:_____________________

Date:____________________

Date:______________________

ATTACHMENT 2

FOR EFIC'S CREDIT AGREEMENT
FORM OF LEGAL OPINION

To: Export Finance and Insurance Corporation
Export House
22 Pitt Street
SYDNEY NSW 2000

You have asked our opinion in connection with a credit agreement (the "Agreement") between [NAME OF BORROWER] (the "Borrower") and yourselves dated [DATE OF CREDIT AGREEMENT].
This opinion is given on the basis that it relates only to the laws of [BORROWER'S COUNTRY].

In connection with this opinion we have examined the Agreement and such have deemed necessary other documents and matters in law and fact as we for the purposes of this opinion.

This opinion assumes:

(a) the authenticity and completeness of all documents submitted to us as originals; and

(b) the conformity to originals of all documents supplied to us as certified or photostat copies and the authenticity and completeness of the originals of such later documents.

We have relied upon a certificate of incumbency to ascertain the genuineness of all signatures on documents supplied to us.

On the foregoing basis and subject to the qualifications set out below, we are of the opinion that:

1. The Borrower is duly incorporated and validly existing under the laws of [BORROWER'S COUNTRY] and has all requisite power to own its property and assets and is duly qualified to carry on business under the laws of [BORROWER'S COUNTRY].

2. The Borrower has power to enter into the Agreement and has authorised its officers to do so.

3. The Agreement is a legal, valid and binding agreement enforceable against the Borrower in accordance with its terms.

4. The Agreement is in a proper form to be enforced in the courts of [BORROWER'S COUNTRY].

5. All stamp duty required under the laws of [BORROWER'S COUNTRY] to be paid on or in respect of the Agreement has been paid.

6. The Agreement has been registered and filed correctly and in accordance with the laws of [BORROWER'S COUNTRY] in every place that it needs to be registered or filed.

7. No consents, approvals, permissions, authorisations, orders, licences, filings or registrations are required to be obtained from or made with any governmental authority or agency or with any other person or entity to ensure the validity of the Agreement or to ensure its enforceability or enforcement against the Borrower.

8. The execution, delivery and performance by the Borrower of the Agreement does not and will not violate:

    (a) any law or regulation of [BORROWER'S COUNTRY],

(b) any authorisation, consent, order or decree of any government, governmental authority or agencv or court in [BORROWER'S COUNTRY], or

(c) any Memorandum or Articles of Association or other charter document of the Borrower.

9. The obligations of the Borrower under the Agreement rank at least pari passu with all other indebtedness of the Borrower, except for indebtedness andatorily referred by law. Indebtedness mandatorily preferred by law means [LIST ALL SUCH INDEBTEDNESS].

10. Subject only to changes in the laws of [BORROWER'S COUNTRY] there will be no withholding or deduction for any taxes in connection with any payment to be made to you under the Agreement.

11. I have no reason to believe that any litigations proceeding or dispute is pending or threatened against the Borrower before any court or arbitrator, or any governmental or body or agency.

12. The choice of the law of New South Wales, Australia, under the Agreement is a valid choice of law.

13. The Borrower's unconditional submission to the jurisdiction of the courts of New South Wales and any other courts in Australia or elsewhere which you, in your discretion, choose is valid and enforceable.

14. The Borrower's undertaking not to object to the jurisdiction of any of those courts or argue that it is not a convenient forum is valid and enforceable.

15. The Borrower's waiver of any right it has or may have to rely on sovereign immunity from the jurisdiction of a court, or from legal process of any kind affecting the Borrower or its assets, is valid and enforceable.

16. Under the laws of [BORROWER'S COUNTRY] you will not be treated as resident, domiciled in or carrying on any commercial activity in [BORROWER'S COUNTRY] or subject to any tax in that country as a result only of the execution, delivery, or enforcement of the Agreement.

17. The security constitutes a first priority security interest in the assets intended to be covered by the security and is not subject to any prior interest. The security has priority over a liquidator of the borrower and over any creditors or third parties.

This opinion is given subject to the qualification that we have made no investigation of laws of any jurisdiction other than [BORROWER'S COUNTRY].

Very truly yours

ATTACHMENT 3

Date[ ]

Export Finance and Insurance Corporation
Level 5, 22 Pitt Street
Sydney NSW 2000
Australia.

Dear Sir,

RE: Credit Agreement dated [ ] between EFIC and ______________________________(the 'Borrower")-

For the purposes of the Credit Agreement we have appointed each of the following whose usual signature appears below as a person authorised to sign on behalf of the Borrower. A document signed by one of the people below will bind the Borrower.

Name: ---

Position: ---

Specimen Signature: ---

Name: ---

Position: ---

Specimen Signature: ---

Name:	---
Position:	---
Specimen Signature:	---
Name:	---
Position:	---
Specimen Signature:	---

SIGNED SEALED and	]	______________________________
DELIVERED for and on behalf	]	
of the [ ] by	]	Name:________________________
its attorney/Authorised Officer	]	
in the presence of:	]	Title:_________________________

____

Name:_________________________

Witness

CHAPTER III

PROGRAMS OF THE U.S.A. EX-IM BANK DIRECT LOANS AND GUARANTEES

DIRECT LOANS

- Loan made by Ex-Im Bank
- 85% of- US contract price
- Fixed interest rate
- Exporter paid with disbursement LIC or directly by buyer
- Shipping rules always apply*

CIRR

Repayment Term	Formula
Up to 5 years	3-yr. Treasury + 100 bp
5 to 8.5 years	5-yr. Treasury + 100 bp
Over 8.5 years	7-yr. Treasury + 100 bp

BEST USED WHEN:

- Buyer insists on fixed rate
- Tied aid competition is present

DISADVANTAGES

- Negotiated Credit Agreement
- Disbursement Process
- No Cash Payment Support
- Shipping Requirements

TYPES OF GUARANTEES

---

* Under Public Resolution 15, shipment on U.S. vessels is required for:

- All Direct Loans
- Guarantees of over $10 Million

- Comprehensive
- Political Risk Only

GUARANTEE FEATURES

- 100% principal and interest cover for 85% of US Contract Price
- Negotiated interest rate-usually floating
- Fully transferable; can be securitized
- Available in major foreign currencies
- Can switch from floating to fixed rate
- US vessel shipping rules apply for long terms

ADVANTAGES OVER DIRECT LOANS

- Faster documentation process
- Banks assist in the transaction
- Promotes cash payment financing
- Floating interest rate usually lower
- No shipping regulations under $10 million

MASTER GUARANTEE AGREEMENT (MGA)

- Provides terms applicable to guarantees issued
- Details documentation and procedures
- MGA must be operative
- Any lending institution can apply

GUARANTEE DOCUMENTATION

- Guarantee Agreement - Ex-Im and Lender
- Credit Agreement (LIT only) - Ex-lm, Lender, Borrower
- Disbursement documentation:
  - Invoice
  - Bill of Lading
  - Supplier's Certificate

With provision for both general and statutory waivers.

