Global Export Finance Industry Report 2021

Full report

TXF RESEARCH

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Foreword

A view from TXF's editor, Max Thompson

The export finance product has proved robust, flexible, and innovative in response to the Covid-19 crisis, with applications for cover ballooning over the past year. After all, ECAs are a unique countercyclical economic policy tool.

Agencies were quick out the blocks to introduce new tools and adapt existing products to help mitigate the economic fallout for the export finance community from the impact of the pandemic, while also providing significant life support to meet their domestic exporters working capital requirements.

It is important to note, the Covid-19 pandemic is not a liquidity crisis like the GFC of 2008 to 2012, rather it has been more economic supply and demand-led, with adequate market liquidity to get deals across the financial line - but only if the transaction was in the pre-pandemic pipeline.

As highlighted in this report, two landmark ECA green loans closed in 2020, serving as a pre-echo of what the export finance landscape will look like going forward amid an uptick in market interest for this nascent product offering. But ECAs are becoming more risk averse too, as defaults and credit downgrades continue apace.

The view from TXF Data

Export finance is an industry that ebbs and flows. When one industry is flourishing, another can be experiencing difficulties. And yet, despite these fluctuations, the products and the rules of the market remain relatively unchanged, which has often invited criticism from within the industry.

However, in 2020, the market beat the odds when the pandemic hit, showing speed and flexibility to tackle an unprecedented set of issues brought on by Covid-19. It was a remarkable year, and one that reaffirmed the importance of ECAs to the industry. The support and cover they have provided for their clients has been well documented, but given that we are still to feel the full effects of Covid-19, their ongoing involvement will be key to how the export finance industry recovers.

Despite the pandemic, the export finance industry did not let sustainable finance get cast to one side. According to TXF Data, approximately 30% of the total deal volume lent in 2020 was for sustainable deals - around twice as much as the previous year. However, as TXF speak to the market to better understand how sustainable deals are classified, there is a lack of uniformity across the industry. One of the core goals of this year and beyond, is for the industry to have a universally agreed upon methodology on how sustainability should be classified and monitored.

A final word from TXF's CEO, Dan Sheriff

All that remains is to say a big thank you to everyone that contributed to this report. The export finance industry is full of passionate people that care about the future direction of their industry, and the role they can play. In challenging times, the role many of you have played in serving this community has, in many ways, been heroic. When times get tough, export finance steps up.

Reports like this are important because they contextualise the direction of travel. In a year when everyone has had their head down, striving to ensure the industry can play a role in getting economies moving again, this report gives people the opportunity to come up for air, survey the surroundings, swap notes, and get a sense of the direction of travel - ready to go again and help businesses around the world to flourish in a post-Covid-19 environment.

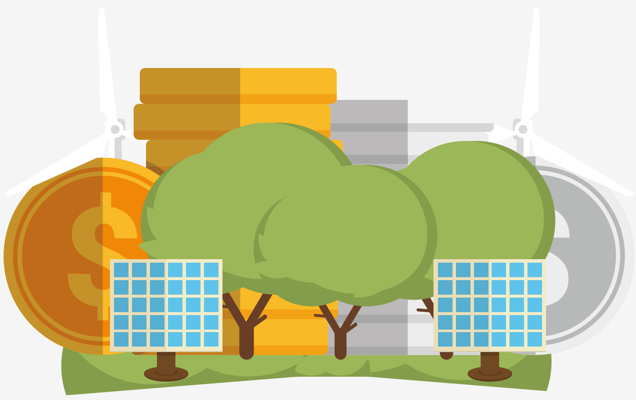
A huge congratulations to the TXF team and in particular Dr Tom Parkman, our head of research, for the most comprehensive and ambitious report to date. The team's ability to adapt to changing times has been second to none. We are proud to serve the export finance industry, and hope we can continue to improve, and help our clients via our insights, data, news, research, and community role in the years to come.
Here's to a busy and successful 2021 to all the heroes of export finance.

Executive summary

Banks (54%) and ECAs (44%) were more likely than exporters and buyers to report a positive outlook on the current state of the export finance industry, with the latter opting for uncertainty as the overriding sentiment.

According to the export finance banks, the renewable energy sector looks set to attract the most investment over the next 12 months, with an average capital allocation of $493 million. Europe looks set to be the most invested in region over the coming year with an average capital allocation of $582 million.

More than a third of the banking respondents and nearly half of the exporters and buyers have no intention to implement TCFD reporting standards at any point in the future. For those industry types that will look to implement TCFDs in the future, banks (31%) were most likely to do so within the next 12 months, while ECAs (45%), exporters (30%) and buyers (38%) were most likely to do so within one to three years.



A substantial 91% of the export finance banks reported being willing to provide more attractive financing for any sustainable deal, with 7.4 basis points reported as the average reduction in pricing. However, the average reduction in price that the exporters and buyers expect to receive in order to consider being involved in a sustainable project is 17.3 basis points – 9.9 basis points higher than what the banks are prepared to offer.

Just over 40% of the ECAs surveyed noted that they do have flexibility to access the CIRR with unlimited capacity. Moreover, 30% noted that they do intend to increase the level of direct lending on offer to their clients.

Credit Agricole CIB (4.2 out of five), KfW-IPEX Bank (4.1 out of 5), and LBBW (4.0) were the top three rated export finance banks. KEXIM (4.4), KSURE (4.3), and UKEF (4.1) were the top two rated ECAs according to their exporters and buyers.

Introduction

A great deal of time and energy went in to trying to think of an opening paragraph that made no reference to Covid-19, but it was in vain. Having written multiple introductions, for multiple reports, there has always been a plethora of different themes or interesting pieces of data that I could draw upon to anchor the introduction. For this report, there was only one: Covid-19.

This is not because there is nothing else to talk about, but more because Covid-19 has infiltrated its way into everything else worth talking about. But unlike the Global Export Finance Industry Report 2020, which started far more downbeat than this report, there is some cause for optimism as the industry heads into 2021.

TXF Data shows that across 2020, $132 billion worth of export finance volume closed across 359 deals. If Covid-19 relief schemes are removed, this total deal volume drops to $114 billion. Comparing this to the last five years, 2020 ranks third, surpassed by the $138 billion closed in 2018 and $126 billion in 2016, but higher than 2019 and 2017, which closed at $107 billion and $82 billion, respectively.

