

27TH ACSIC Training programme

Credit Supplementation Institutions: Going Beyond Guarantee for SMEs

SLECIC -SRI LANKA

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SME LANDSCAPE IN ASIA

Types of SMEs differ

- by size,
- sector, and
- business characteristics

The SME segment that national policy focuses on also differs by country because of the different level of economic and social development and political concerns.

Homogenized grouping of SMEs difficult across the region



SME FINANCING AVAILABILITY

- Limited access to finance
- In developing countries, 55% & 68 % of formal SMEs are either unserved or underserved by financial institutions

To address this, gap many governments intervene in SME credit markets



Towards Internationalization

- The rise in globalization has drastically changed the role of SMEs in the global economy
- The focus of national policies related to SME development will shifted from domestic to more regional
- changing business environment brought by economic integration & FDI will change SME business models from domestically focused to globally competitive.
- The globalized economy encourage SME internationalization, will bring new financing demand from SMEs, e.g., local currency financing
- Internationalization of SMEs and the development of the supporting industries are key for promoting inclusive economic growth



Internationalization of SMEs

- SMEs can internationalize by supplying larger firms that have located in their domestic market, or by operating trade and supply links with producers and buyers in other countries.
- SMEs involved in global supply chains, e.g. Supporting industries or parts industries, play a critical role in intraregional trade and intra-Asia foreign direct investment.
- Domestic firms have also sought to engage supply chains by linking and exporting to other countries. For both domestic and foreign value chains, local producers are often small and medium-sized enterprises (SMEs).



Internationalization of SMEs

- The diversified nature of SMEs has made "one size fits all" financing solutions difficult across the region
- This requires new financing solutions for SMEs participating in global value chains
- Continuing supply-demand gaps in SME finance suggest the need to broaden financing models for SMEs beyond traditional bank lending tailored made solutions
- The public-private partnership framework for financing SMEs will provide seamless finance, from short-term working capital to long term growth capital.



The risk nature is constantly changing

- Poor economic situation
- Changes in the market condition:
- Necessity of expansion
 - ✓ new clients
 - ✓ internationalization
- Insufficient working capital
- Difficulties in the financial sector

What ECA could do for SMEs ?



ECAs play an important role in trade and investment flows

The basic role of an ECA is to support and encourage exports and outward investment by providing financial support, through insuring or guaranteeing international trade and investment transactions and, in some cases, providing loans or finance directly.



Export Credit Products take four main forms

- ❑ Short term credit insurance
- ❑ Medium and long-term credit insurance and finance
- ❑ Investment insurance
- ❑ Working capital guarantees



There is no such thing as a typical ECA

- While the mandates and roles of all ECAs are broadly similar, there is no such thing as a “typical” ECA
- ECA business models, status, objectives, institutional arrangements, and government involvement vary widely from country to country.
- These differences reflect unique national circumstances and histories.



Sri Lanka Export Credit Insurance Corporation

- Incorporated by Act No.15 of 1978 and commenced operation on 08th February 1979.
- SLECIC is a member of The International Union of Credit & Investment Insurers (Berne Union).
- We are committed to provide attractive and innovative Credit Insurance and Guarantee support services.



SLECIC Product Portfolio



Risk Covered under Guarantee

The Guarantee covers Banks against any loss sustained by the Bank due to exporter's failure to pay advances arising from his :

1. Insolvency
2. Protracted Default

Period of the Guarantee

Guarantee is Issued

- ⚠ With effect from the date of issue or
- ⚠ For a particular period



Types of Credit Guarantees

- **Whole Turnover (Portfolio) Credit Guarantees**
 - Pre /Post Shipment Credit Guarantees
 - Pre Departure Loans for Migrant Workers
- **Individual Credit Guarantees**
 - Pre /Post Shipment Credit Guarantee
 - Export Production Credit Guarantee -Indirect Exporters
- **Counter Guarantees**
 - Bid Bonds
 - Performance Bonds
- **Demand Guarantees**
 - ATA Carnet System -100%
 - Due performance of Freight forwarders- 85%



Support - Credit Guarantee

SLECIC Guarantee allow banks to grant liberal finance to exporters, indirect exporters (producers, subcontractors) to realize their full potential .

