



Broad Street Capital Group
Merchant Bankers to the World

presents



Fluent in EXIM™



**Obtaining U.S. Ex-Im Bank Financing
for exports to Ukraine**

**Presented at the USUBC workshop
Kyiv, Ukraine –September 12th, 2019**



An important tool in any international expansion for U.S. exporters of products or services should be Export Import Bank of the United States (US Ex-Im), an official Export Credit Agency (ECA) of the U.S. Government. Ex-Im was founded in 1934 to help finance exports for American companies expanding internationally

www.exim.gov

Over the last twenty years, Broad Street Capital Group has formed a very close working relationship with U.S. Ex-Im, as well as with other trade and development agencies and advised on a number of financing and political insurance transactions ranging from \$6 to \$440 million



A View From The Outside

The objectives of this presentation are to

- Present a candid “beyond the website” picture of which projects are suitable for Ex-Im financing and insurance and provide an accurate picture only an experienced outsider can deliver
- Highlight issues which exporters to Ukraine need to consider
- Provide a decision framework on how to make transactions more suitable for Ex-Im financing

U.S. Ex-Im Bank

- ▶ The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into real sales that help to maintain and create U.S. jobs. Ex-Im Bank does not compete with private sector lenders but provides export financing products that fill gaps in trade financing - **ADDITIONALITY PRINCIPLE**
- ▶ Bank assumes credit and country risks that the private sector is unable or unwilling to accept. Bank also helps to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters.

U.S. Ex-Im Bank

- ▶ **Independent agency of the U.S. government established in 1934 to finance the export sales of U.S.-made goods and services**
 - > has supported over \$480 billion in exports.

- ▶ **Products include Direct Loans, Loan Guarantees, Export Credit Insurance, Working Capital Guarantees, Tied Aid Fund**
 - > No minimum nor maximum project size.

- ▶ **Support for renewable energy and environmental exports mandated in Ex-Im Bank's Congressional Charter.**

- ▶ **Environmental Exports Program offers enhancements:**
 - > Repayment terms of 15-years for renewable energy, and water treatment projects
 - > Capitalization of interest during construction
 - > Up to 30% local cost support within the U.S. scope of supply



**OPIC vs. Ex-Im:
What's the Difference?**

Objective of Financing (Non-Project Financing)

OPIC	EX-IM BANK
Goal is to promote U.S. involvement in foreign joint ventures.	Goal is to promote export of U.S. goods and services.
Provides financing for foreign investment transactions involving significant equity or management participation by U.S. investors.	Provides financing to creditworthy non-U.S. buyers of U.S. equipment and services.
Provides Full Faith & Credit U.S. Guarantee of principal and interest.	Provides Full Faith & Credit U.S. Guarantee of principal and interest.

U.S. Interest

OPIC	EX-IM BANK
<p>OPIC transactions must involve significant U.S. participation. Significant U.S. participation may be satisfied where:</p> <ul style="list-style-type: none">• 25% equity in the transaction owned by a U.S. business;• Some risk is assumed by U.S. lenders to the project (such loans not guaranteed by OPIC); or• U.S. provider of significant services, for a fee, is used during the project term.	<p>U.S. goods and services required:</p> <ul style="list-style-type: none">• Ex-Im Bank requires that at least 50% of the goods and services exported under a supply contract be of U.S. origin. In order to be eligible for financing, the U.S. goods being shipped by water must be transported on U.S. vessels.
<p>NO REQUIREMENT FOR U.S. GOODS AND SERVICES!</p>	<p>NO REQUIREMENT FOR U.S. FINANCIAL OR MANAGEMENT INVOLVEMENT IN THE MATTER!</p>

Loan Coverage

OPIC	EX-IM BANK
<p>OPIC normally covers up to 60 percent of the total cost of the venture, but a higher loan amount may be considered in the case of a successful existing business; therefore, significant equity required.</p>	<p>Ex-Im Bank guarantee loan cover is equal to the <u>lesser</u> of (1) 85 percent of the value of the goods and services of the U.S. supply contract and (2) 100 percent of the U.S. content of the goods and services in the U.S. supply contract.</p>
<p>OPIC will never support more than 75 percent of a project's cost.</p>	<p>Non-guaranteed portion of loan (at least 15%) can be equity or borrowed funds.</p>
	<p>Ex-Im Bank's guarantee cover can include local costs and services up to 30% of the U.S. content of the supply contract.</p>