For the first time in 2020, TXF Data also recorded a higher deal volume for renewable energy projects ($16.6 billion) than traditional power projects ($14.3 billion), topped by the largest offshore wind project financing ever recorded - the Bpifrance, EKN and GIEK-backed Dogger Bank wind farm off the north coast of the United Kingdom (UK). Africa, a region that has traditionally fared worse than its European and Asian Pacific counterparts, was the region with the highest total export finance deal volume, totalling $34.5 billion across 71 deals, the largest of which was the Mozambique LNG project financing.

However, questions remain.

What is the current market sentiment and how do the different industry sectors feel about the coming year? What are the greatest concerns for the different industry sectors going forward? What does the industry think of the Task Force on Climate-Related Financial Disclosures? To which regions and sectors will banks allocate their capital? What impact has remote working had on the export finance banks? What do the banks think of the ECA market? How, if at all, will ECA direct lending change over the coming 12 months? How does the current OECD Consensus constrain, or not, the ECAs? Who rated as the top export finance banks and ECAs over the last 12 months, based on their own clients' views and experiences?

This report explores all of these questions, and many more to present detailed insights on the export finance industry, after one of the most disruptive years it has experienced for many decades.

Aims and objectives

There were two primary aims to this research:

i. To present data on the latest market trends that have impacted the export finance industry over the past 12 months, and what to expect over the next 12 months.

ii. To present the banking and ECA heatmaps that are based on data collected from the clients of each institution type.

To do this, the following objectives were carried out:

• A quantitative survey for banks, ECAs, exporters and buyers active in export finance. These trends explore the views and experiences of each industry type, the challenges and potential disrupters that may impact each industry sector, the implications of these challenges, and how they plan to tackle them.

• Qualitative interviews with consenting participants to further explore and understand ***why*** the quantitative trends have occurred.

Methodology

The data in this report were collected using a mixed methodology research design that combined quantitative data collected through an online survey, with qualitative insights from experts in the field collected through email and telephone interviews. Together, the data presented in the report is an in-depth exploration of the latest market trends (quantitative), contextualised with detailed insights on ***why*** these trends are occurring (qualitative).

The survey

The survey data were collected using an online survey platform (SurveyMonkey) between October 2020 and January 2021. A group of experts spanning the banking, ECA and corporate sectors, all with a wealth of experience operating within the export finance industry were consulted, to ensure the survey questions were relevant, appropriately worded and detailed for the individual respondent types taking part in the survey[1].

No duplicate data from the same institution were included. If more than one respondent answered from the same institution, the scores were aggregated and then averaged. This approach ensured that every institution was weighted equally.

The interviews

To explain the quantitative trends, semi-structured interviews were conducted via phone and email with 20 consenting individuals. Participants were identified through a final question on the survey that asked if they wanted to be involved in a follow-up interview.

The topic guide for each respondent was based on their survey responses, ensuring that the interview remained focused. The interviews were conducted between October 2020 and January 2021. Telephone interviews were audio recorded and email interviews were kept on an encrypted hard drive. To protect the identity of the respondents, all qualitative data has been anonymised throughout this report.

TXF Data

TXF Data is the export finance industry's leading bespoke data platform for closed deal market information. TXF Data has been specially structured for the unique characteristics of the export finance market and has become the go-to resource for benchmarking, business development, trend analysis and secondary market loan distribution. Capturing approximately 75% of all deals that close in export finance, these data will add further context and understanding to this report's findings.

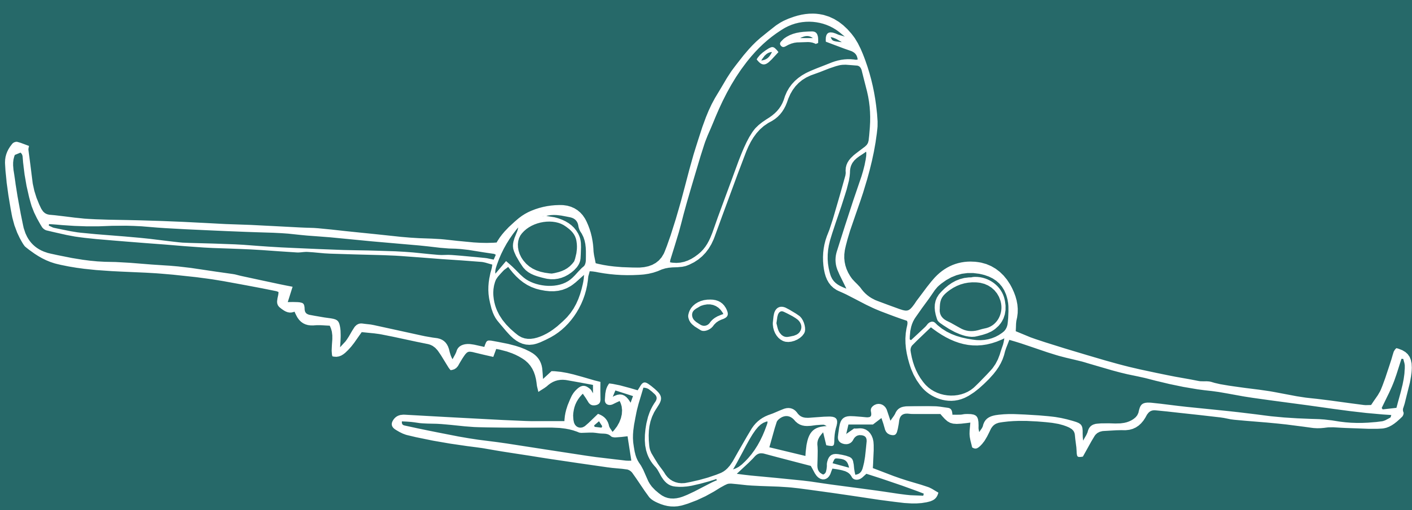
[1] There were four groups of respondents that took part in the survey: Bank, ECAs, exporters and buyers.