CREDIT GUARANTEES WE OFFER

1. Standard Pre/Post shipment Credit Guarantee
2. Export Production Credit Guarantee
3. Small Scale Pre/Post shipment Credit Guarantee
4. Export Credit Guarantee
5. Whole Turnover Pre/Post shipment Credit Guarantee
6. Export Lending Credit Guarantee
7. Export Performance Guarantee (Bid Bond, Performance Bond)
8. Export Performance Guarantee Covering ATA Carnet
9. Export Performance Guarantee For Freight Forwarders
10. Whole Turnover Bank Guarantee Covering The Cost of Passage



SME definition of SLECCIC is as follows

Category	Export Turnover (Rs.)
Micro	≥15Mn
Small	16-250Mn
Medium	251-750Mn

Majority of clients include under SLECCIC ≤ Small & Medium



THE DIRECT EXPORT PERFORMANCE (EXPORT DUTY) GUARANTEE COVERING THE ATA CARNET SYSTEM

The ATA Carnet is an international customs Document that permits the tax-free and duty-free temporary export and import of goods for up to one year. ...

The ATA Carnet is jointly administered by the World Customs Organization (WCO) and the International Chamber of Commerce through its World Chambers Federation

ATA CARNET FOR TEMPORARY ADMISSION OF GOODS
 CONVENTION ON THE A.T.A. CARNET FOR THE TEMPORARY ADMISSION OF GOODS
 CONVENTION INTERNATIONALE SUR LE CARNET A.T.A. POUR L'ADMISSION TEMPORAIRE DE MARCHANDISES
 CONVENTION ON TEMPORARY ADMISSION - CONVENTION RELATIVE A L'ADMISSION TEMPORAIRE
 (Before completing the Carnet, please read Notes on cover page 3. (avant de remplir le carnet, lire les notes au verso 3 de la couverture))

A. HOLDER AND ADDRESS / Titulaire et adresse
B. REPRESENTED BY / Représenté par
C. INTENDED USE OF GOODS / Utilisation prévue des marchandises
D. ISSUED UNTIL / Valable jusqu'à

G. FOR ISSUING ASSOCIATION USE / (Réservez à l'association émettrice)
FRONT COVER / Couverture
 a) A.T.A. CARNET No. **US 89/08-SAMPLE**
 Carnet A.T.A. n°
 Number of continuation sheets: **0**
 Nombre de feuillets supplémentaires

ISSUED BY / Délivré par
United States Council for International Business

VALID UNTIL / Valable jusqu'à
 year month day (inclusive) / an mois jour (inclusif)

P. This Carnet may be used in the following countries/customs territories under the guarantee of the associations listed on page 4 of the cover.
 Ce carnet est valable dans les pays/territoires douaniers ci-dessous, sous la garantie des associations reprises sur page quatre de la couverture.

EUROPEAN UNION			
AUSTRIA (AT)	FRANCE (FR)	LATVIA (LV)	ROMANIA (RO)
BELGIUM (BE)	GERMANY (DE)	LITHUANIA (LT)	SLOVAKIA (SK)
BULGARIA (BG)	GREECE (GR)	LUXEMBOURG (LU)	SLOVENIA (SI)
CYPRUS (CY)	HUNGARY (HU)	MALTA (MT)	SPAIN (ES)
CZECH REPUBLIC (CZ)	IRELAND (IE)	NETHERLANDS (NL)	SWEDEN (SE)
DENMARK (DK)	ITALY (IT)	POLAND (PL)	UNITED KINGDOM (GB)
ESTONIA (EE)		PORTUGAL (PT)	
OTHER COUNTRIES			
ALGERIA (DZ)	ICELAND (IS)	MAURITIUS (MU)	SINGAPORE (SG)
ANDORRA (AD)	INDIA (IN)	MONROVIA (LR)	SOUTH AFRICA (ZA)
AUSTRALIA (AU)	ISRAEL (IL)	MOROCCO (MA)	SRI LANKA (LK)
BELARUS (BY)	IVORY COAST (CI)	NEW ZEALAND (NZ)	SWITZERLAND (CH)
CANADA (CA)	JAPAN (JP)	NORWAY (NO)	THAILAND (TH)
CHILE (CL)	KOREA (KR)	PAKISTAN (PK)	TUNISIA (TN)
CHINA (CN)	LEBANON (LB)	RUSSIA (RU)	TURKEY (TR)
CROATIA (HR)	MACEDONIA (MK)	SENEGAL (SN)	URUGUAY (UY)
GIBRALTAR (GI)	MALAYSIA (MY)	SERBIA (RS)	UNITED STATES (US)
HONG KONG, CHINA (HK)			

H. CERTIFICATE BY CUSTOMS AT DEPARTURE
 Attestation de la douane au départ

a) Identification marks have been affixed as indicated in column 7 against the following items (mark) of the General List.
 Apposé les marques d'identification mentionnées dans la colonne 7 en regard de (des) numéro(s) d'ordre mentionné(s) de la liste générale.

b) GOODS EXAMINED? / Vu(s) les marchandises?
 Yes / Oui No / Non

c) Registered under Reference No. / Enregistré sous le numéro?

