

EGFI's support in Barter Trade

1) The procedure for barter trade risk insurance:

From risk perspective, insuring the credit risks involved in barter trade is not so different from covering the risk of export transactions where the foreign buyer is going to make immediate cash payment or paying for the received goods on credit terms.

For both cases Export Guarantee Fund of Iran starts the procedure with the creditworthiness assessment of the foreign buyers in order to set a credit rating and a certain credit ceiling for the buyer.

After the credit rating and ceiling are set for the buyer they are notified to the Iranian exporter/applicant, and upon receiving the separate insurance premium which is determined based on the terms and conditions of the contract (the country of the buyer, term payment duration and the credit rating of the foreign buyer), EGFI is prepared to issue specific or whole turnover insurance policies which covers the export receivables against political and commercial risks (by 95% and 90% of the contract/invoice value respectively).

The only difference in covering barter trade is the difference in the contract concluded between the Iranian exporter and the foreign buyer where both parties are committed to deliver the goods on time at the maturity dates included in the transaction.

Clearly if the foreign buyer does not keep his contractual obligations and performance commitments EGFI will compensate the claims by paying cash or advance payments to the Iranian traders and in return the Iranian export will transfer all of his contracted rights to EGFI so that the fund could start its legal procedures against the foreign buyer.

The important point to notice is that from the beginning in the draft of the barter trade contract, the insurance provided by EGFI and the commitment of the foreign buyer to pay the Fund in cash in case of failure to keep his trade commitments to the Iranian side to deliver the barter goods, must be included in the contract and therefore, in trade talks in between the parties and beforehand negotiations, all such provisions should be included in the contract wordings and payment clauses indicating that if the foreign barter trader does not deliver the goods at the maturity date according to the terms and conditions of the barter transaction and the Iranian side notifies EGFI for claims payment, the obligations of the foreign trader will automatically turn to cash payments according to the instructions of EGFI.

The claims payment procedure goes like this:

According to the terms and conditions of the policy, the Iranian exporter has 50 calendar days at hand to negotiate with his foreign buyer/trader to convince him to keep his contractual obligations and pay the amounts due/ship bartered goods not delivered yet in return for the received goods.

The exporter may use the above mentioned period or notify EGFI sharp on the maturity date when the buyer fails to fulfil his obligations, via sending a direct letter to the Fund as "*Claims Notification Letter*". EGFI's claim department has 4 months at hand to ascertain the claim and determine the reasons for the buyer's non-fulfilment of the obligations and once the Fund comes to the conclusion that the Iranian exporter was right in notifying the claim, EGFI can compensate the claim after getting the permission from its decision making bodies (the board). The financial operation for the claims payment may take another month and therefore the whole process of claims payment takes at most 5 months.

2) The procedure for providing Performance Bond guarantee in favour of the foreign barter Trader:

In case the foreign barter trader is not certain whether the Iranian exporter fulfils his obligation toward providing the barter goods in return for the received goods, normally the foreign trader/buyer would ask the Iranian side to open an LC or provide a bank guarantee (PBG) so that the foreign barter trader could be sure of the fulfilment of contractual obligations toward the barter agreement. However, after imposing restrictions on Iranian banks when providing such guarantees or opening LCs stopped, EGFI got ready to provide Performance Bond Guarantees in favour of the foreign trader based on the credit worthiness assessment of the Iranian trader and obtaining securities and fees from his side according to his credit rating or credit standing. Such process is mostly possible if there exists EGFI's counterpart or any local banks in the foreign country are ready to cooperate with EGFI in this regard.

It is important to note that such mechanism is provided for those Iranian traders who deal with import for the sake of export and therefore, such service is NOT provided for sole importers. The Iranian traders' success in convincing the foreign buyer/employer to accept EGFI's issued PBGs, (as the Fund is 100% State run entity affiliated to the Ministry of Industry, Mine and Trade with considerable capital and foreign exchange reserves), is of paramount importance and we do believe that with the collaboration and cooperation of the Ministry of Foreign Affairs together with Iranian Embassies in

target markets through negotiations with foreign buyers/employers/government officials/banks which has a determinative role such an issue could be resolved.

3) Goods under cover in Barter Trade

For the time being all licenced export goods may enjoy EGFI's cover and there are no limitations regarding that, even in barter trade transactions. There exists a potential at the Fund to extend cover to all groups of export/bartered goods, however, very few applications were received by the Fund, regarding petrochemicals export to Russia and import of livestock input. Meanwhile, EGFI is holding negotiations with its peer ECA in Russia (EXIAR) to expand its cooperation in between, in the field of contract bond guarantees and counter guarantees. Also, after imposing restrictions on Iranian banks and the deterioration of interbank relationships, a vast series of negotiations were held with several different ECAs (namely ECGC of India Ltd.) and other ECAs. However, as a result of some constitutional limitations and legal drawbacks regarding their mandate, the Fund's collaboration with its counterpart in India has not led to actual cooperation yet.