Findings

1. Background and demographics
2. Task force on Climate-Related Financial Disclosures: A blurred picture
3. The export finance banks: In focus
4. The export credit agencies: In focus
5. The exporters and buyers: In focus

Background and demographics

1. The respondents
2. Market sentiment



Top take aways

1. Across the total sample, approximately half have managed to keep the same number of staff working in their dedicated export finance teams. However, for those companies looking to increase the size of the export finance teams, 67% reported difficulties in identifying skilled staff who can take on the role.

2. Banks (54%) and ECAs (44%) were more likely than exporters and buyers to report a positive outlook on the current state of the export finance industry, with the latter opting for uncertainty as the overriding sentiment.

3. Looking forward to the next 12 months, banks (84%), ECAs (59%), exporters (63%) and buyers (78%) were more likely to report being in a healthy and profitable position moving forward than not. Bank and ECA positivity were largely being driven by the counter cyclical nature of export finance, namely, that when the economy is experiencing distress, export finance tends to perform strongly.

The respondents

A total of 452 individual respondents took part in the quantitative survey. Of these, 70% identified as either an exporter (57%) or a buyer (13%), 24% as a bank, and 6% as an ECA (figure 1). A combined 74% reported working as a global head/director (38%) or in a senior role (36%) within their organisation (figure 2).

Just over two-thirds of the total sample identified as having company headquarters within Europe, a finding that represents the European-centric nature of export finance, with the majority of the remaining organisations headquartered in Asia Pacific (22%) (figure 3). More than 80% of the respondents also identified as operating on an international level across all continents (figure 4).

Figure 1. *Type of respondents*

Figure 2. *Seniority of the respondents' role*

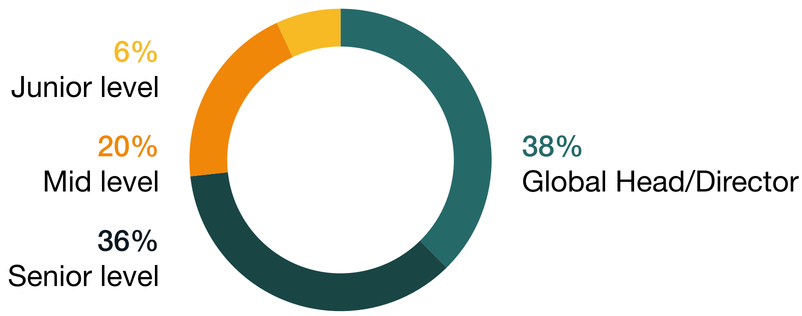


Figure 3. *Company headquarters*

Figure 4. *Geographical reach of the respondents' organisations/institutions*

When the respondents were asked about any changes in the number of staff who work on export finance-related activity, nearly half of the total sample noted that staffing levels had remained about the same as the previous 12 months (figure 5).

Across all of the interviewees, there was a common theme that the last 12 months have been very challenging, but that they have managed to manoeuvre effectively with the Covid19-relief schemes in place. One exporter explained:

"It has been tough… we have lost a couple of staff but they were contractors so actual full time, permanent staff – no we have not lost any… we used the government furlough scheme well, and now we are starting to see orders pick up we have reinstated everyone on a permanent basis." (Exporter; Europe)

Many of the exporters were also complementary of the additional ECA support they have received over the past 12 months, a finding reflected in closed deal market information. TXF Data shows that across 2020, ECAs supplied a total of $15.1 billion worth of liquidity loans, and an additional $1.7 billion worth of debt holidays.

However, despite the cautious optimism about the size of the export finance teams in place, for those companies looking to hire staff, just over two-thirds of the sample noted that they were finding it difficult to recruit skilled staff who have an expertise in export finance (figure 6).

Despite Covid-19 sharply contributing to the number of people out of work, one banker explained that the niche industry of export finance limits the pool of candidates they can hire:

"It takes time to understand export financing from a banks' perspective… we see a lot of young people wanting to get into banking, but rarely is export finance made aware to them… it is only a small part of our overall banking capabilities." (Bank; Europe)

For exporters and buyers, organisations where export finance is likely only a small part of their overall business, identifying skilled staff with a detailed knowledge of export finance is less of a concern. Furthermore, exporters and buyers are able to access the expertise and knowledge of the banks and ECAs they engage with, for any area of export finance they do not understand.

Consequently, for dedicated export finance teams operating within banks and ECAs, where intimate knowledge of the industry is fundamental to the role in order to be able to support their clients, identifying skilled staff is more of a challenge.

Figure 5. *Changes in the number of staff working in a dedicated export finance team*

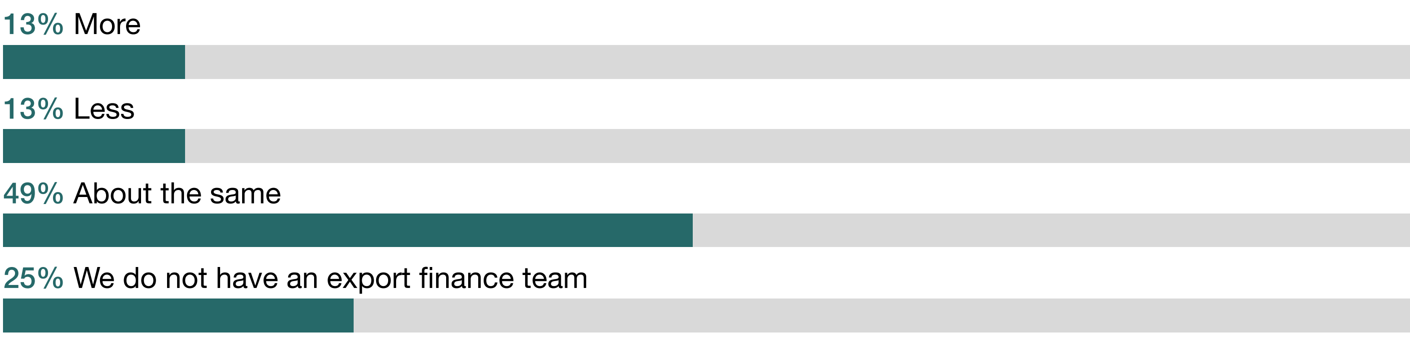
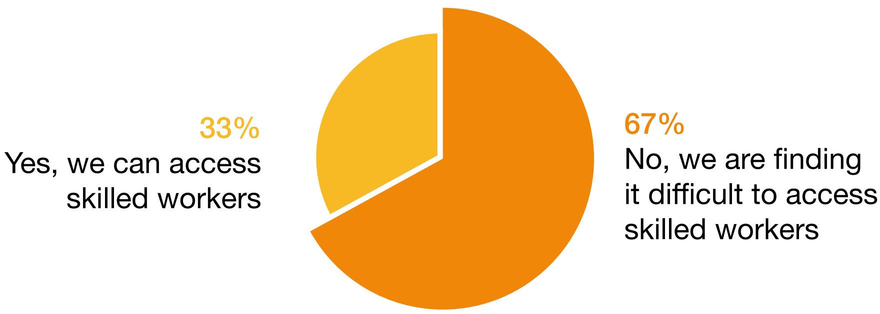


