EXPORT INSURANCE AND EXPORT GUARANTEE

Gist of the news

It is reported on the website of *egfi.org* on November 30, 2014 that:

Within the visit of Alexey Ulyukaev, Minister of Economic Development of the Russian Federation, to Islamic Republic of Iran, with the invitation of Mohammad Reza Nematzadeh, Minister of Industry, Mine and Trade of I.R. of Iran, Export Insurance Agency of Russia (EXIAR) and Export Guarantee Fund of Iran (EGFI) entered into a Framework Agreement aimed at developing trade and investment between Russia and Iran. The timing of this signing follows several high level agreements between the two countries.

According to the Agreement, EXIAR and EGFI will utilize their strengths to facilitate provision of financing to their national companies, active in respective countries, and cover joint transactions in third countries, which will internationally promote products and services of Russia and Iran. The Parties are also creating a common approach as to a risk-sharing mechanism that may facilitate the support of trade flows in respective countries.

This important Agreement will also strengthen EXIAR and EGFI cooperation on operational level to exchange information and collaborate in credit assessment, claims handling further to collection and recovery efforts.

In this News & Analysis report we will look into the following four issues:

1) What are the functions and roles of the EGFI?

2) Comparatively speaking, what are the roles and functions of the EXIAR?

3) What are the issues covered by the agreement signed between the EGFI and the EXIAR?

4) What are the bearings of this agreement on the export trade of Iran, as far as Russia and other CIS countries are concerned?

Functions and Roles of the EGFI

Article 1 of the Administration Act of Export Guarantee Fund of Iran (“the Act”) defines two objectives for the EGFI:

a) Developing and increasing the exports of the country by means of securing the credits and investments in relation to the exported goods and services; and

b) Providing necessary facilities and supports for the exporters of goods and services for their claims against buyers abroad regarding the risk emanate from the hazards not usually insured by commercial insurance companies.

Article 5 of the Articles of Association of the Export Guarantee Fund of Iran ("the Articles of Association") fixes four objectives for the EGFI:

1) To guarantee any financing and investments related to exported goods and services;
2) To develop the facilities required for expansion and promotion of exports;
3) To guarantee the claims due to the exporters of goods and services from overseas buyers, and
4) To protect them against the risks not generally covered by insurance companies.

Our next step is to determine the methods and mechanisms used by the EGFI to achieve each of the above four objectives.

A. To guarantee any financing and investments related to exports

By providing two types of guarantees the EGFI meets the above goal, according to the information provided by *egfi.org*:

1) *Local currency credit guarantee* – "Iranian Banks and Financial Institutions who intend to grant short term local currency (Rial) facilities/Loans to domestic exporters with the aim of financing their export activities and providing their working capital, may obtain EGFI's "Local Currency Credit Guarantee" as a substitute for the collateral they require to insure the repayment of the granted facility by the debtor on the due date. In other words, under this guarantee, EGFI is responsible for claim payment to the beneficiary (lender) in case, the amount of the loan granted is not repaid to him by the debtor on the maturity date. To issue this guarantee a creditability assessment of the borrower is carried out; a minimum security is obtained and a minimum amount of commission fee is charged".

2) *Foreign Exchange Credit Guarantee* – "Domestic banks or financiers may ask for appropriate collateral as a security for the due repayment of the foreign exchange facilities granted by them to the Iranian exporters. However, providing the type and the amount of the required securities may sometimes be beyond some exporters' capabilities .In such cases EGFI's "Foreign Exchange Credit Guarantee" can be an appropriate substitute for the collateral required by the lender. In other words, this guarantee, once issued in the favor of the facility provider, will insure him against the risk of non-repayment of the facilities by the debtor on the maturity date. A pre-assessment of the Iranian exporter is carried out prior to the guarantee issuance and a minimum commission fee is charged once the guarantee is issued."

B. To develop the facilities required for expansion and promotion of exports

To meet this objective, the EGFI involves itself in different activities, the most important of which is to provide Manufacturers' Credit Guarantee (MCG) to the "Iranian exporters who intend to purchase their export commodities on credit terms from domestic manufacturers." They "may submit EGFI's guarantee to the manufacturer as collateral to guarantee the fulfillment of their obligations toward the supplier", according to *egfi.org*.

"EGFI evaluates the creditability of the Iranian exporter and obtains the minimum possible collateral from him prior to the guarantee issuance. A minimum commission fee is charged for this guarantee", according to the information provided to the interested manufacturers on the website of the EGFI.

C. To guarantee the claims from overseas buyers

Article 5 of the Act and article 6(a) of the Articles of Association of the EGFI explain the exceptions to the guarantee provided by the EGFI in this respect:

a) The claims due to the exporters of goods and services from overseas buyers, which have not been collected on the due dates thereof for the reasons listed below, provided however that it is not due to the exporter's failure to fulfil its obligations:

1. Buyers refusal to accept the exported goods or services.
2. Non-payment of the price of goods or services on due date thereof.
3. Buyers financial inability due to bankruptcy, insolvency or lien.
4. Breaking out of war or state of war.
5. Straining or severance of diplomatic relations with the country of buyer, so that the exporter is unable to receive its claims on the due date thereof.
6. Imposition of such economic policies as may block the claims due to the exporters.
7. Imposition of economic policies related to import and exchange restrictions in the country of buyer.
8. Dispossession of the buyer due to nationalization or confiscation of property, as a result of which the buyer cannot collect its claims.
9. Other factors out of the control of the exporter and buyer that, to the satisfaction of the Fund's board of directors, causes the non-payment to the exporter of its claims.