MEDIUM-TERM PRIORITY LENDER PROGRAM

- Complete Application with Credit Memorandum
- 20 Business Day Turnaround

CREDIT GUARANTEE FACILITY

- Line of credit -- 85% financing
- US lender and foreign bank
- Foreign bank on-lends on same repayment term
- Covers multiple sales to different buyers
- Minimum $10 million line
- One year availability
- Reserved for high volume, repeat users

MEDIUM-TERM INSURANCE vs. GUARANTEES

- Conditionality
- Flexibility
- Exporter Liability

FEE STRUCTURE

- Application Fee
- Commitment Fee
- Exposure Fee

APPLICATION FEE

Letter of Interest	$100
New Final Commitment	$100
Preliminary Commitment	1/10 of 1% of financed portion; $25,000 cap

COMMITMENT FEE

Program	Rate Per Annum
Direct Loan	1/2% on undisbursed
Guarantee	1/9%
Credit Guarantee Facility	1/16% Flat

EXPOSURE FEE

Exposure fee determined by:

- Country Risk
- Risk with borrower
- Repayment term

REPAYMENT TERM

Varies by:

- Market category
- Dollar size
- Product convention & sector agreements (O.E.C .D. arrangement and Berne Union understandings)

MAXIMUM REPAYMENT TERM MARKET CATEGORY

Category 1 - Rich

- 8.5 years with prior notification
- Maximum 5 years

Category 2 -- All others

- Maximum 10 years

MAXIMUM REPAYMENT TERM CONTRACT SIZE

Contract Price	Cat I	Cat II
Up to $300,000	Up to 4	Up to 4
$300m to $7mm	5	5
$7mm to $11.7mm	5	7
$11.7mm to $25mrn	5	8

> than $25mrn	5	10

STARTING POINT FOR DETERMINATION OF CREDIT PERIOD AND PROGRESS PAYMENTS

Starting Point:

- Shipment for single shipment
- Mid-point of multiple shipments
- Commissioning of project

Progress Payments - Allowable

STANDARD FINANCE MODEL

Contract price	$1,000,000
Cash payment	$150,000
Financed portion	$850,000
Exposure fee @ 3%	$25,500
Total financed	$875,500

FOREIGN CONTENT - 25%

	Eligible	Ineligible
Contract price	$1,000,000	$1,000,000
Less ineligible	-0-	$250,000
Eligible	$1,000,000	$750,000
Cash payment	$250,000	$112,500
Total financed	$750,000	$637,500
(plus exposure fee)		

LOCAL COST FINANCING - 15 %

US Export Value	$1,000,000
Cash payment	$150,000
Financed portion	$850,000
15% local cost	$150,000

Total financed	$1,000,000
Total Contract Price	$1,150,000

AIRCRAFT FINANCE

Interest Rates

- 10 yrs. or less: 10 yr. Treasury + 120 bp
- Over 10 years: 10 yr. Treasury + 175 bp

Exposure Fees:

- Direct Loans 2%
- Guarantees 3%
- **Maximum Term: 12 years**
- **Sector Agreement**

ROLE OF THE ENGINEERING DIVISION

- **Product Eligibility Authority**
- **Environmental Evaluation**
    - Pollutants
    - Other Impact
- **Other**
    - Technical Project Evaluation
    - Monitor Project Progress

ENVIRONMENTAL EXPORTS ENHANCEMENTS

Regular program features, plus:

- Local cost cover
- Capitalized interest during construction
- Maximum allowable repayment terms

USED AND REFURBISHED EQUIPMENT

- Eligible on standard or shorter repayment terms
- Original U.S. manufacture
    - l-yr. rule if previously exported

- Original foreign manufacture
  - Treated as eligible foreign content
  - 50% of production cost maximum
- Refurbishment normally - eligible US content

TIED AID

- Policy to counter, not initiate
- Budget cost not more than 50%
- Broader market opportunities at stake
- Favorable factors include
  - Competitor country violating tied-aid rules
  - US suppliers are small
  - Environmental or renewable energy project

PROJECT FINANCE

- New or expansion projects
- Repayment from project cash flow
- Two phases:
  - Pre-completion and post-completion
  - Separate exposure fee schedule

OTHER SPECIAL PROGRAMS

- Engineering Multiplier
- Supplier Credits

INTERNAL PROCESSING OF APPLICATIONS

- Application received
- Business Development review; issues LI
- Loan officer review
- Engineering review
- Approval Loan Committee or Board
- Legal review documentation and closing
- Credit Administration - disbursement

HOW TO APPLY

Type	Eligible Applicant
Letter of Interest	Anyone
Preliminary Commitment	Anyone
Final Commitment	Borrower or Mandated Guaranteed Lender

APPENDIX I

Exposure Fees

Determining the Exposure Fee

- Select appropriate Country Fee Level Chart
- Determine if public or private sector buyer
- Locate buyer category
- Determine fee level
- Determine fee from Fee Level Chart

FEE LEVEL CHART

MEXICO

PRIVATE SECTOR CREDITS

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	See Public Sector Credits Sheet
B. POLITICAL-ONLY COVER	FEE LEVEL	5
C. TRANSACTIONS OF $1 MILLION OR LESS	MAXIMUM FEE LEVEL	7

D1. BOROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aal, Aa2	AI, A2, A3	Baal, Baa2	Baa3	Bal, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

D2. BORROWERSIGUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	6	6	6	6	6	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moodys)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS MAXIMUM FEE LEVEL 6

Fl. UNRATED BORROWERS / GUARANTORS other than Financial Institutions

DEBT TO TANGIBLE NET WORTH	<lX	<2X	<3X	<4X	<6X	>6X

FEE LEVEL

	>25%	6	6	6	6	7	8
OPERATING	>20%	6	6	6	6	7	8
CASH FLOW	>15%	6	6	6	7	8	8
(2-YEAR AVG)	>10%	6	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	6	6	6	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

FEE LEVEL CHART

MEXICO

PUBLIC SECTOR CREDITS

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	5
B. POLITICAL-ONLY COVER	FEE LEVEL	See Private Sector Credits Sheet
C. TRANSACTIONS OF $1 MILLION OR LESS	MAXIMUM FEE LEVEL	7

D1. BOROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aal, Aa2	AI, A2, A3	Baal, Baa2	Baa3	Bal, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

D2. BORROWERSIGUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	5	5	5	5	5	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moodys)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS — MAXIMUM FEE LEVEL 6

Fl. UNRATED BORROWERS / GUARANTORS other than Financial Institutions

DEBT TO TANGIBLE NET WORTH	<lX	<2X	<3X	<4X	<6X	>6X
FEE LEVEL						

	>25%	5	5	5	5	6	7
OPERATING	>20%	5	5	5	6	7	8
CASH FLOW	>15%	5	5	6	7	8	8
(2-YEAR AVG)	>10%	5	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	5	5	5	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

FEE LEVEL CHART

CHINA, P.R.