d) Customs Office / Bureau de douane: _____ Date / Date (year/month/day) _____
 Signature / Signature _____

I. Signature of authorized official and issuing association
 Signature officielle et association émettrice
United States Council for International Business
 Date / Date (year/month/day) _____
 Lieu et date d'émission (année/mois/jour) _____

J. Place and Date of Issue
 Lieu et date d'émission (année/mois/jour) _____

THIS CARNET IS THE PROPERTY OF USCIB. AFTER FINAL USE, RETURN IT TO USCIB.
 1212 AVENUE OF THE AMERICAS, NEW YORK, NY 10036
 1212 AVENUE DES AMERICAINS, NEW YORK, NY 10036



How the ATA Carnet System works?

- The guaranteeing body is entitled to issue Carnets .The ATA international guarantee chain provides reciprocal guarantees assuring customs administrations that duties and taxes incurred in case of misuse will be paid -for example, if goods are sold instead of re-exported
- The ATA Carnet operates under international Customs Conventions administered by the World Customs Organization (WCO) .The International Chamber of Commerce (ICC), World ATA Carnet Council manages the system in cooperation with the WCO.



Goods which qualifies for the ATA Carnet System

- Samples of value)
- Professional Equipment's *)
- Goods for presentation use for temporary exportation
- At Exhibitions or Trade Fairs)
- *Equipment for press or for television broadcast, cinematographic and tools, photographical, engineering, surgical, electrical, archaeological, musical, sporting, computing, entertainment equipment's etc...



User of ATA Carnet

- Travelling Business/Sales Executives
- Technicians
- Fair Exhibitors & Professional individuals and teams such as film crew, Surgeons, Architects, Artists, Engineers, Educationalists, Entertainers etc.
- If the Carnet is to be used by any other person, he should carry a letter from the Carnet holder on his behalf provided he holds a letter of Authority



How to Get an ATA Carnet?

- Carnets are issued by chamber of commerce and similar business organizations affiliated to the ATA International guarantee chain
- The World Chambers Federation (WCF) ,which brings together the chamber members of the Paris -based International Chamber of Commerce (ICC)is responsible for administering the chain
- International Chamber of Sri Lanka has the authority to issue Carnets in Sri Lanka



Advantages of ATA Carnet System

- ATA Carnets reduce costs to exporters by eliminating Value Added Tax (VAT) and customs duties
- Carnets holders are not required to post securities with Customs
- Carnets simplify customs border crossings and cut red tape by allowing importers and exporters to use a single document for all customs formalities



SLECIC GUARANTEE SCHEME - ATA CARNET SYSTEM

- Demand guarantee to International Chamber of Commerce-Sri Lanka (ICC-SL) ensuring the due performance by the applicant/exporter .
- If the goods covered under the ATA Carnet were not re-exported within a fixed period, the issuing guarantee institution will become liable for the sum for which the claim is made by the customs authorities
- Our guarantee covers ICC-SL, against any loss sustained by them arising from the failure of the exporter/applicant to fulfill the requirement of payment of Import duty abroad



Features of the Guarantee

- This direct Guarantee is issued to cover a single transaction to an individual for a period of 31 months
- The permitted limit of a Guarantee will be stipulated by the ICC-Sri Lanka depending on the import duty rates payable in countries being visited by the exporter
- Security
 - ❖ 10%-50% refundable cash deposit of the value of Guarantee given to the Corporation as security depending on the applicant's creditworthiness.
 - ❖ Sign DPN for the full Guarantee value
 - ❖ Refundable Guarantee fee of Rs 1000- RS.2500 per each guarantee



Features of the Guarantee

Premium

- 4% per premium on the Guarantee value and premium is payable for the entire period

Premium rebate

- With a view to encouraging the exporters to discharge all the obligations under the ATA Carnet System and also to reduce SLECIC'S Liability to ICC-SL. Whenever a SLECIC Guarantee has been returned or reduced within a period of 2 months of issue

If returned -

pay back 40% premium as rebate

reduced more than 65% of
the value of the Original }

pay back 10% premium as a rebate



Why to insure?

- The receivables are an asset, which deserves protection
- The insurance is an instrument for a business promotion
 - ✓ competitive advantage
 - ✓ assessment of buyers
 - ✓ prevention and monitoring
 - ✓ financial stability guarantee
 - ✓ easier access to financing
- The insurance is an instrument for a business expansion
 - ✓ new partners
 - ✓ new markets
 - ✓ higher turnover
- The insurance is part of the corporate strategy



Key Benefits of Trade Credit Insurance

■ Risk Mitigation (Balance Sheet Protection):

Insolvency and Protracted Default (late payment) protection for receivables

■ Increase Sales and expand competitiveness:

Extend more credit to customers while reducing the risk of non-payment

■ Facilitate Financing (Increase Borrowing Power):

Increase borrowing power and reduce financing costs by using the insured A/R as collateral,

Increase availability of credit lines, and reduce interest rate.