Ability to Repay

OPIC	EX-IM BANK
In a loan to a U.S. corporate sponsor - OPIC would look primarily to the U.S. sponsor's ability to repay the loan.	In a loan to a foreign purchaser of goods and services - Ex-Im Bank will focus primarily on its ability to repay the loan.
In a loan to the venture, OPIC will perform significant due diligence on the project's viability.	In Ukraine, private sector transactions require a guarantee from a qualified bank.
	Public sector transactions generally Require Sovereign Guarantee, signed by the Minister of finance

Sources of Funding

OPIC	EX-IM BANK
OPIC and U.S. or U.S.-owned financial institutions.	Ex-Im Bank or U.S. or foreign financing institutions.
No foreign source can collect upon an OPIC guarantee.	

Term and Loan amounts

OPIC	EX-IM BANK
Up to 15 years on loans and 20years on capital markets OPIC insured transactions \$350 million.	Ex-Im Bank is currently open in Ukraine for tenors of up to 7 years on medium term Transactions and up to 1 year on short-term trade related deals \$25 million max per transaction

Funding Ex-Im Loan Guarantees

Guaranteed Loans made by EXIM Bank directly, or via commercial lenders (U.S. or foreign) to a foreign buyer with a 100% unconditional repayment guarantee from Ex-Im Bank

- ▶ Guarantee covers 85% of the U.S. content of the transaction
- ▶ Negotiated interest rates, usually a floating rate based on a small spread over the 6-month U.S. \$ LIBOR rate
- ▶ Lenders may also arrange fixed interest rates
- ▶ Banks often finance the 15% required cash payment
- ▶ Guarantee available in major foreign currencies
- ▶ Ex-Im Bank charges a 1-time flat Exposure Fee based on the country of the borrower + term of the credit. That fee may be financed. Ukraine is currently Category 7 (i.e. Riskiest)

Medium and Long-Term Loan Guarantee

Ex-Im Bank's guarantees help you secure competitive financing for your international buyers. They guarantee term financing--generally up to 10 years--to creditworthy international buyers in both the private and public sector, and finance your local costs up to 30%. With Ex-Im's guarantee, international buyers get competitive term financing--that may previously have been unavailable-- from lenders.

How will these guarantees help my business? Ex-Im Bank's Medium and Long-Term Guarantees provide: Risk mitigation for a transaction with a particular buyer. Financing for international buyers of U.S. capital goods and related services. More secure entry to emerging markets. Flexible lender financing options, backed by the guarantee, for buyers of U.S. capital goods and related services for long-term projects, as well as medium-term, and flexible repayment terms. Coverage for 100% of commercial and political risks.

\$25 million on UA transaction size. The guarantee to the lender is unconditional and transferable. Bank covers local costs up to 30% and ancillary services such as financial, legal or bank fees may be included.

Coverage & Costs

- ▶ This coverage is available for medium-term. Ex-Im Bank provides an 85% guarantee (a 15% down payment is required from the buyer's side). Principle and accrued interest are included.
- ▶ **Costs:** Letter of Interest processing fee - \$100. Preliminary Commitment application fee - 0.1% of 1% of financed amount. A commitment fee of 0.375%, based on unused portions of the loan. An exposure fee based on risk (variable; see Exposure Fee Calculator), Interest rate negotiated between lender and borrower

Eligibility Criteria

To determine eligibility of goods and services exported by U.S. businesses, applicable U.S. content consists of direct costs (i.e., labor, materials, and direct overhead) and indirect costs (e.g., research and development) associated with the production of the U.S. export. Generally, each product must have more than 50% U.S content based on all direct and indirect costs. Review Ex-Im Content Policy for more information.

U.S. Flag Shipping Requirements

Ex-Im Bank's shipping requirements are based on Public Resolution 17 of the 73rd Congress (PR-17) concerning U.S. flag shipping of certain U.S. government agency supported export cargos. Shipping on U.S. flag vessels is required for the following Ex-Im Bank transactions: Direct loans regardless of term or amount; and Guarantees in excess of \$20,000,000 (excluding Ex-Im Bank Exposure Fee) or the repayment period of greater than seven (7) years. Eligible shipping charges are financeable along with duties and VAT charges.