PUBLIC SECTOR CREDITS

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	2
B. POLITICAL-ONLY COVER	FEE LEVEL	See Private Sector Credits Sheet

C1. BOROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aal, Aa2	AI, A2, A3	Baal, Baa2	Baa3	Bal, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

C2. BORROWERSIGUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	2	2	3	4	5	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moodys)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

D1. TRANSACTIONS OF $10 MILLION OR LESS - FINANCIAL INSTITUTIONS	FEE LEVEL	2*
D2. TRANSACTIONS OF $10 MILLION OR LESS - OTHER THAN FINANCIAL INSTITUTIONS	FEE LEVEL	3*
E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS	MAXIMUM FEE LEVEL	3

Fl. UNRATED BORROWERS / GUARANTORS OTHER THAN FINANCIAL INSTITUTIONS

DEBT TO TANGIBLE NET WORTH	<lX	<2X	<3X	<4X	<6X	>6X

		FEE LEVEL					
	>25%	3	3	4	5	6	7
OPERATING	>20%	3	4	5	6	7	8
CASH FLOW	>15%	34	5	6	7	8	8
(2-YEAR AVG)	>10%	5	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	3	3	5	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

*MAY NOT APPLY IF A FEE LEVEL HAS BEEN PRE-APPROVED. REFER TO EXPOSURE FEE ADVICE.

EXPOSURE FEES TABLE

$Per $100 of Each Disbursement

Fee Level	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Repayment Term								
1 Year	0.50	0.75	1,13	1.38	1.69	2.07	2.53	3.90
2 Years	0.63	0.94	1.41	1.73	2.11	2.58	3.16	4.75
3 Years	0.75	1.13	1.69	2.07	2.53	3.10	3.80	5.70
4 Years	0.88	1.31	1.97	2.41	2.95	3.81	4.43	5.64
5 Years	1.00	1.50	2.25	2.75	3.33	4.14	5.06	7.59
6 Years	1.13	1.89	2.90	3.80	4.98	6.85	10.27	N/A
7 Years	1.25	1.88	3.22	4.22	5.53	7.61	11.41	N/A
8 Years	1.38	2.06	3.54	4.64	6.08	8.37	12.55	N/A
8.5 Years	1.44	2.16	3.70	4.85	6.36	8.75	13.12	N/A
9 Years	1.50	2.25	3.56	5.06	6.63	9.13	13.69	N/A
10 Years	1.63	2.44	4.19	5.48	7.19	9.89	14.83	N/A
12 Years	1.88	2.81	4.83	6.33	8.29	11.41	17.11	N/A

APPENDIX II

MEDIUM / LONG TERM PROGRAMS

CASE STUDIES/ CLASS DISCUSSION

Please answer the following questions for the case assigned to your group:

1. Application process

A. Of the three types of Ex-Im application, Letter of Interest, Preliminary Commitment, or Final Commitment, which is most appropriate for your case?

B. Who can submit the application?

2. Policy considerations

Are there military, foreign content, additionality, shipping issues or other policy concerns?

3. Repayment terms

A. What is the appropriate repayment term?

B. When would repayment begin?

4. Fees

A. How much is the application fee?

B. How much is the commitment fee?

- i. When does it begin to accrue?
- ii. Who pays it?
- iii. Can it be financed?

C. Determine or approximate the exposure fee.

- i. When is it paid?
- ii. Who will pay it?
- iii. Can it be financed?

5. Financing package

A. Would you recommend a loan or a guarantee?

B. How would the interest rate be determined (for loan or guarantee)?

C. How much can be financed, including the exposure fee if applicable?

D. Would there be local cost support?

Information.

A. Interest Rates for Direct Loans

Assume the Ex-Im Direct Loan Interest Rates are as follows:

	Up to 5 Years	From 5 to 8 1/2 Yrs	Over 8 1/2 Yrs.
Category I	6.9%	7.1%	7.2%
Category II	6.9%	7.1%	7.2%

Note: To determine the four-month hold rate, add 20 basis points (PC's only)

B. Use the Mexico Exposure Fee Table for all cases.

CASE No. 1 BIG TIME EXPORTER

Big Time Co. is bidding on a $20,000,000 sale of computing equipment that will time the departure and arrival of each train that uses the Central Railway Station in Jakarta, Indonesia, a Category 11 country. Competition has been intense with exporters from Japan, Canada and Germany, as well as your firm from the US, all placing bids. Through negotiation, the governments of those countries have agreed to a common line calling for non-concessional OECD financing terms.

The computer will have some foreign content, which will be imported from abroad and assembled into the computer equipment in the US amounting to 13% of the total cost. There is no local cost support requested. The Central Railway Station serves primarily passenger trains but it is also the point of embarkation for some military transports. The Government of Indonesia will be the buyer. Although the computer equipment will be installed in 6 months, the remainder of the system will take one year in total to complete.

You are the financial vice president of Big Time and need to explore financing alternatives for the potential sale. The Indonesians are requiring that financing be part of the bid submission, and you want to bring them some indication of financing on your upcoming trip.

CASE No. 2 CLEAN ENVIRONMENT INC.

Clean Environment Inc. has won a $10,000,000 contract to supply capital equipment to a waste water facility 30 miles south of Mexico City. The signed contract is contingent on Clean Environment providing financing for their scope of supply. The financing offer should include comment on local cost financing. Mexico is a Category 11 country.

The company had obtained a Letter of Interest from Ex-Im Bank which proved to be very helpful in their marketing efforts. The Mexican company, Cia. de Agua S.A., is owned by the Mexican Government and is asking you, the Treasurer of Clean Environment, to secure financing. The facility will be built in one year. They are especially interested in the Environmental Exports Program that was mentioned in Ex-Im Bank's Letter of Interest.

They would like to ship the product via rail to Laredo Texas, followed by pickup by a Mexican carder at that point. Some of the software to operate the plant will be shipped by air.

Your next step is to meet with your friendly banker at the Can Do Bank in your city. They are unwilling to take unsecured risk in Mexico but are very comfortable using the Ex-Im Bank programs.

Although the Mexican company is owned by the government, it is not a full-faith-and-credit entity and relies on its own financial merits when obtaining credit. The firm carries a Baal intracountry, local currency, Moody's long-term debt rating.

CASE No. 3 CHEMBRAZIL

A large Brazilian company- ChemBrazil is expanding and is seeking suppliers of capital goods and services valued at about $550 million.

Because there has been a world-wide slow down in such projects over the past few years, many companies from several countries are fighting hard for the business. Knowing this, ChemBrazil is driving a hard bargain. In addition to the typical financing available under the OECD arrangement, they want support for an additional $7 million of local costs for the site development and the building to house the expansion, which is in a very nice location on the edge of a national wetlands park. Support for the cash payment is also being requested. The total construction time is estimated at 2 years.

