Export Credit & Trade: Is There a Role for the ECAs in the Arab Region?

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Trade Finance Gaps & Export Credit

Trade finance gaps persist for emerging economies and small and medium-sized enterprises

Proposed and Rejected Trade Finance Transactions

Reasons Banks Reject Trade Finance Applications (% of rejections)

- 29% - Know Your Customer concerns
- 21% - Need more collateral/information
- 20% - Not suitable for financing
- 15% - Low bank profits

Role of Export Credit Agencies

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with its own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debt
- Provides information on credit-worthiness of overseas buyers

A.Asia= Advanced Asia (Hong Kong, China; Japan; the Republic of Korea; and Singapore); CIS= Commonwealth of Independent States; Dev. Asia= Developing Asia excluding the PRC and India; PRC= People’s Republic of China.

Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.
ECAs in the Arab World

Arab Countries with ECA Facilities

Morocco, 1992
Société Marocaine d’Assurance à l’Exportation

Tunisia, 1984
Compagnie Tunisienne pour l’assurance du commerce extérieur (COTUNACE)

Lebanon, 2001
The Lebanese Credit Insurer (LCI)

Jordan, 1994
Jordan Loan Guarantee Corporation (JLGC)

UAE, 2017
Etihad Export Credit Insurance

Oman, 1991
Export Credit Guarantee Agency of Oman (ECGA)

Sudan, 2005
National Agency for Insurance and Finance of Exports (NAIFE)

Saudi Arabia, 1999
Saudi Export Program (SEP) under the Saudi Fund for Development (SFD)

Algeria, 1996
Compagnie Algérienne d’Assurance et de Garantie des Exportations (CAGEX)

Egypt, 1992
Export Credit Guarantee Company of Egypt (ECGE)

Sudan, 2005
National Agency for Insurance and Finance of Exports (NAIFE)

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), 1994

The Arab Investment & Export Credit Guarantee Corporation (Dhaman), 1974

National

Multilateral
Illustrative Figures
Merchandise exports and trade insurance volumes in the Arab Cs

Merchandise Exports and ECAs Export Credit Insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Arab Merchandise Exports</th>
<th>Arab ECAs Export Credit Insurance - Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>600,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2009</td>
<td>700,000</td>
<td>3,500</td>
</tr>
<tr>
<td>2010</td>
<td>800,000</td>
<td>4,000</td>
</tr>
<tr>
<td>2011</td>
<td>900,000</td>
<td>4,500</td>
</tr>
<tr>
<td>2012</td>
<td>1,000,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2013</td>
<td>1,100,000</td>
<td>5,500</td>
</tr>
<tr>
<td>2014</td>
<td>1,200,000</td>
<td>6,000</td>
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</tbody>
</table>

Trade Insurance Volumes as a Share of Merchandise Exports

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>0.37%</td>
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<tr>
<td>Tunisia</td>
<td>0.62%</td>
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<tr>
<td>Sudan</td>
<td>0.76%</td>
<td></td>
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<tr>
<td>Jordan</td>
<td>0.90%</td>
<td></td>
<td></td>
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<tr>
<td>Oman</td>
<td>0.99%</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Egypt</td>
<td>0.92%</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>0.92%</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.99%</td>
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<tr>
<td>United Arab Emirates</td>
<td>1.02%</td>
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</tbody>
</table>

Sources: Aman Union for credit export insurance series covering 9 Arab ECAs; UnctadStat for merchandise exports series.

The Berne Union is an international not-for-profit trade association, representing the global export credit and investment insurance industry.

Record USD 2.5 trillion of trade and investment supported by Berne Union insurers in 2018

This amounts to the equivalent of 13% of total world cross-border trade.
Arab Exports and Credit-Worthiness
Evidence for the practicality of specialized export financial institutions to financing exports and mitigating credit risk.

Data
Balanced panel of 107 Arab partner countries (importer countries) between 1997 and 2017, totaling in average 85% of the total Arab merchandise exports (898.5 billion US$ in 2017).

Conceptualization
The level of export volume is greater in presence of an export credit insurance scheme with a fair premium rate.

Hypothesis
Positive and significant relationship between credit worthiness and exports.

Results
Direct and significant positive relationship coming from Arab countries: a 10% increase in the credit score of an importing country is expected to lead to a 8.3% increase in Arab exports of goods to that country.

System GMM

<table>
<thead>
<tr>
<th>Term</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ln(Export_{it-1})</td>
<td>0.534***</td>
<td>0.051</td>
<td>0.00</td>
</tr>
<tr>
<td>ln(Credit_{it})</td>
<td>0.386***</td>
<td>0.161</td>
<td>0.00</td>
</tr>
<tr>
<td>ln(FDI_{it-1})</td>
<td>0.237***</td>
<td>0.036</td>
<td>0.00</td>
</tr>
<tr>
<td>ln(Manuf_{it})</td>
<td>-1.191***</td>
<td>0.316</td>
<td>0.00</td>
</tr>
<tr>
<td>Dummy variable for years 2008 and 2009</td>
<td>-0.077***</td>
<td>0.254</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Number of observations: 2033
Number of partners: 107
Wald Chi2: 605.48***
Sargan test of overidentifying restrictions p-value: 1.00
Arellano-Bond AR(1) p-value: 0.00***
Arellano-Bond AR(2) p-value: 0.36

Robust White heteroscedastic consistent standard errors are in parentheses. All variables are in natural logarithms. Specific effects dummies are included but not shown. The response variable is the natural logarithm of real total export of goods per capita of importing country.

1 Global merchandise trade sharply declined in late 2008 and early 2009. Therefore, a crisis dummy variable is added as an independent variable; it takes the value one for years 2008-2009 and 0 otherwise.
Boosting Arab Exports

Clear and compelling justification to the usefulness of ECAs, but…..

Requirement 1
The depth of the financial system and actual lending practices should be carefully assessed in the considered Arab country.

Requirement 2
Strengthening capacity to provide adequate trade finance flows by local banks.

Requirement 3
The importance of understanding why an increase in export volumes is desired by policy-makers.

Requirement 4
The appropriate business model for the ECA: it is important that the institution is given, first an operational independence, then a mandate that is both sustainable and compatible with its objectives.
Abstract:

Limitations on the availability of timely and affordable trade financing, including export credit guarantee, are contributing to modest trade growth during the last five years, therefore it must be a matter of priority to improve our understanding of the linkages between financing/risk mitigation and trade activity, ensuring adequate levels of the former, to help fuel growth of the latter.

The existing research works on the effects of export credit insurance on export promotion mostly are concentrated around several European countries. Yet nothing is known about the influence of export credit guarantees on exports in the Arab region, where the structure of export industries and key trading partners significantly differ from other regions. The purpose of this paper is to bridge this gap by investigating empirically the significance of the relationship between exports and credit-worthiness of importing countries, using Arab merchandise export values. Corroborating evidence for such relationship gives support to the usefulness of specialized export financial institutions to finance exports, mitigate credit risk and keep trade finance markets in Arab countries from drying up. A dynamic panel approach is adopted to estimate an adjusted gravity model. The empirical results, based on a balanced panel of 107 Arab partner countries (importer countries) observed between 1997 and 2017, provide a strong and robust justification to the role of export credit insurance and guarantees in promoting merchandise exports in the Arab region.
THANKS FOR YOUR ATTENTION