Figure 6. *Perception on whether the export finance banks are able to access skilled workers in the export finance industry*



Market sentiment

When the sample were asked to comment on which adjective best described the current state of the export finance industry, banks (54%) and ECAs (44%) had a fairly positive outlook (figure 7), as one banker explained:

"I am optimistic as even given the current circumstances, exporters kept winning mandates and RfP [request for proposals] kept coming in. There is also liquidity in the market, and government support is better than ever." (Bank; Europe)

One ECA commented:

"We have been busier than ever… too busy… we are seeing so many calls come into us for support… it is a good thing (from a business perspective). This whole Covid-19 pandemic as reaffirmed the importance of ECA support… we are optimistic about the year ahead." (ECA; Europe)

Fundamentally, commercial bank lending and ECAs are almost always involved in export finance in some form or other. Covid-19 has caused a number of issues for these industry sectors, but ultimately, they remain a key part of the export finance process. The same is not the case for exporters and buyers who are more exposed to supply chain disruptions.

This is why several of the exporters and buyers noted that the overriding sentiment was one of uncertainty (figure 7). This was being driven by complications surrounding the signing of contracts, precipitated by challenges arising from parts of the supply chain that were not able to operate, or were looking uncertain to fulfil their contractual obligations:

"The situation is very uncertain. Contracts under negotiation that were not signed before March 2020, will probably never get signed. Those that were signed will certainly be delayed or will be difficult to put into force in the near term, principally because there has been a shockwave through all parts of the supply chain." (Exporter; Europe)

"The next 12 months for us are uncertain because sovereign debts have increased sharply during the last two years. The biggest challenge for us in 2021 is to be able to put into force new contracts, because we don't know if we can supply what we have commit to… and we don't know if can be paid by our customers." (Buyer; Africa)

These respondents went on to say that the most likely outcome for the projects they are involved in will be delays, with some under threat of being cancelled.

The first half of 2020 was characterised by a wave of national lockdowns which, in turn, caused major delays and disruptions to supply chains, production facilities and construction sites globally (Guan et al., 2020). For the exporters and buyers interviewed for this report, these disruptions had a substantial knock-on effect on working capital and liquidity.

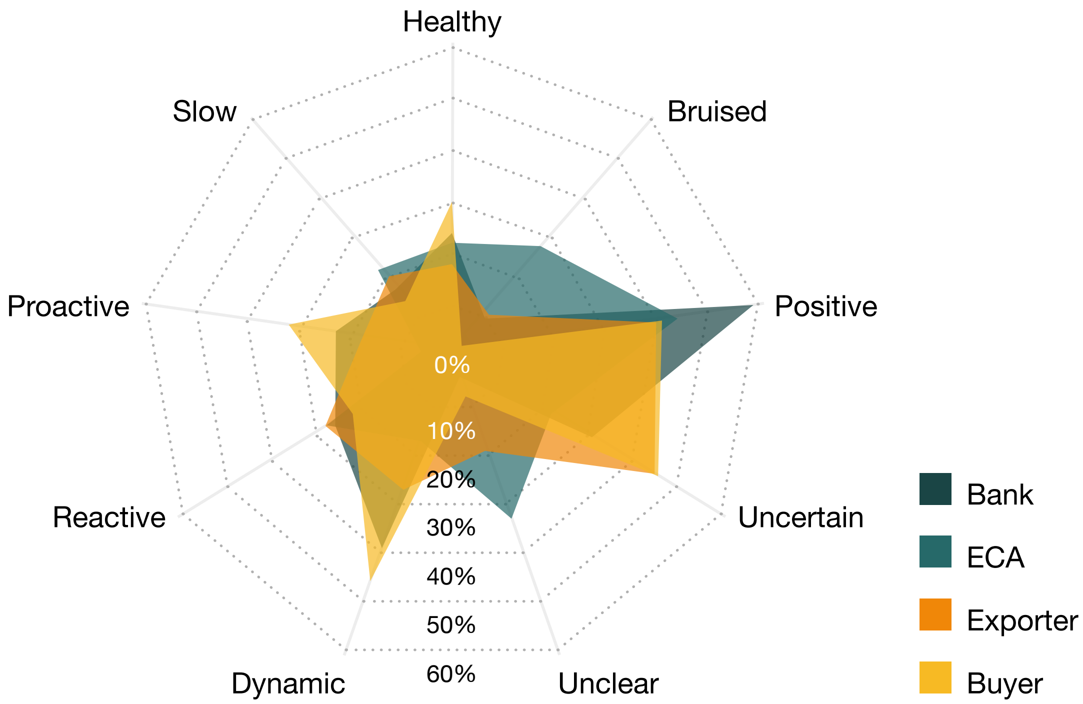
However, one exporter suggested that bank liquidity is being reserved for the largest deals, with SMEs and MMEs being overlooked:

"Major banks are reserving liquidity for their core clients, most of whom are usually the same clients. The SME world, and the MME world for that matter is not getting a look in or any extra support… Liquidity appears to be reserved for less deals with bigger tickets." (Exporter; Europe)

TXF Data suggests that this viewpoint has credence. For instance, excluding Covid-19 relief support, across 2020, TXF Data recorded a total of 359 export finance deals with a total volume of $114.3 billion. The top 15 deals accounted for 54% of this total, or $62 billion, with the largest deal being the $14.9 billion heavily ECA-backed Mozambique LNG project.