■ Reduce Bad-debt Allowance:

Reduce your allowance for bad debts reserve.

■ Improve Cash-flow:

Receive payments for insured, undisputed, unpaid invoices



Main functions of the Credit Risk Insurance

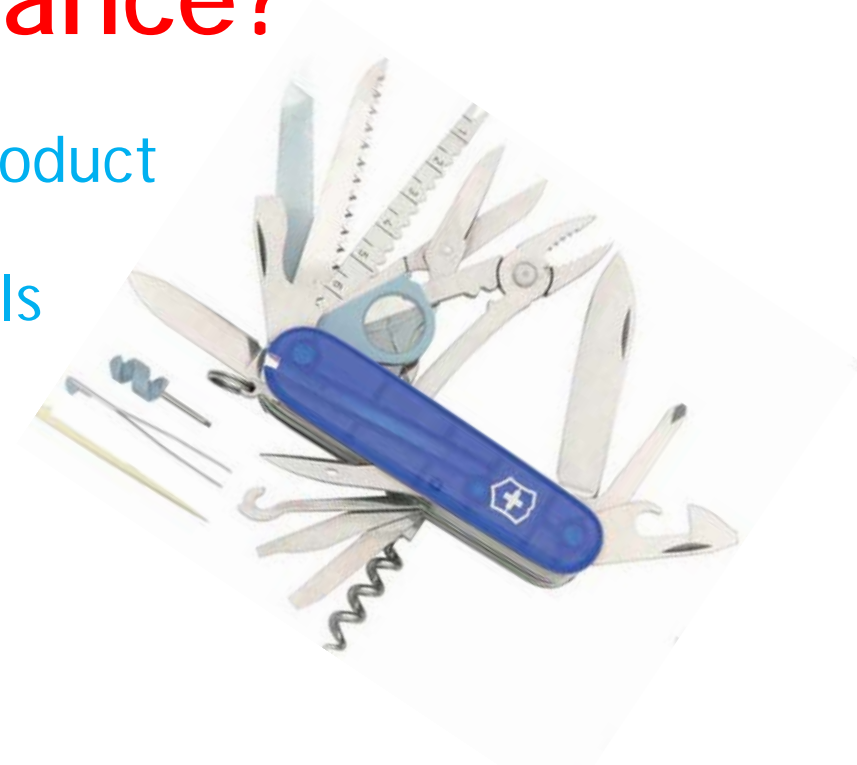
- **Loss prevention**
 - ✓ current and detailed financial information of the buyer
 - ✓ credit limit recommendation for each buyer
 - ✓ constant qualified credit control
- **Loss reduction**
 - ✓ contract dependant on the risk situation of the insured
 - ✓ assistance in overdue debts collection
- **Payment of insurance indemnification in case the previous two did not work out**