The following transactions are exempt from U.S. flag shipping requirements: Credit Guarantee Facilities, regardless of amount; Short-term insurance, regardless of amount; Medium-Term Insurance, regardless of amount or term; Guarantees of up to \$20,000,000 (excluding Ex-Im Bank Exposure Fee) and the repayment period of seven (7) years or less; and Guarantees of up to \$20,000,000 under the Environmental Exports Program, Transportation Security Export Program, or Medical Equipment Initiative, regardless of term.

Aircraft shipping is subject to different requirements. If goods are shipped out on U.S. flag carrier the shipping charge is eligible for financing. If goods are shipped on non-U.S. flag the shipping charges become eligible foreign content, rather than part of completely disqualified shipment, as in the case of maritime shipments in excess of \$20 million

Working Capital Guarantee

- ▶ Ex-Im Bank provides a 90% repayment Guarantee for working capital loans, revolving or transaction based, made by commercial lenders to small businesses to finance export sales.
- ▶ The Working Capital Guarantee serves as the collateral to the commercial lender by mitigating the risk inherent when the source of repayment for the loan is an overseas contract.
- ▶ Enables exporters to finance materials, labor, and overhead to produce goods/ services for export.
- ▶ Enables exporters to cover standby letters of credit for bid and performance bonds, warranty bonds, and payment guarantees.
- ▶ Enables the exporters to finance foreign sales receivables.
- ▶ Most Working Capital Guarantees provided by Delegated Authority Lenders (see www.exim.gov for a list) without prior Ex-Im Bank approval.

Non-financial Considerations

Prior to approving certain transactions, Ex-Im Bank will consider the economic impact of a particular transaction (see Ex-Im Bank policies - Economic Impact) and the environmental effects (see Ex-Im Bank policies - Environment).

Country Limitation Schedule & Exposure Fees

Country Limitation Schedule. Need to see if Ex-Im Bank operates at a certain level, or at all, in a target market? Ukraine is currently open or short and medium term transactions in both Private and Public sectors

Exposure Fees Ex-Im Bank currently rates its long-term, medium-term and short-term Financial Institution Buyer Credit (FIBC) transactions using a credit classification or "CC" based pricing system.

Credit Insurance

- ▶ **Multi Buyer Policy-** Importers of U.S. products and services can increase international sales and reduce their risk of selling on credit terms by insuring their export accounts receivable with Ex-Im Bank's Short-Term Multi-Buyer Export Credit Insurance. The policy is valuable as a: Risk Mitigation Tool - insure export accounts receivable against non-payment. Marketing Tool - extend competitive credit terms to international buyers. Financing Aid - insured receivables collateralize your lender and help you obtain financing coverage.
- ▶ This policy covers non-payment losses due to commercial reasons (bankruptcy, protracted default) and political events (war, revolution, government seizure of goods, revoked export or import licenses, and foreign exchange inconvertibility) Standard coverage is 95% of the invoiced amount.
- ▶ Sovereign buyers are covered at 100%. Bulk agricultural commodity exports qualify for 98% coverage. Product non-acceptance coverage is 60% and available on most products. Pre-Shipment coverage (95%) is available for an additional premium and locks in coverage conditions for up to 180 days from contract signing. This optional coverage typically is useful to manufacturers producing made-to-order products requiring long lead times. Pre-Shipment coverage excludes contract cancellation risk.

Coverage Parameters

For non-small business exporters, exports of each U.S. manufactured product and/or service must have more than 50% U.S. content, including labor and materials, but excluding mark-up. For small businesses, each product must have more than 50% U.S. content based on all direct and indirect costs, exclusive of profit. Small business exporters may aggregate items in a single invoice to meet this requirement or receive partial coverage for the U.S. content only. For more information on content eligibility, please refer to the Ex-Im Bank short-term content policy.

All U.S. exported products must be shipped from the U.S. to the foreign buyer.

Single Buyer Policy

Ex-Im Bank's Single-Buyer Credit Insurance lets your supplier increase their export sales by limiting supplier's international risk, offer credit international buyers and access working capital funds. Our insurance covers the risk of buyer nonpayment due to commercial and political reasons. It can also replace cash-in-advance, letters of credit, and other secured sales. As the name implies, this policy covers one or more shipments totaling a set value, to a single buyer. This insurance lets us assume 90 to 100% of your nonpayment risk at a very affordable premium. By limiting your risk, your supplier will be able increase sales to its international buyers.