It is unknown if this is a conscious move by lenders or one that is coincidental. Regardless, if lenders are reserving liquidity for the largest tickets, it has two potential implications. First, the market is being concentrated across a handful of large deals, meaning that any shockwave across a small of number of these deals could have substantial ramifications for the entire export finance market. Second, it suggests that SMEs and MMEs involved in smaller deals may find it difficult to access commercial bank liquidity – a situation that may open the door to other forms of financing, such as ECA direct lending or non-bank lending.

Figure 7. *Industry views on the current state of the export finance industry by Type of organisation*



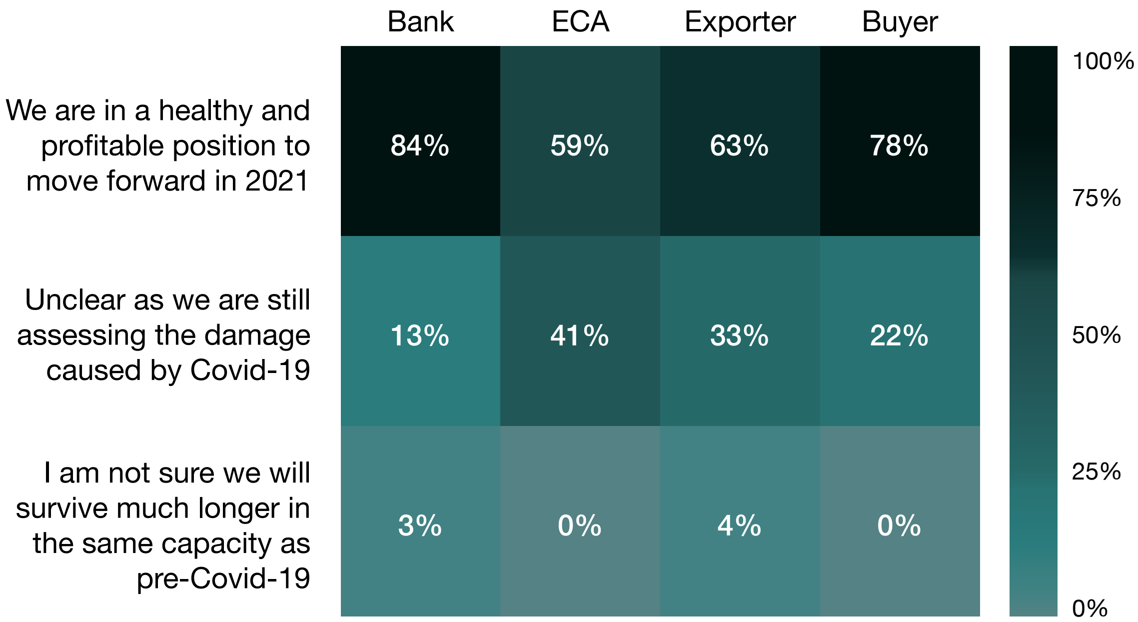
	Bank	ECA	Exporter	Buyer
Healthy	24%	22%	18%	30%
Bruised	10%	28%	11%	3%
Positive	54%	44%	40%	41%
Uncertain	31%	22%	45%	46%
Unclear	4%	33%	19%	8%
Dynamic	39%	17%	27%	46%
Reactive	26%	28%	28%	22%
Proactive	23%	6%	18%	32%
Slow	17%	22%	20%	14%

Looking forward to the next 12 months, banks (84%), ECAs (59%), exporters (63%), and buyers (78%) all reported being in a healthy and profitable position moving into 2021 (figure 8). Banks in particular had a buoyant outlook on their position which, as one European banker explained, was because during times of stress, export finance tends to perform well:

"There is an increasing demand on our export finance products. We offer financing for secure, large tickets deals, with long tenors for a price that is comparable with anyone else in the market… Export finance is the perfect product during times of uncertainty. Because of this, we are seeing our demand grow." (Bank; Europe)

The counter cyclical nature of export finance was repeatedly mentioned across all of the interviews, often with a sense of relief that at least one part of the deals they were collectively involved in had an ECA-backed tranche. It remains to be seen how this sentiment will unfold over the next 12 months, especially if travel restrictions remain in place.

Figure 8. *Health of the export finance industry by Type of organisation*



Task force on Climate-Related Financial Disclosures: A blurred picture

1. A brief overview of the Task Force on Climate-Related Financial Disclosures
2. The export finance industry and TCFDs: Signs of encouragement? Or ambivalence?
3. TCFD: Too Complex For Delivery
4. Does the export finance industry need to follow TCFD?

Top take aways

1. Banks (59%), ECAs (59%), and buyers (54%) were most likely to have some knowledge of TCFDs, with more exporters (51%) likely to have no knowledge of the framework. Moreover, when asked about their company's commitment to TCFDs, one-third of ECAs and exporters, 27% of buyers and 13% of banks do not currently follow TCFD reporting standards.

2. More than a third of the banking respondents and nearly half of the exporters and buyers have no intention to implement TCFD reporting standards at any point in the future. For those industry types that will look to implement TCFDs in the future, banks (31%) were most likely to do so within the next 12 months, while ECAs (45%), exporters (30%) and buyers (38%) were most likely to do so within one to three years.

3. Across the total sample of survey respondents, factors that may improve the uptake of TCFD within export finance are those that improve the ease with which the framework can be implemented. Nearly half of all the respondents (49%) note that the most important improvement would be more tools and support when conducting scenario analysis.

A brief overview of the Task Force on Climate-Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures (TCFDs) was set up by the Financial Stability Board (FSB), an international body that was established in 2009 by the Heads of State of the G20 countries. The FSB established a 32-member task force[2] to develop voluntary, consistent, climate-related financial disclosures that would:

"Help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities." (Financial Stability Board, 2017)

In 2017, the TCFD outlined its key features and recommendations[3], namely to ensure the TCFD is *adoptable by all organisations, is included in financial filings, is designed to solicit decision-useful, forward-looking information on financial projects,* and to have a *strong focus on risks and opportunities related to transition to a lower-carbon economy.* To meet these targets, four core elements were proposed:

[2] Spanning members from large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies.
[3] The TCFD publication is available here: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

To date, the 2020 TCFD status report noted that nearly 60% of the world's 100 largest companies follow TCFD reporting standards, led by energy companies and materials and buildings companies, and 1,500 companies globally now follow TCFD, including 1,340 companies with market capitalisation of $12.6 trillion and financial institutions responsible for $150 trillion in assets under management (TCFD, 2020).