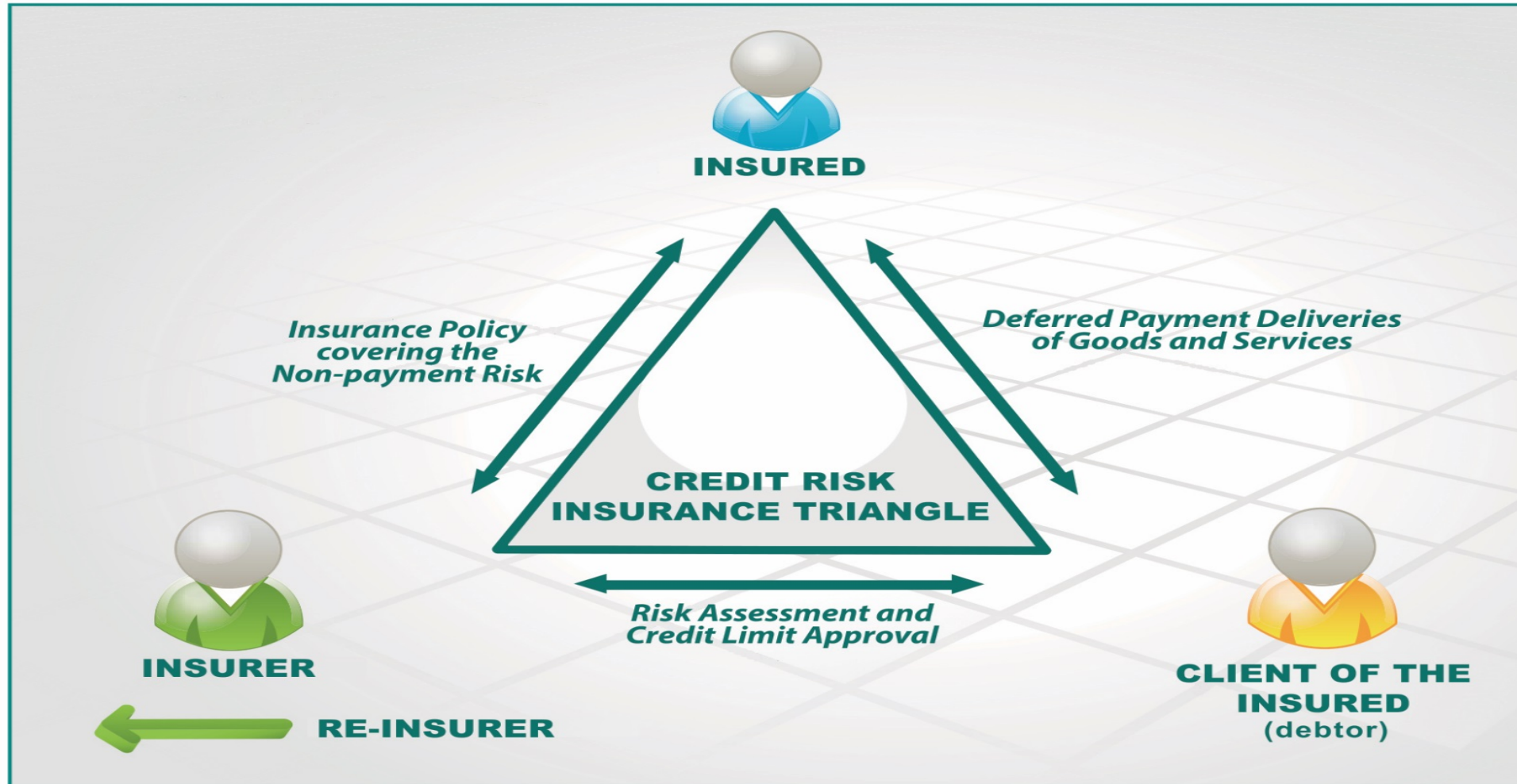


What is credit risk insurance?

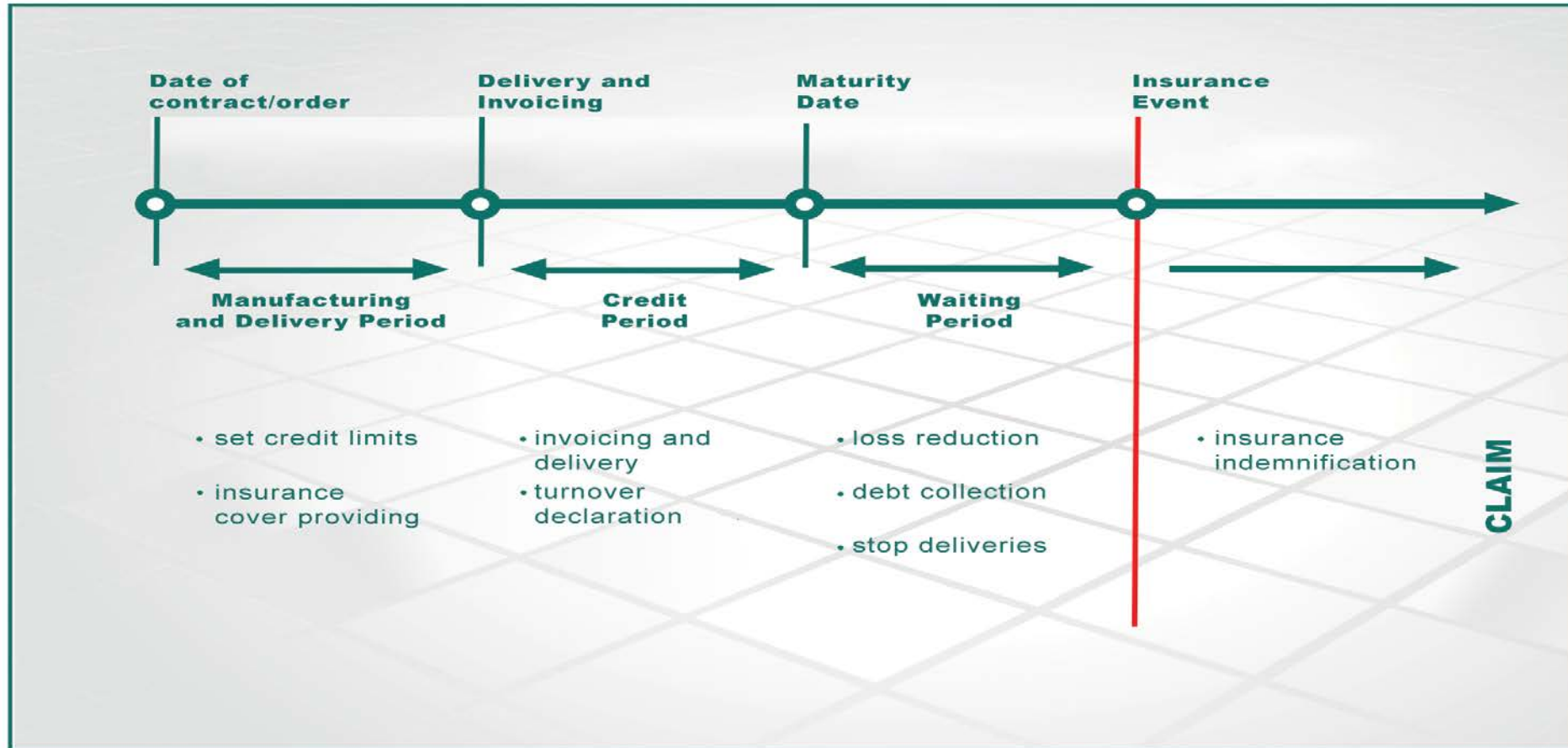
- The credit risks insurance is a specific insurance product
- Essence - insurance of receivables under trade deals
 - ✓ on the domestic market
 - ✓ on the international market