D. To protect the exporters against risks not covered by insurers

EGFI covers three commercial and five political risks, as explained in detail in its website:

Commercial Risks

- Buyer's failure to accept the exported goods & services;
- Non – payment of the price of goods & services on due date; and
- Buyer's protracted default due to bankruptcy, insolvency or lien.

Political Risks

- Outbreak of war or state of war;

- Straining or severance of diplomatic relations with the buyer's country as a result of which the exporter is unable to collect his receivables on the due date;
- Imposition of economic policies in the buyer's country which may block the exporter's receivables;
- Imposition of restrictions on imports or foreign exchange transfer in the buyer's country; and
- Confiscation & nationalization of the buyer's properties as a result of which the exporter is unable to collects its dues.

Roles and functions of the EXIAR

According to the website of *ved.gov.ru*, EXIAR's main targets are:

- Enhancement and support for Russian technology and equipment export;
- Insurance support for Russian exporters entering new and risky markets;
- Progressive implementation and adaptation of the best international practices and standards in export credit insurance in the Russian system of financial export support;
- Enhanced access to financing;
- Increased exports to new markets; and
- Support for private banks in financing Russian exporters.

On the same website it is added that core activities of EXIAR are:

- Insurance of short-term, mid-term (up to 2 years) and long-term (up to 20 years) export and financial credits against commercial and political risks;
- Insurance of Russian investments abroad against political risks; and
- Insurance, coinsurance and reinsurance.

The agreement signed between the EGFI and the EXIAR

According to *egfi.org* and *exiar.ru*, the agreement comprised four subjects:

1) EXIAR and EGFI will utilize their strengths to facilitate provision of financing to their national companies that are active in the respective countries;
2) They shall cover joint transactions in third countries, which will internationally promote products and services of Russia and Iran;
3) The Parties are also creating a common approach as to a risk-sharing mechanism that may facilitate the support of trade flows in respective countries; and
4) They strengthen their cooperation on operational level to exchange information and collaborate in credit assessment, claims handling further to collection and recovery efforts.

Financial Tribune reported on December 1, 2014 that the parties shall respect two more commitments:

1) To make joint efforts to provide finance to companies active in business, trade and investment; and

2) To provide insurance coverage to the Iranian and Russian-made products traded at the international level.

Impacts of the agreement on the export trade of Iran

The text signed by the parties is an MOU. This means that it is just a general agreement that must be taken into higher level in future by entering into a serious cooperation agreement between the parties. What would be the impacts of an agreement between the parties if they could enhance their relations in this field to a more serious level? Unfortunately in the previous similar instances, Iran has just signed an MOU with the Lebanese Credit Insurer s.a.l. (LCI) on November 18, 2014 and with Ghana in 2008. Therefore, like any other MOU, its development into a real agreement needs time, patience and perseverance.

The Cooperation Agreement signed between EGFI and the Serbian Export Credit and Insurance Agency (AOFI) in 2008 is not available to the public. If it was, we could use it as an example to analyze and explain the major traits of the cooperation agreements concluded by the EGFI with other export guarantee agencies.

The next subject to be taken into consideration is the geographical coverage of the guarantee provided by the EGFI. According to Issue 585 of the International Trade Finance, quoting the EGFI's Country Risk and International Co-operation Director in 2010:

…EGFI covers all the countries in the MENA [Middle East and North Africa] region, both of short and longer-term business…Africa, especially Zimbabwe, and then Asia are the regions that had the highest claims paid volume for EGFI. Sectorial wise, the vehicles/automobiles/spare parts industry and the techno-engineering services brought the highest claims levels for EGFI during the downturn, he said.

More than three years have passed from preparation of the above report by the International Trade Finance. If Africa and Asia are still the regions that have the highest need for the EGFI export guarantee coverage, it would be difficult to see how the MOU or even a cooperation agreement between the EGFI and the EXIAR could result in a boost of the Iranian export except if the EXIAR is also active in Africa and Asia. If not, then the EGFI needs to look elsewhere to build more productive cooperation with agencies such as ECGD, COFACE and HERMES.

Conclusion

One of the major objectives of the Government of Iran is to increase its export, especially its non-oil export because fluctuations of the oil price put heavy pressure on the annual budget of the Government. Iran is also suffering from the international sanctions that have deprived the country from international financial and insurance support. Being in dire need of getting export insurance and guarantee, Iran has few options. One option is to turn towards Export Credit Agencies (ECAs) in the Middle East and North Africa. Major ECAs in this region, including the Arab Investment & Export Credit Guarantee Corporation (*Dhaman*) may find it difficult to get into a cooperation agreement with the EGFI. The more practical option for Iran is to turn towards its major supporter, Russia. The MOU signed with Russia is just a shy step towards a stronger tie in export guarantee and insurance activities between the two countries. It seems to us that Iran is ready and eager to take the next step, which might be a leap of faith, in the near future.

Policy of Iran to build a closer tie with the members of Prague Club is completely understandable but perhaps it would be wiser if at a different level, Iran could initiate a policy of getting closer to the major members of the Berne Union too. This is an issue that will get a new momentum after Iran signs its agreement with the P5+1 in the near future, hopefully.