The question remains: how well does export finance understand and implement TCFDs?

The export finance industry and TCFDs: Signs of encouragement? Or ambivalence?

Figure 9 shows that across the different respondent types, banks (59%), ECAs (59%), and buyers (54%) were most likely to have some knowledge of TCFD guidelines. However, approximately one-quarter of ECAs, one-third of banks and buyers, and more than half of the exporters had no knowledge of TCFDs. A recent report found that a lack of awareness of TCFD within companies is a barrier to it being rolled out on a more widescale basis (Marsh & McLennan Companies, 2018).

The qualitative data suggest a similar picture, with views ranging from those who have no knowledge of TCFDs, through to those who had some understanding of the guidelines. None of the interview respondents reported that their company actively follows TCFD guidelines, with many stating that their ESG-related targets were driven by their customers and stakeholders:

"We are not too familiar with the TCFDs. Our climate-related decision making is mainly driven by the needs of our end customers and other stakeholders." (Exporter; Europe)

Given that the TCFD guidelines are fairly new to global industry, it is perhaps unsurprising that the level of knowledge across the survey respondents was not especially strong.

Banks (52%) and ECAs (38%) were more likely to already be following TCFD guidelines, while exporters and buyers (both 46%) stated that they were unsure if they were following TCFD guidelines. Approximately one-third of ECAs and exporters, 27% of buyers and 13% of banks do not currently follow TCFD reporting standards (figure 10).

After the survey respondents received a brief explanation of what the goal of TCFD is, along with how these goals would be achieved, there was a somewhat ambivalent view as to whether each industry type would implement TCFDs in the future.

If companies are to commit to TCFDs, it will be the decision of senior management. Figure 11 shows that of those respondents who identified as a global head/director, more than a third of the banking respondents and nearly half of the exporters and buyers have no intention to implement TCFD reporting standards at any point in the future. For those industry types that will look to implement TCFDs in the future, banks (31%) were most likely to do so within the next 12 months, while ECAs (45%), exporters (30%) and buyers (38%) were most likely to do so within one to three years.

The qualitative data shows that there were four reasons behind a reluctance to implement TCFD guidelines in the future.

i. The fallout of Covid-19 has drawn the immediate attention of most companies, namely, to ensure they are able to continue operating in export finance long-term. This, one buyer noted, *"has taken up almost all of our time and energy"* and given that implementing TCFDs will require a substantial change in strategy and reporting, the guidelines were not a priority.

ii. Several interviewees noted that they will wait to see what others do in order to better understand the challenges posed by TCFD integration.

iii. It was noted that there were a number of different climate change-related initiatives, none of which can be considered the best framework for export finance.

iv. There was a reported lack of understanding of TCFD guidelines across the company which, in turn, fostered uncertainty; a barrier to implementing the framework.

For those respondents that reported currently following TCFD guidelines, most of the banks (79%), ECAs (75%), exporters (83%) and buyers (61%) noted that reporting does not require them to divulge confidential or sensitive information that may undermine the company's position (figure 12). One exporter noted that improved transparency is a positive of TCFD:

"It [TCFD] needs to find its way into export finance as soon as possible. A regulated product, with good experience in renewable energy, needs to be at forefront for decarbonisation… improved transparency on factors such as reporting can only be a good thing." (Exporter; Europe)

Figure 9. *Understanding of TCFD guidelines*

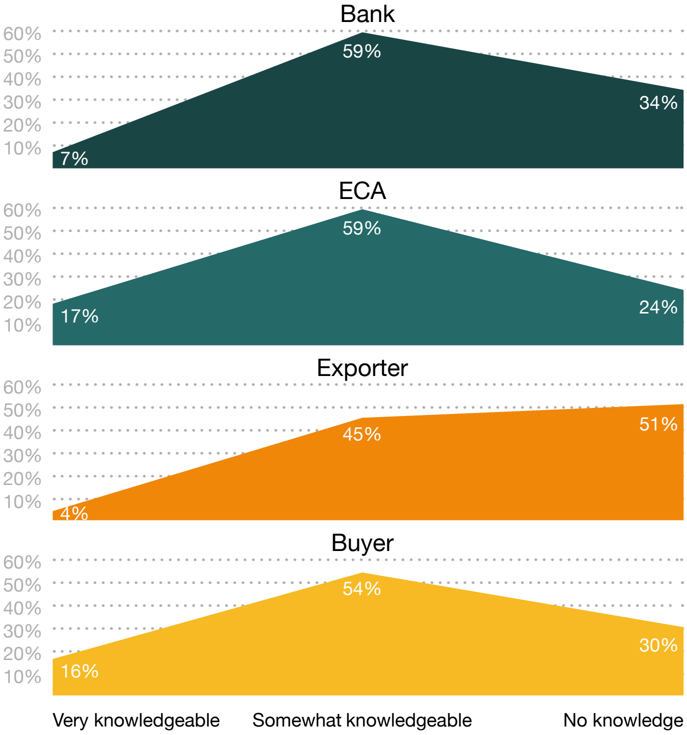


Figure 10. *Level of industry commitment to following the latest TCFD reporting guidelines*