Credit risks insurance scheme



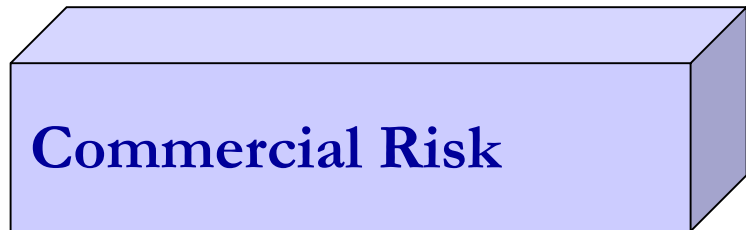
Stages of the Insurance Process



Export Credit Insurance

- Export Credit insurance is cover offered by insurance companies which encompasses the risk of non-payment within export operations

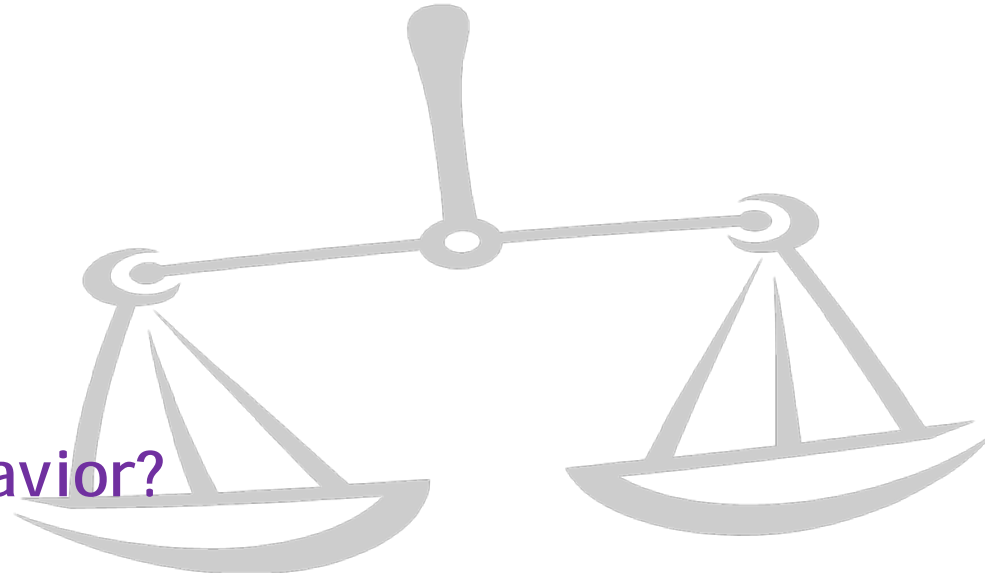
Risks covered by export credit insurers:



Commercial Risks

- Insolvency/ Bankruptcy
- Breach of Contract
 - Payment Default
 - Refuse to take delivery of goods

Ability or behavior?