You are a senior vice president at Pay Us Back Bank. Your highly valued customer from Chemsupply, U.S. has talked to you about this transaction and is coming in shortly. You want to be supportive but you are not willing to take the Brazilian risk, although you will do some cash payment financing on a one-year basis.

You have made a preliminary review of ChemBrazil's financial statements and noted that, among other financial characteristics, the firm's operating-cash-flow to total-debt ratio average for the past two years was 11.4% and the firm has a total-debt to tangible-net-worth ratio of 2.4: 1.

Brazil is a Category II country.

CASE No. 4 EARTH PUSHER INC.

Earth Pusher Inc. has signed a sales contract for the sale of ten of its biggest bulldozers, the Super EP2000 to Alpha Goldmines Ltd., a privately-held company in South Africa for a total of $10 million, subject to Earth Pusher obtaining satisfactory financing for the sale.

The bulldozer is made in the U.S. but Earth Pusher has three options to purchase the motor, transmission and gear assembly: 1) purchase from a U.S. manufacturer and assemble in the US; 2) purchase from a Mexican manufacturer, bring it into the U.S. and assemble it into the bulldozer, or 3) purchase it from the Mexican manufacturer and have it shipped to South Africa where it will be then incorporated into the bulldozer shipped from the U.S. Assume that the total cost of the motor, transmission and gear assembly to Earth Pusher is $3.0 million for all ten tractors to be exported in each of the three options.

Alpha Goldmines is a growing South African firm, which is starting to obtain credit on an international basis. Last year the firm issued its first international debt placement of $30 million, a dollar-denominated issue handled by Warsaw and Duff in London. The unsecured debt carries a Baa2 Moody's rating.

South Africa is a Category II country.

You are the banker / advisor to Earth Pusher. You would have no problem making an Ex-Im Bank supported loan to South Africa. You are concerned, however, that the amount of local content will minimize Ex-Im Bank's support and put a higher finance burden on you or the South African buyer. You need to outline to Earth Pusher Ex-Im Bank's programs and make a recommendation as to the sourcing of the motor, transmission and gear assembly.

CASE No. 5 SECOND HAND MINING TOOLS

You are the owner of a small business that buys used mining equipment, refurbishes it and sells it. During a vacation to Argentina, you visited a mine and noticed that their equipment was both obsolete and worn out. You made a proposal to the mine owner that covered the sale of two mining tools with a value of approximately $ 3 million.

Upon returning home, you find the order waiting in the mail. It is, however, contingent on financing of at least five years. One of the machines was made in the U.S. and will sell for $1,200,000. The second was made in the United Kingdom. Its cost to you is $450,000 and will require refurbishment work of $600,000 to yield a $1.8 million sales price. It will take about 3 months for the equipment to be reconditioned. Once in Argentina, the equipment will be put into use immediately.

You approach your bank for assistance. The bank is willing to look at the transaction with Ex-Im support. You have obtained financial statements for the past three years and supporting credit information from the buyer, which you have given to the bank. After reviewing the information the bank believes Ex-Im is unlikely to support the transaction without additional financial support for the buyer. You contact the buyer who states that he can obtain the guarantee of a local bank for his company. He submits to you financial statements on the proposed guarantor bank for the past three years. The most current year's financial statements show the following financial characteristics for the guaranteeing bank:

Shareholders Equity to Assets:	5.5%
Net Income to Assets (2-yr avg.)	0.72%
Borrowed Funds to Net Loans	72%
Liquid Assets to Assets	14%
Reserves to Non-Performing Assets	133%

Argentina is a Category I country.

CHAPTER IV

PROJECT FINANCING - JAPANESE INVOLVEMENT

1. POLICIES

- Huge investment demands for infrastructure in Asian countries are projected by the World Bank and other institutions.
- Infrastructure investment requirements in developing EAST Asian economies are projected at between $1.3 - 1.5 trillion for 1995-2004.
- A Certain amount of commercial funds will be expected to fulfil the lack of official funds to meet the demand.
- A Japanese private institution projected a gap of $ 630 billion for the investment requirements for 1995 - 2010 in Asian region.
- Privatisation or BOT[1] style project in such infrastructure areas as telecommunications, power generation, water supply and highways contributes to development of emerging countries.
- We positively support those transactions through M.I.T.I.'s insurance for commercial lenders, exporters and investors because development of those countries revitalises not only their economy, but also the world economy.

2. PROJECT FINANCE BUSINESS TERMS

COUNTRIES COVERED

- In principle, EID/MITI covers project finance transactions on a case by case basis to Non- L/G countries of our country classification.

RISKS COVERED

- EID/MITI provides a maximum percentage of 9 7. 5 % cover for political risk.
- We determine commercial risk percentage of cover on a case by case basis, with usual percentage of cover of 5 0 %, in principle.

RATING OF EXPORT CREDIT PREMIA

- We do not differentiate in our premium system specifically for project finance.

INTERNATIONAL RULES

- All transactions should be structured to comply with OECD Arrangement and / or Berne Union Rules.

3. BUSINESS DIVERSITY

We committed 2 7 projects[2] in 11 countries, of which 21 cases have been contracted.
TOTAL INSURED AMOUNT: US $4 billion

SECTOR		AREA	
Power	: 7	Asia	: 15
Natural Resources	: 6	South America	: 8
Petrochemical	: 6	Middle East	: 3
Telecommunications	: 2	Others	: 1

4. CO-FINANCING ASPECTS

- We have co-financed a project with the World Bank on Hub River Power Plant in Pakistan.
- We have two co-financed projects with International Finance Corporation Pagbilao Power Plant in Philippines and Lal Pir Power Plant in Pakistan.

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[1] B.O.T. - Build, Operate, Transfer
[2] Of which two projects were withdrawn and one commitment has expired.

- We basically appraise and support the role, which the World Bank has played as catalyst for infrastructure development in developing countries through its guarantee function.
- Japanese exporters and commercial banks may feel the preferred payment status of the World Bank is somewhat of an obstacle to co-financing with it.
- We believe it useful to exchange information on each project.
- We believe it useful to co-operate in negotiation on security with a host country.

5. RISK SHARING

- We offer partial cover (reduced insured portion) on commercial risk on the whole of the project base.
- Although we do not have legal requirement for a minimum capital contribution, at least 20-30 % capital contribution is preferable as a minimum.
- We basically require a support letter or guarantee from sovereign governments according to the level of their involvement.
- With regard to risk sharing techniques, co-finance with multilateral, regional institutions or other ECA's is preferable.

CHAPTER V

MEDIUM/LONG TERM TRADE AND PROJECT
THE KOREAN APPROACH

CONTENTS

    b. Background
    c. Participants of project finance
    d. Principles of project finance
    e. Project phases & risk takers
3. Risks in project finance
4. Risks and Mitigants
5. KEIC's underwriting points on project finance
6. Procedure of risk assessment

TOPIC 3: PREMIUM SYSTEM IN MEDIUM & LONG TERM EXPORT CREDIT INSURANCE

1. **Principles of Premium Policy**
    1. Principles of premium
    2. ECA's principles
    3. Do ECAs reach the goal of long-term break even
    4. Trends
2. **Determining Premium Level**
    1. Factors in determining premium level
    2. OECD's efforts to establish harmonized premium level
    3. OECD's country rating scheme
    4. Premium factors of individual project

WHAT IS OFFICIALLY SUPPORTED EXPORT CREDITS?