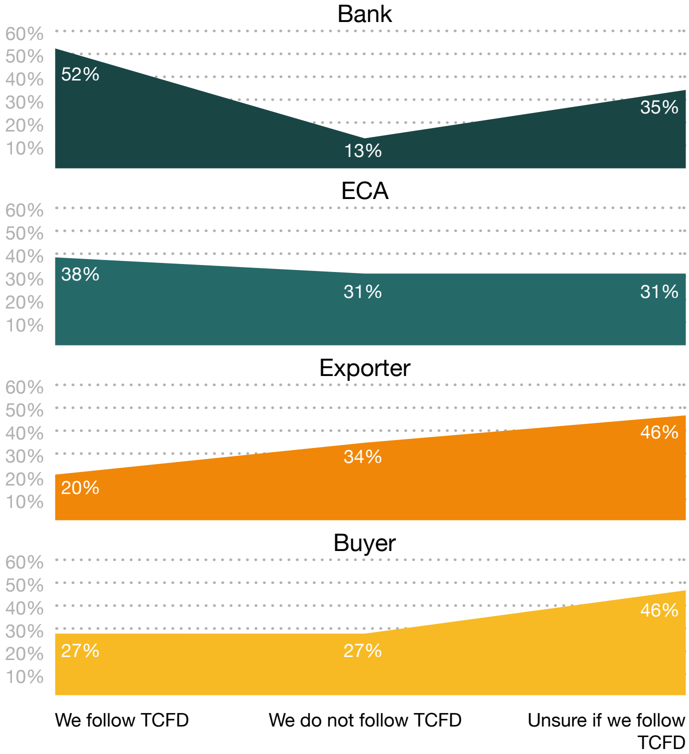


Figure 11. *Intention to follow the TCFD report guidelines in the future by global head/directors*

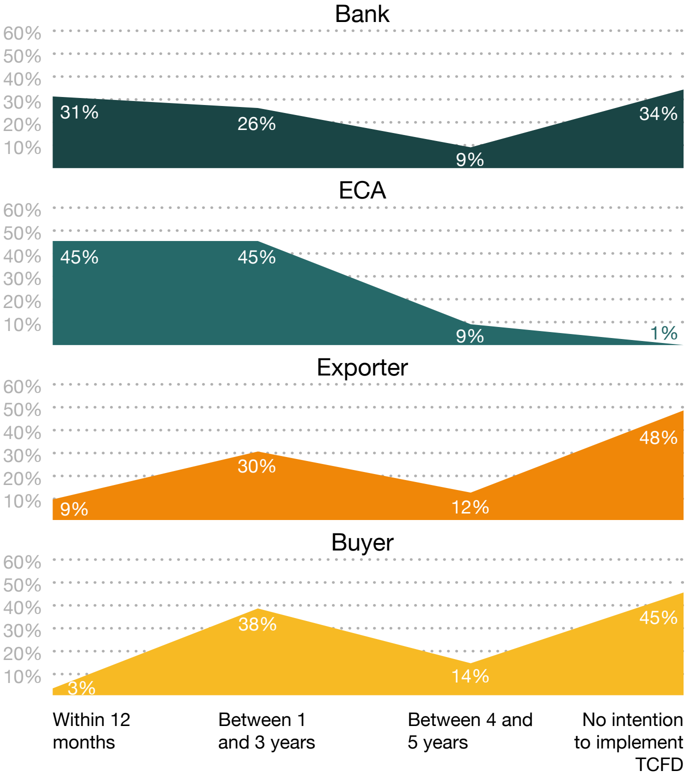
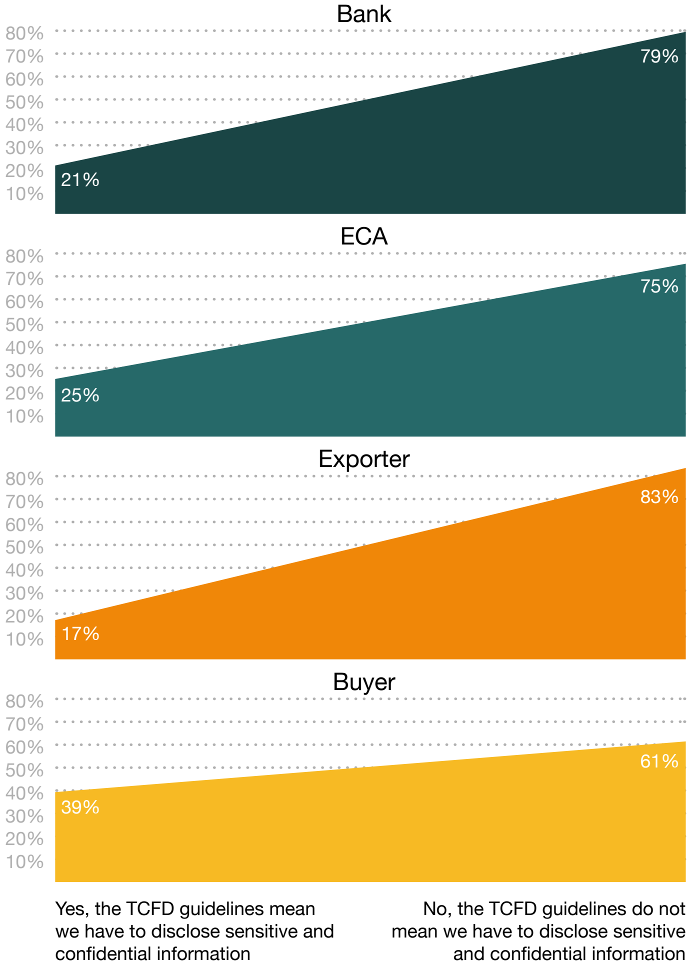


Figure 12. *Industry views on whether the TCFD requires organisations to disclose sensitive and confidential information that undermines their company's position*



TCFD: Too Complex For Delivery

Figure 13 shows a fairly ambivalent attitude towards TCFD, with a third of banks, 42% of ECAs, and more than half of all exporters and buyers noting that TCFD guidelines are a 'tickbox' exercise[4]. One exporter noted:

"It is not at the top of our list… it seems to me to require a companywide change in policy… we are an international company… if it happens, it won't be soon." (Exporter; Europe)