Coverage Parameters

Single Buyer

Commercial and Political Risks. This policy covers 90% of nonpayment losses due to commercial reasons (such as insolvency and protracted default) and 90% political risks (such as war, revolution, seizure of goods, revocation of import license, or the inability to convert foreign currencies). Coverage percentage is the same for both commercial and political risks, but varies depending on the type of debtor:

- ▶ If the foreign buyer is classified as a sovereign obligor (Foreign Ministry debtors) Ex-Im's coverage is at 100%. Private sector and other non-sovereign debtors receive 90% coverage.
- ▶ For letter of credit transactions exporters' can receive 95% coverage.
- ▶ For bulk agricultural transactions Ex-Im's coverage is at 98%. Coverage does not include confirmed letters of credit, cash-in-advance sales, and certain military and defense-related items.

Pre-Qualification

Pre-Qualification considerations include

- ▶ Qualified Export Contract, Deal Size and Structure
- ▶ Industries & projects to be financed
- ▶ People behind the transaction
- ▶ Financial strength of the Buyers and the Sellers, Collateral, Credit enhancement
- ▶ Project timing
- ▶ Transaction costs, Collateral and LTV (up to 85% for export/structured fin, 70% project financing)
- ▶ Environmental, Technical and Developmental impact

People Behind The Deal

Who are all the parties?

- ▶ Criminal background?
- ▶ US Govt. agency lists?
- ▶ Civil or Securities violations?
- ▶ Experience?
- ▶ Look at middlemen involved

For Project Finance - How were licenses, concessions, leases etc. obtained?

- ▶ Arms length transactions?
- ▶ Any principals or relatives in positions of influence?
- ▶ Sole source and tender award procedures
- ▶ Any quid pro quo arrangements?

FULL DISCLOSURE IS THE BEST STRATEGY!

Sponsor's Financial Strength

Strong sponsors are essential

- ▶ Commitment and financial means to see the project through
- ▶ Liquidity and experience

Sponsor support is required during construction completion, as well as during project completion

Depending on the sponsor, either corporate, personal guarantees, bonds, or letters of credit are required until project is performing as projected

Timing

It depends - typically three months to a year from completed application

Seen as low as two months to as long as 3 years

Thus it is vital that project sponsors and suppliers have realistic expectations and manage project accordingly

Phases

- ▶ Letter o Interest (LI) and Application
- ▶ Due diligence (initial and updates)
- ▶ Commitment & Term sheet
- ▶ Loan Agreement review and negotiation
- ▶ Conditions Precedent fulfillment (L/C, reserve accounts, collateral etc.)
- ▶ Document compliance for disbursement and certification

Thing that Do Not Fly

A number of issues that may disqualify potential transaction(s) from Ex-Im guaranteed financing

Criteria

- ▶ Transaction displaces U.S. jobs (off-shoring)
- ▶ Self-dealing. Buyer owns effective controlling interest in the Seller
- ▶ Transaction causes output to be re-exported to the U.S.
- ▶ Transaction is in the military, gambling, alcohol, tobacco sectors
- ▶ U,S, Flag Shipping or content requirements violated
- ▶ “Bad Boy” actors or disqualified entities

Problems We See

- ▶ Lack of Sponsor's Commitment (financial, time, administrative)
- ▶ Unwillingness to provide required collateral
- ▶ Lack of financial resources for sponsor support
- ▶ Lack of understanding of the process
- ▶ Project still "raw" and requires significant development
- ▶ Project unsuitable for Ex-Im

Services We Provide For Ex-Im Deals

Full Service Financial Advisory

- ▶ Transaction assessment and qualification
- ▶ Deal structuring and due diligence preparation
- ▶ Advisory team assembly and management
- ▶ Strategic partner/supplier/project manager cultivation and acquisition
- ▶ Application preparation and submission
- ▶ Turnkey project representation which includes negotiation and shepherding through the process
- ▶ Funding source and L/C bank acquisition
- ▶ Export Management, shipping and insurance management
- ▶ Additional debt and equity financing, where warranted

Fluent In Exim™

Obtaining U.S. Ex-Im Bank Financing for your company's exports

Thank You

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