Buyer's willingness to pay:
Behavior of the debtor

Buyers ability to pay:
Debtors Financial
Condition



Political Risks

- Political risks cover events that occur abroad other than commercial risks such as:

 Foreign exchange transfer delay / blockage

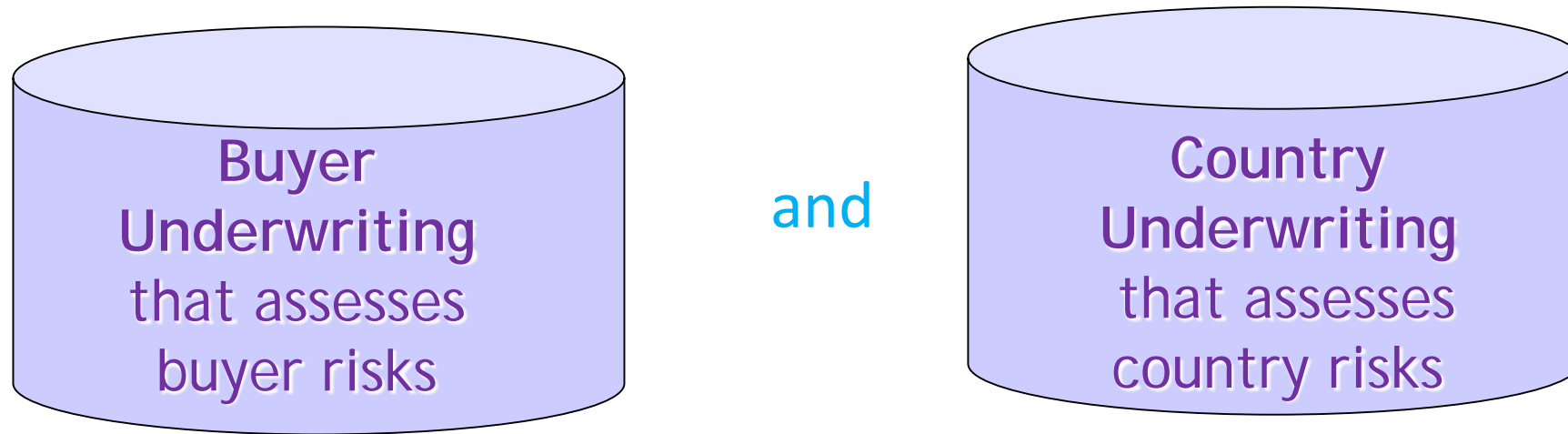
 Import prohibitions / cancellation of valid import licenses

 War, civil commotion or other disturbances in the buyer's country.



Buyer & Country Underwriting

- The 2 pillars of Export Credit Insurance :



- With the help of these two, SLECI controls the commercial and political risks



Country Underwriting

- Evaluating a Country

Assessment and evaluation of political risks associated with countries for the purpose of premium calculation, determining types of cover and terms of cover