1. **Definition**

   Loans or credits to finance the export of goods and services for which ECA in the creditor country provides guarantees, insurance, or direct financing
2. **Operating principles of Officially Supported Export credits**
   - **a. Purpose**

     -facilitate & promote national export

b. **Rational of official involvement**

-correct the market failure

-defend the national exporter's interest

3. **Types of support**

(a) Financing support

-Direct financing: ECA provides direct financing to the debtors in importing countries

Interest subsidy: ECA provides an interest subsidy to the commercial banks which give direct loans to the debtors in importing countries

(b) Insurance & Guarantee

-ECA covers risks - arising in the export or export financing transactions - for the exporters or commercial banks

-Insurance & Guarantees are used interchangeably in the international financing & export credit field

-Insurance & Guarantees are generally divided into short term, medium term, and long term

- short term: usually under one year
- medium term: between one and five years
- long term: over five years

Definition of Insurance & Guarantee by IBRD:

Insurance: offered to exporters to cover the risk of non-payment by the buyer, and often used interchangeably with guarantee

Guarantee: a type of insurance offered to financial institutions to cover the risk of non-payment by the buyer

4. **Types of ECA support according to the economic development stage**

a. Advanced countries

- Insurance is the main function whereas financing is the subordinate function

b. Developing countries

- Insurance & Financing have the same importance

c. Less developed countries

- Financing is the main function whereas insurance is the subordinate function

Function of ECAs & Financial Market Condition

	ECAs' Function	**Financial Market Condition**
Advanced Countries	Insurance	Well-developed financial market
Developing Countries	Insurance & Financing	Immature financial market
Less-Developed Countries	Financing	Not developed

MEDIUM & LONG TERM EXPORT CREDIT INSURANCE

1. General Features

(a) Payment Term

-one to ten years of deferred payment

(b) Transaction Covered

-export transaction of capital goods

- Ships, aircraft, plant, etc

(c) Focus on Political Risk

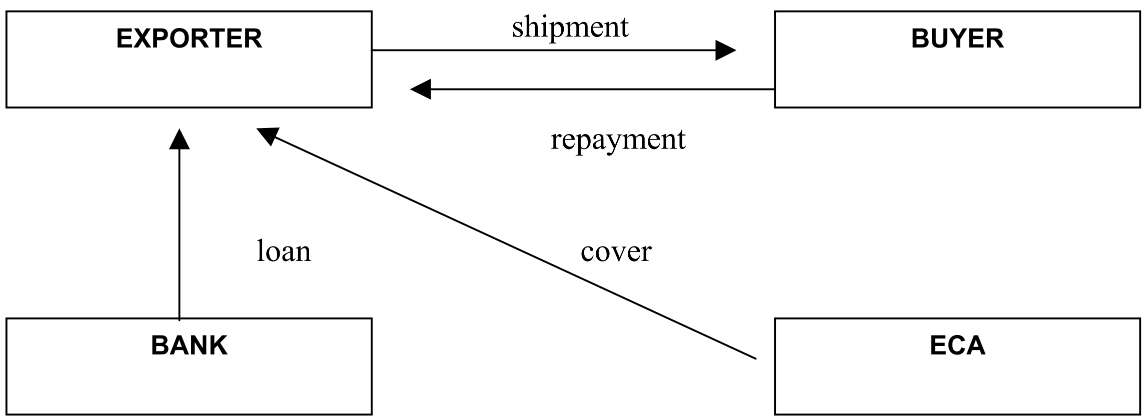
-demand for ECAs' cover is focused on political risk

Medium & Long Term vs. Short Term Insurance

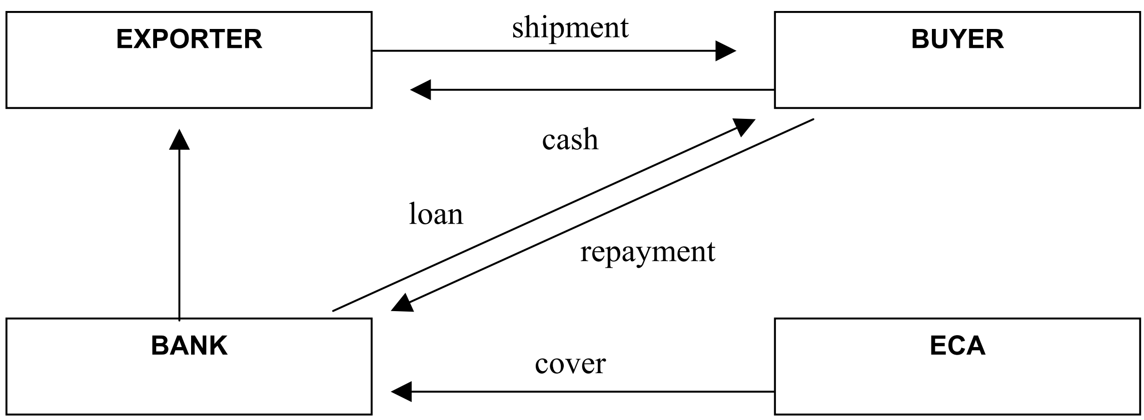
Items	M/L Term	S/T Term
Repayment Term	1 to 10 years	Up to 1 year
Goods	Capital Goods	Consumer Goods
Who Covers?	ECA	ECA, Private Insurer, etc.
Main Risk	Political Risk	Commercial Risk
Size	Big	Small
Function	Financing	Insurance

(d) Types of cover

Supplier's Credit Cover



Buyers' Credit Cover



(e) Types of Policy

Items	Continental Style	American Style
Country	European countries such as France, Germany and Japan, Korea	U.S., U.K., etc
Type	Insurance	Guarantee
Coverage	Partial	Full
Documentation Risk	Not covered	Covered
Contract Style	Policy basis	Individual Contract basis

(2) Medium & Long Term Export Credit Insurance Program of KEIC

a. Covered Transaction

-Export transaction of Capital Goods with over two years repayment period

b. Policy types

-Specific policy & Whole policy

-Suppliers' credit policy: Pre-shipment & Post-shipment

-Buyers' credit policy

c. Risks Covered

-Preshipment (pre-credit) risk & Postshipment (post-credit) risk

-Political risk & Commercial risk

d. Matrix of risk covered

Scope	**Political risk**	**Commercial Risk**
Pre-shipment	**Cover**	**Off cover**
Post-shipment	**Cover**	**Cover**

Definition of the risks

Shipment

Preshipment ← → **Postshipment**

Political risk	Political risk
a. Government action of preventing the import b. Breach of purchasing contract by public buyer c. War, civil war, revolution, etc.preventing the exporter from performing his obligation	a. Government action of preventing the repayment b. Failure of repayment by public buyer c. War, civil war, revolution, etc. preventing the buyer from making repayment

Commercial risk	**Commercial risk**
Cancellation of purchasing contract by private buyer	Failure of repayment by private buyer (default, bankruptcy, etc.)