4) Substitute mechanism replacing LCs

In addition to the capacities provided by EGFI for cooperation with peer ECAs and foreign banks in issuing counter bonds and PBGs (mentioned in the previous items) which guarantees the contractual obligations of the Iranian barter trader toward the contract, the Fund is ready to implement the credit worthiness assessment of the foreign barter trader in transaction on open account basis where opening LCs for any political/commercial/contractual restrictions are not possible and therefore, backed by its assessment, the Fund is ready to issue insurance policies and compensate for possible claims in barter trade mechanism. As a result of the lack of LCs and interbank relationships, draft acceptance and draft endorsement by the barter traders from both sides, in order to create a sound and safer legal margin by means of some legal notary public offices in reciprocal countries is strongly recommended.

Export Guarantee Fund of Iran

At a Glance

Introduction:

Protracted default and non-payment of export receivables on the side of the foreign buyers often lead to the exporters' credit crunch and shortage of liquidity and this in turn, may end in their inability to meet their payment obligations toward domestic creditors or even their total insolvency or bankruptcy. Therefore, it is a long time since Export Credit Agencies (ECAs) started their activities and as the crucial and vital components of the export financial system of the countries and one of the major economic pillars and supporting arms of the governments, act on behalf of the state to manage and mitigate credit risks involved in international trade.

Export credit insurance industry first started in the early 19th century in Europe, when the main ECA's role was to insure export receivables against commercial risks such as foreign buyers' non-payment, protracted default, fraud, insolvency or against political risks such as tense political relationship between the exporter and foreign buyer's country or adopting restrictive policies or regulations for trade and foreign exchange policies in between the two countries. In this way the ECAs managed the credit risks involved in international trade and safeguarded the exporters against possible claims.

Moreover, export credit agencies supported financing banks who involved in the allocation of export facilities in the form of suppliers' credit, buyers' credit, or pre-shipment working capital, by providing them with credit guarantees to protect them against the outbreak of outstanding debts or claims.

History:

Following a period of decline of oil prices, Export Guarantee Fund of Iran (EGFI) was established in cooperation with UNCTAD in the early 1970s as the only state-run Export Credit Agency (ECA) affiliated to the Ministry of Industry, Mine and Trade, in order to support the country's exports and cover major commercial and political risks for Iranian exporters. About five decades of risk mitigation and receivables management for the Iranian exporters and banks is the Fund's honored record of providing unique services for the development of the country's exports.

Export Credit Agencies Advantages:

Export Credit Agencies play the role of credit risk management for exporters and the banking system and financing bodies and provide the following merits:

- Creating the peace of mind for exporters on their export receivables through covering the political and commercial risks in their international contracts;
- Promoting the power of risk acceptance of the Iranian exporters and contractors over their peer entities in the international arena;

- Gathering and updating the credit information and reliable data on the credit standing of foreign buyers and traders.
- Providing expertise and consultancy services on international trade finance and investment;
- Managing credit risk for banks and financial institutions involved in trade or project finance;
- Increasing foreign exchange income for Iranian traders via their international trade facilitation;
- Expanding export markets and international opportunities for traders in target markets as a result of the allocation of credit terms for their foreign buyers;
- Reducing the trader's export expenses as a result of the shift to open account transactions and the use of time drafts instead of contracts backed by LCs;
- Facilitating exports at tough times of political and economic sanctions and banking limitations;
- Developing trade ties between exporters and their foreign buyers/employers and changing the approach from traditional to modern competitive and customized exports;
- Improving the situation for Iranian investors investing in overseas projects via covering the political risks involved;

EGFI's clients and beneficiaries:

- The exporters of goods, (raw materials, intermediary goods, commercial goods, finished goods, capital and semi-capital goods);
- The exporters of services (contractors, the companies providing techno-engineering services and consultancies)
- Banks and the financial and credit institutions providing all sorts of export loans and facilities like: working capital, EPC site construction, sellers' credit (discounting of export bills) and buyers' credit (finalizing finance agreement with the foreign debtor for the purchase of Iranian goods and services) and joint investment facilities;
- Manufacturers who sell their goods and services to exporters on credit terms;
- Iranian Investors in export-oriented projects inside the country including the construction or development of projects with export capacity
- Iranian Investors investing in overseas projects leading to the export of goods and services from Iran and enjoying a minimum of 50% national content

EGFI's services for exporters of goods

- ✎ Credit worthiness assessment and setting the credit limit for foreign buyers or trade partners in other countries;
 - ✓ Advantage: Getting well informed of the credit standing and the trade outlook of the foreign buyers as well as their payment records before or while finalizing any contracts;

✚ Specific Insurance Policy;

- ✓ Advantage: Getting sure of export receivables from one foreign buyer against one sales contract or every single shipment of export goods

✚ Whole-Turn-over Insurance Policy:

- ✓ Advantage: Getting sure of export receivables from different foreign buyers in different countries against several sales contracts or shipments of export goods within one year.

✚ Contract Frustration Policy:

- ✓ Advantage: Risk management of the unfair one sided cancellation of shipping order from the side of the foreign buyer, leading to the disruption of manufacturing of the ordered customized goods or the export contract frustration as a result of the outbreak of political risks.