- Reviewing a Country

Country reviews are taken up on a regular basis for up/down grading

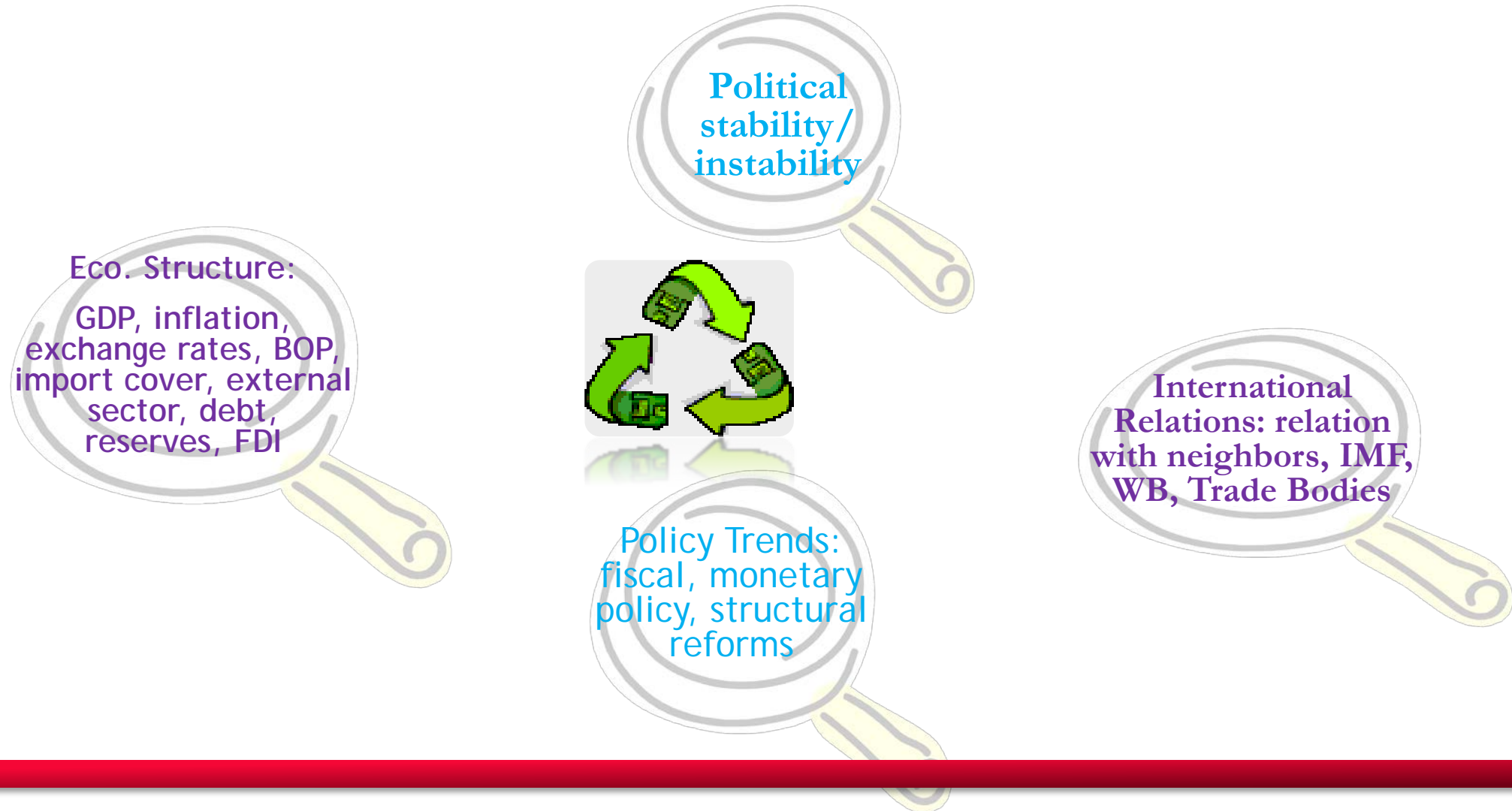


Evaluating a Country

- Country Underwriting involves assessment of a country's ability and likelihood to honour its commitments undertaken both, as part of trade as well as sovereign debt
- The country risk is evaluated on the basis of the politico-economic situation prevailing in a country



Reviewing a Country



Reviewing a Country



Seven Fold Country Classification

Risk Category	SLECIC Classification
Insignificant	A1 (1/7)
Low	A2 (2/7)
Moderately Low	A3 (3/7)
Moderate	A4 (4/7)
Moderately High	B (5/7)
High	C (6/7)
Very High	D (7/7)



Types of Cover

- While underwriting the country risk, SLECIC places the country either in



- The basis for deciding on the type of cover and terms of cover is a host of economic and political factors



Open Cover Countries

- Cover with No Restrictions
- Cover is offered usually on normal terms and conditions i.e. up to 90% cover, 4 months waiting period for ascertainment of loss and settlement of claims, etc.
- Currently SLECIC places 162 countries under Open Cover



Restricted Cover Countries

- Divided into 2 Categories
- Category 1: Countries for which revolving limits are approved normally valid for one year
- Category 2: Countries where Specific Approval will be given on case to case basis on merits



Underwriting Options for Restricted Cover Countries

- Options exercised to control risk in Restricted Cover countries:
 - Reduce percentage of cover
 - Increase waiting period for the settlement of claim
 - Payment in convertible currency
 - Fix country exposure limit
 - Fix transaction limit per exporter per buyer



What We offer - Credit Insurance

An insurance policy against the risk of non-payment of trade receivables(Commercial & Political risk).

Risk management tool: we help businesses to select the right customers and move safely into new markets.

CREDIT INSURANCE PRODUCTS WE OFFER

1. Seller's Risk Insurance Policy-Whole Turnover - All Buyers
2. Seller's Risk Insurance Policy-Buyer Specific
3. Seller's Risk Insurance Policy-Country Specific
4. Seller's Risk Insurance Policy-Political Risk
5. Seller's Risk Insurance Policy-Global Cover
6. Seller's Risk Insurance Policy-Subsidiary Risk
7. Seller's Risk Insurance Policy-Covering Ultimate Buyers
8. Seller's Risk Insurance Policy-Consignment of Stocks
9. Seller's Risk Insurance Policy-Entrepot Trade
10. Seller's Risk Comprehensive Service Policy
11. Domestic Credit Insurance Policy
12. Seller's Risk Insurance Policy-Turnover
13. Seller's risk Insurance Policy - Small Scale



(Q&A)

THANK YOU