New Trends on Political Risk Cover

Traditional viewpoint of ECAs to political risk

-distinctively separate from commercial risk

-mainly associated with transfer risk, typically the risk of Paris Club rescheduling caused by shortage of foreign currency

-primarily related with individual debtor countries

New trends of global economy

Privatization	**Deregulation**	**Globalization**

-big rush of privatization in developing countries ex)Asian countries, East European countries, South American countries -traditional public projects are initiated by private sector	-deregulation of currency regimes & financial sector ex) flexible exchange rate system, flexible interest rate system -traditional controlling power of Government on the currency & finance is transferred to private sector	-the opening-up of national economy ex)patterns of capital flow become diverse -loan from banks & ECAs (traditional) +foreign direct investment +portfolio investment +bonds

Influence of the new trends on ECA

Privatization	**Deregulation**	**Globalization**
-drastic decline of the proportion of pure sovereign risks in ECAs' total business -increase in demand for commercial & project risk -project finance is popular	-national economy becomes vulnerable to the external shock -transfer delay & Paris Club rescheduling will be no more typical pattern of risk -depreciation of local currency & payment problem of individual buyer is becoming important risk to consider	-country risk analysis needs more information of the global influence on a national economy -diverse creditors of a nation will influence the negotiation procedure or pattern of the debt rescheduling

e. Coverage

Insurable amount	**Contract amount - down payment + deferred interest**

Insured amount	**Coverage ratio x insurable amount**
Coverage ratio	**95%**

Cf.) Coverage ration of other ECAs

-Coface, Hermes, SACE and lots of European ECAs: 95%

-U.S. EXIM, ECGD: 100%

-EID/MITI: 97.5%

Insurable Amount of ECAS

	KEIC	**U.S.EXIM**	**ECGD**
Maximum (OECD Guideline)	85% of contract amount + deferred interest	same as KEIC	same as KEIC
Insurable amount	Same as above	U.S. content amount within the above maximum limit	U.K. content amount + EU content (within the limit of 30% of total contract amount) + foreign content (limit of 15% of T.C.A.)
Minimum requirement of national content	30%	50%	30%

f. Claim Period

-bankruptcy: immediately

-delay: three months after the due date

g. Indemnified Amount

-unpaid principal & interest

-interest from the due date to the date of indemnification (KEIC does not cover but is planning to)

h. Two types of indemnification

	Explanation	**Applied Policy**
Pro rata indemnification system	Indemnified Amount = real loss x coverage ratio	Post-shipment cover policy
Real loss indemnification system	Indemnified Amount = real loss =<Insured amount	Pre-shipment cover policy
WHY?	-pro rata system is used in case of high coverage ratio, i.e. high possibility of total loss -real loss indemnification system is used in case of low coverage ratio, i.e. high possibility of partial loss -in case of pre-shipment cover, real loss system is applied because indemnification is made after deduction of the value of non-exported goods & the expected margin of the transaction	

How much interest should be covered?

Q. If a lender receives a good deal in loan negotiation with higher interest rate than the usual one, should ECA cover the high interest rate or the usual one?

A. Guaranteed interest rate of ECA is not necessarily equal to the contract interest rate?

-KEIC usually covers the contract denominated interest rate, but if we find an excessive margin for the lender, we can cover on a usual basis

-Other ECAs' practice is the same as KEIC

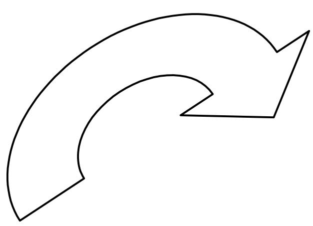
i. Recovery

Commercial risk	**Political risk**
-debt collection agency	-bilateral negotiation
-lawsuit	(Government to Government)
-negotiation with the buyer	-multilateral negotiation
-notification to ECAs	(Paris Club meeting_
-recover the goods & resell	-ECAs' common line to the country

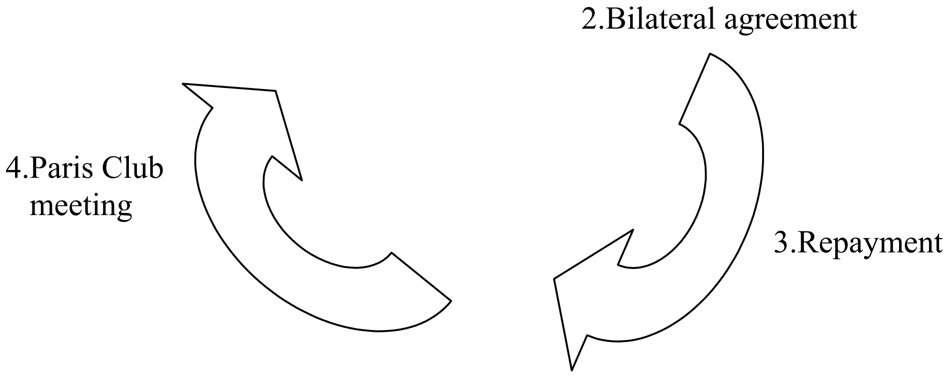
3.Paris Club Rescheduling

a. What is Paris club rescheduling
   -creditor countries' meeting to discuss rescheduling terms in case of a payment problem in the importing country
b. Debt rescheduled in Paris Club
   -officially financed debt with over 1 year repayment term
   -debt related to export credit insurance with over one year repayment term
c. Profile of Paris Club Rescheduling
   -rescheduled 250b dollars with 61 countries since 1976