✚ Customs Credit Guarantee:

- ✓ Advantage: Providing the facilities/guarantees needed to be presented to the I.R of Iran's Customs House, for the temporary import of goods/raw materials for re-export against easier collaterals and securities to be presented by the clients.

EGFI's products for exporters of Techno-engineering Services:

✚ Credit worthiness assessment and setting the credit limit for foreign employers (sovereign/sub-sovereign/or private entities)

- ✓ Advantage: Getting well informed of the credit standing and the risk outlook of the foreign employers as well as their payment records before or while finalizing any techno-engineering contracts

✚ Techno-engineering Specific Insurance Policy;

- ✓ Advantage: Getting sure of contract receivables from one foreign employer against one techno-engineering contract as a whole or every single invoices sent to the employer for approval and payment

✚ Issuance of Surety (contract) Bond Guarantees (Bid Bond, Performance Bond, Advance Payment and Retention Bond Guarantees):

- ✓ Advantage: The possibility of providing the necessary bonds for off-shore projects and overseas employers by Iranian contractors through EGFI, with easier security package during the tough times of

banking restriction and international sanctions imposed and the lack of banking relationships with their peer financial institutions;

✚ Issuance of credit Guarantees for the purpose of mobilization of construction site of EPC contracts:

✓ Advantages:

1) The possibility of providing the credit guarantees for Iranian contractors as the substitute for first rated securities required by the financing banks, with 2% discount in the banking interest allocated for loans based on the central bank of Iran's decree

2) The possibility of securitizing real estates with their 100% evaluated prices according to the report of Justice Experts and

3) The possibility of considering the surplus value of real states (not collateralized portion) as the first rated security, and EGFI acting as the second entity for mortgage.

EGFI's products for Manufacturers enjoying export capacities:

✚ Manufacturers' Credit Guarantee:

✓ Advantage: Manufacturers may sell their goods to exporters on credit terms and backed by EGFI's credit guarantee be certain of the return of their receivables from exporters;

✚ Export-Oriented projects' Credit Guarantee:

✓ Advantage: Manufacturers investing in export-oriented projects may have access to MLT bank facilities for their development or construction projects backed through the credit guarantee issued by EGFI and provide the Fund with an easy-to-prepare security package which may include first and second rated securities, namely equity based collaterals and the allocation of income cash flows and returns of the project;

EGFI's products for Banks and Financial Institutions:

✚ Credit Guarantees (Foreign Exchange or Local);

✓ Advantage: Iranian Banks and Financial Institutions who intend to grant short term local currency (Rial) loans or forex facilities to Iranian exporters with the aim of financing their export activities and providing their working capital, may obtain EGFI's "Local Currency/Forex Credit Guarantee" as a substitute for the collateral they require to insure the repayment of the granted facility by the debtor, i.e. exporter, on the due

date and manage their loan portfolio against payment defaults or bad debts.

⚙️ Discounting of Export Bills Insurance Policy:

- ✓ Advantage: Banks and financial institutions involved in the discounting/ factoring of export bills of the Iranian exporters may seek the insurance cover of the Fund to get sure that the receivables will definitely be compensated by EGFI on the due date, in case of the non- payment on the side of the foreign buyer.

⚙️ Buyers Credit Guarantee:

- ✓ Advantage: To insure the due repayment of the credit lines granted to foreign buyers/employers/banks, the Iranian financing bank may seek EGFI's buyer's credit guarantee so that they could enforce it as a sound security for the repayment of principle plus interest of the financed facilities according to the finance agreement in case the foreign debtor does not keep his commitments;

EGFI's products for investors:

⚙️ Investment Insurance Policy:

- ✓ Advantage: The Iranian investors investing in overseas projects may enjoy EGFI's free consultancy services to get a view of the investment climate of the target market and its risk outlook and get to know the Fund's cover policy in that field of business and consequently may seek the Fund's insurance cover against the three political risks (War, Expropriation and Non-transfer of foreign exchange currency) to safeguard their investment project or its proceeds through EGFI's insurance cover. The Fund is ready to provide the insured with the cover provided that the investment project leads to at least 50% national content (export of goods, raw materials, machinery and expertise from Iran) and the political risk outlook is positive or stable;

EGFI's General Risk Management & Consultancy services:

EGFI has access to a wide variety of sources of economic, political, financial and banking information and is linked to several different data centers and therefore constantly scrutinizes the international, regional and country specific changes and studies the banks and foreign companies' credit standing. As a result, the Fund may help Iranian exporters manage or mitigate the credit risks involved in their export contracts, and inform them of EGFI's cover policy, via providing its clients with credit reports on all the three levels (country risk, bank risk and corporate risk).

EGFI, uses the seven-category country classification system like OECD, and sets the country credit ceilings for Short, medium and long term credits. Also, the general

economic and political conditions of different countries are regularly observed and followed, and country risk bulletins are issued on bimonthly or monthly bases and issued in Persian so that national companies could study the latest risk specific changes in their target markets.