Procedure of Paris Club Rescheduling



1.Investigation of Official Credit



RISK IN MEDIUM & LONG TERM EXPORT CREDIT INSURANCE

1. **Risk Phases**

   -Pre-completion Risk: failure to complete project

   -Post-completion Risk: failure to repay

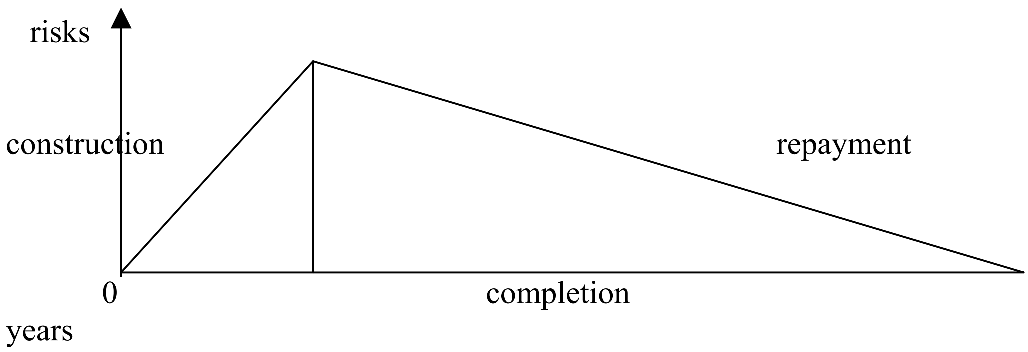
2. **Types of risk**

   -political risk

   cf.) extended political risk

   -commercial risk or project risk

Project Risk Phases



1. Project Risk Assessment of ECAs: Past & Present

   a. Past Practice

      -ECAs' risk assessment was focused on the country risk analysis

      -ECAs had little appetite for commercial risk or project risk

   b. New Trends

-rush of privatization in many developing countries

-spotlight on project finance

-ECAs face new demand for project risk or commercial risk

Traditional approach and new approach on risk assessment

	Traditional	New
Project type Main concern	-Public project with MOF guaranteed financing -Private project with 1^{st} class bank guaranteed financing -country risk	-Private project with non-recourse or limited recourse financing (Project Finance) -Project risk (establishment of independent project finance team)

Past: Guarantee based project	Present: Limited recourse project finance
a. Government's will & ability to pay b. Importing country's payment experience c. Balance of payments d. Capital flow to the importing country e. Priority of the project in the importing country f. Credit status of buyer or guarantor in a private project	A Government's supporting policy for the business & the possibility of termination or suspension of the support ex) exemption of tariff, tax benefit, transfer guarantee, etc. Analysis of the legal, political, social & economical environment for the project, and the influence of the change of the environment on the project feasibility Project feasibility with cash flow analysis

2 Risk Assessment in Project Finance

a. What is Project Finance

-non-recourse financing

-limited recourse financing

-asset based financing

b. Background

-privatization: high demand of infrastructure in developing countries & limitation of Government capability to finance

-deflation of the economy of advanced countries

-pursuing the high-yield financing of the banks

c. Participants in Project Finance

1) sponsors
2) project company
3) EPC contractors and sub contractors - EPC: Engineering, Procurement & Construction
4) Lenders
5) ECAs
6) Others

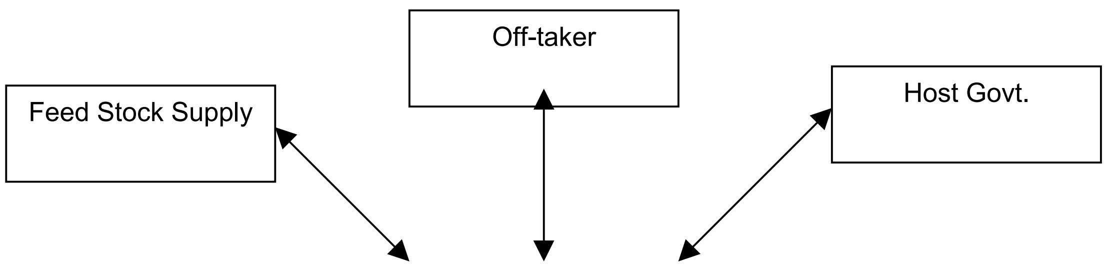
   -feed stock suppliers

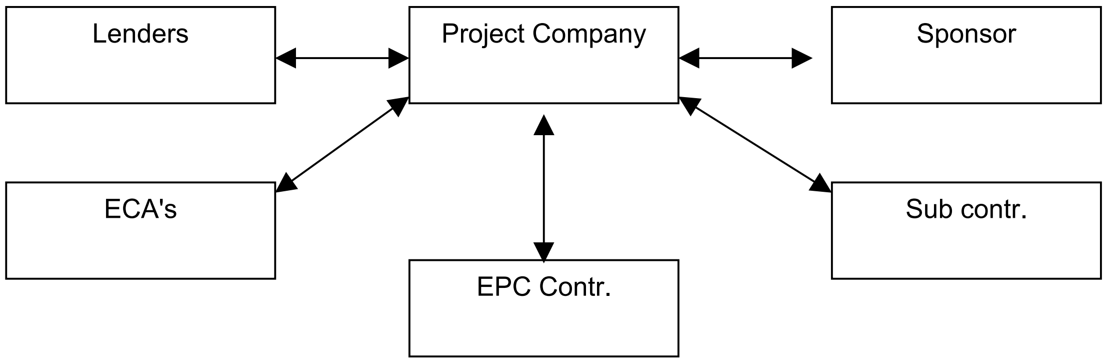
   long term off-takers

   host government

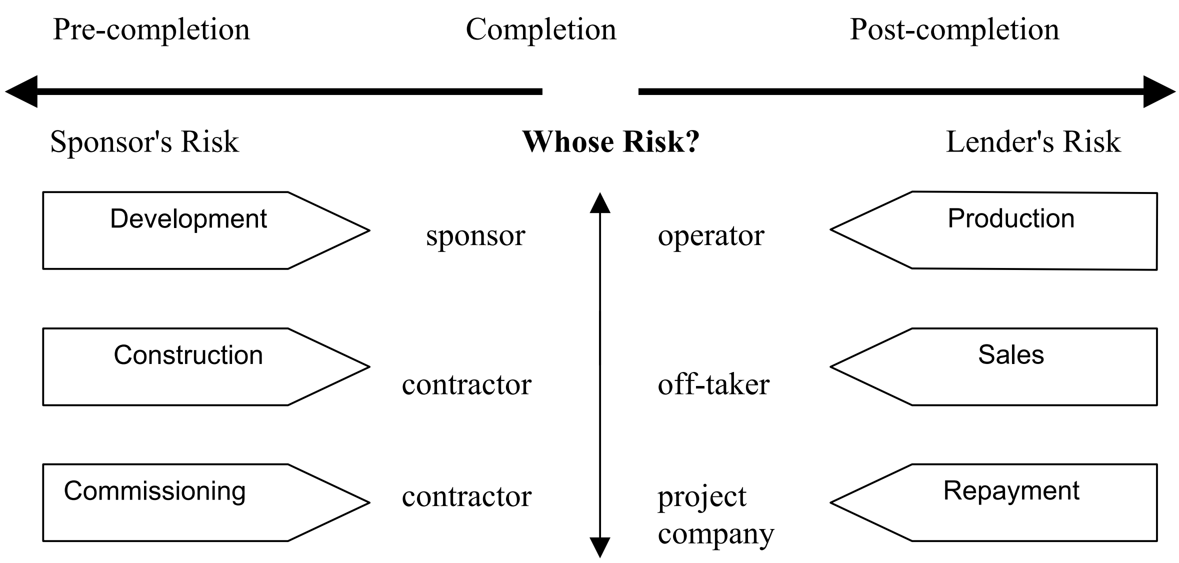
7) advisors of sponsors & lenders

GENERAL STRUCTURE OF P.F.





e) Project Phases & Risk Takers



3. Risks in Project Finance

- Completion
- Delay
- Cost-overrun
- Country
- Operation
- Market
- Cash-flow

4. Risks and Mitigants

Risks	Mitigants
Bankruptcy of contractor	
Failure of equity subscription by sponsor	Equity subscription of sponsors shall be made before the loan disbursement
Failure of completion	Completion guarantee of sponsors which is a kind of payment guarantee
Cancellation of Government licence	Letter of comfort issued by host Government
Force majeure	Insurance cover for damages to project in the event of a fire, flood, etc.

• Bankruptcy of contractor • Failure of equity subscription by sponsor	Equity subscription of sponsors shall be made before the loan disbursement
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• Cancellation of Government licence • Force majeure	Insurance cover for damages to project in the event of a fire, flood, etc.
	Set up the rational project schedule with the help of an independent consultant
Delay of Completion	Date certain construction contract with the liquidated damage clause which can cover financing cost during the delayed period
Project is not proceeding within the expected schedule	Review the contractor's past record to perform the same kind of project
Incorrect evaluation of the cost Abuse of the funds Additional cost incurred by host government	Cost evaluation of an independent consultant

Cost over-run	Fixed price construction contract -construction cost over-run is covered by the contractor sponsor's guarantee for the cost over-run
Project cost exceeds the budget	-sponsor covers the cost over-run by other reasons except the construction cost
Host Govt's breach of undertaking -cancellation of licence, tax benefit, etc -restriction on transferring foreign currency War, insurrection, revolution, etc	
Country Risk	Letter of Comfort from host Government -if possible, legally binding one Establishment of Escrow Account -if the project generates revenue in hard currencies
Economic difficult in Host country	Co-financing or joint financing with other ECAs and Multilateral Agencies
New technology -output doesn't reach to the expected level of quantity & quality -break down of the plant	Use old proven technology -if it is a new technology, thorough feasibility study should be made
Operation Risk	Reliable & experienced operator Bonus/Penalty clause in the O & M Contract Cap on the operating cost or indexed to revenue
Inexperienced operator -operator is not accustomed to the technology applied to the operation of the plant	

Failure of sales -fluctuation of market condition	Long term off take agreement with creditworthy purchaser -not always possible -wholesale product vs. retail product
Market Risk	Market research performed by an independent consultant
Decrease of sales volume -production of new items which can substitute for items produced by the project Price down -supply exceeds the demand	Host Government's guarantee for price support (e.g. power plant) or minium passage guarantee (e.g. toll road, pipelines)
Failure of expectation -cost-up by excessive inflation -debt service increased by unusual depreciation or hike of interest rate	Cash deficiency guarantee of the sponsors -limits in amount or period
Cashflow Risk	Price indexed to inflation or exchange rate -selling price is indexed to the manufacturing cost & debt service amount
Increase of capital expenditure -new guideline is imposed on the plant (e.g.new guideline on environment)	Conservative estimate of the variables

5. KEIC's underwriting check points on project fiance

- What is the creditworthiness status of participants?
- What are the major risk factors in the host country?
- Is the project in an important sector in the host country?
- Does the project generate revenue in hard currencies?

- Does the project have a long-term off-take agreement?
- What support does host government give to the project?
- What is the debt equity ratio?
- Has the proper due diligence been planned?
- What does the completion guarantee of the sponsor cover?
- Does the project generate enough cash flow to repay the loan?
- Do the repayment terms satisfy the OECD Consensus?

6. Procedure of Risk Assessment

Random Assessment	Regular Assessment
• Creditworthiness of sponsor	• Creditworthiness of project participants
• Market risk	• Deep study on all the risk factors -market risk, feed stock supply risk, operation & maintenance risk • Deep assessment on country risk
• Attitude of host government	• Assistance from independent consultants • Documentation
• Overall country risk assessment	• Securities
Issue of Letter of Intent	Issue of Policy

<u>Topic3: Premium System in Medium & Long Term Export Credit Insurance</u>

<u>PRINCIPLES OF PREMIUM POLICY</u>

1. Principles of Premium

-enough to maintain sound insurance business

-enough to save some portion of profit for dividends & reinvestments

-closely related with the amount of risks

2. ECA's principles

   -enough to cover claims & operation cost on a long term basis

   -long term break-even is the main target: World Trade Organisation E.C.A.'s are required to break even over time and not subsidise

3. Do ECAs reach the goal of long-term break even?

   -average loss ratio of ECAs in advanced countries is about 400-500% and the accumulated amount of loss about USD100billion.

   -Dilemma of ECAs; promote nations exports while meeting WTO guidelines of long term break even.

4. Trends

   -raise the overall premium level

   -strengthen the country risk assessment and project appraisal

DETERMINING PREMIUM LEVEL

1. Factors of determining premium
   a. country risk factor
      - 4 to 8 categories of country rating

        -KEIC has 8 categories
      - Key factors of country rating

-payment record, external debt, debt service ratio, etc

- Gap in premium level according to categories

  -premium of 8th category is eight times the 1st category

b. Other factors

- Repayment period
- Buyer's type

  -public buyer gets 10% discount in KEIC system

- Payment guarantee

  -25% discount in KEIC's system

- Policy type

  -political risk only policy

  -comprehensive risk policy

*KEIC has no political risk only policy

2. OECD's efforts to establish harmonized premium level

- Background of the harmonization

  -prevent a credit race among ECAs

  -big difference in premium level among ECAs

  -eliminate the export subsidy granted by ECAs due to low premium level

- Consultation in OECD

  -begun in May, 1994

  -concluded in June, 1997

3. OECD's country rating scheme

- Countries rated

  -70 countries other than OECD countries

- factors of rating

  payment experience

  financial situation

  economic situation

  political situation

- rating procedure

  -1st stage: quantitative evaluation

2nd stage: qualitative evaluation

- **Premium table by country category**

1	2	3	4	5	6	7
1.50	2.94	4.91	7.23	9.77	12.13	14.68

*On the basis of 11.5 year repayment period

- **Major countries in each category**

  -1st: Singapore, Taiwan, HongKong, Malaysia

  -2nd: China, Czech, Chile, Thailand

  -3rd: Hungary, Poland, etc. (13 countries)

  -4th: Saudi Arabia, Mexico, etc (10 countries)

  -5th: Romania, Russia, Turkey, Vietnam, etc. (15 countries)

  -6th: Pakistan, Iran, Algeria, etc. (11 countries)

  -7th: Angola, Bulgaria, Iraq, Libya, etc. (13 countries)

4. Premium Factors of individual project
   a. country grade category
   b. exposure period

   -half of loan drawdown period + repayment period

   -premium level rises as the exposure period increases

   e.g.: premium rate of a project with 10 year exposure period in 4th grade country is 6.35%, and a project with 12 year exposure period in the same category is 7.52%

   c. quality of policy

   -coverage, guarantee or insurance, cover the interest incurred from the due date to indemnification or not.