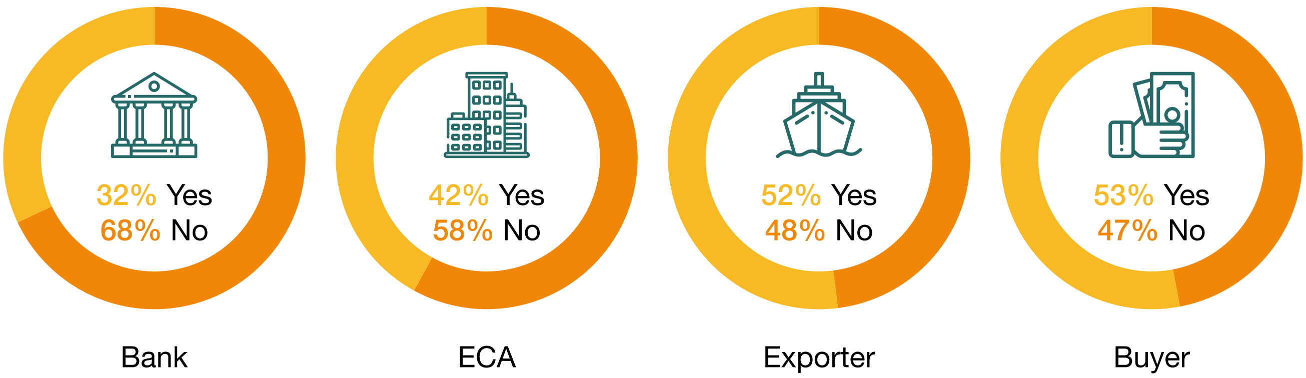
While a bank also pointed out:

"There are dozens of frameworks we are expected to follow… it is too much. I think we are strong on ESG… we do what we can but other things we just put to one side until we need to address it." (Bank; Europe)

The breadth and depth of the changes required to implement TCFD were a driving reason behind why the respondents had not considered TCFD more seriously. The top three rated factors that would improve the uptake of TCFD guidelines within export finance were best categorised as those that improve implementation efficiency. For instance, having more tools and supporting guidance on scenario analysis (49%), better integration with existing company reporting (42%) and to have more standardised procedures for reporting TCFD-related data (38%), would all make it more straightforward for companies to implement the guidelines (figure 14).

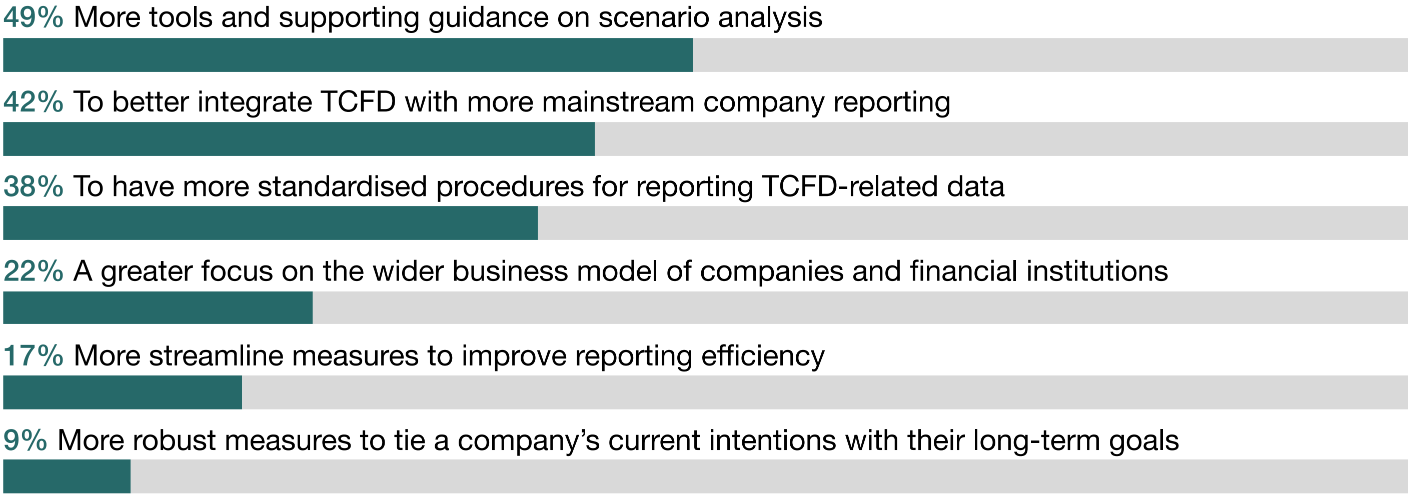
This report is not able to conclude if a more standardised set of reporting standards would improve commitment to the TCFD guidelines within export finance, but it is reasonable to conclude that any process that is more straightforward to implement, is one that will likely be considered more seriously.

Figure 13. *Industry views on whether or not the TCFD guidelines are a 'tickbox' exercise*



[4] A 'tickbox' exercise is a term used to describe a perfunctory activity that is primarily undertaken to meet (often overly) bureaucratic requirements.

Figure 14. *Factors that would improve the TCFD guidelines within export finance*



Does the export finance industry need to follow TCFD?

The TCFD is an important step in understanding the physical, liability and transition risks associated with climate change, but it does have its shortcomings. Ongoing issues with commitment from senior leadership, low employee engagement, the time and resources needed to fully integrate TCFD, and inexperience in undertaking effective scenario analysis to support TCFD reporting are all reported barriers to TCFD being implemented globally (Marsh & McLennan, 2018).

There also appears to be a scalability issue in terms of implementing TCFD. In its current format, TCFD appears to be aimed at the largest companies globally, with reputational kudos gained if they show a public commitment to the guidelines. However, for export finance, an industry comprised of thousands of much smaller companies, scaling down the framework so that it can be successfully implemented within these companies, could be a major hurdle. Moreover, there also appears to be no incentive for these smaller companies to implement TCFD which, given the time and resources it takes, is likely to also prevent it being taken up across export finance.

Add to this the ambivalence that appears to exist across the industry on understanding and committing to TCFD, it may be some time for it to become commonplace.

However, a more fundamental question remains: **Does the export finance industry need to implement TCFD?**

While the TCFD is another useful framework, it is not the first to explicitly report a goal of improving market transparency and stability, nor is it the first framework to advocate a set of reporting standards that are designed to encourage sustainable investments across different industry sectors.

TCFD is perhaps best framed as another useful set of guidelines that can utilised to further tackle climate change. A recent report by the United Kingdom's National Audit Office estimates that there are more than 200 international metrics to measure sustainability worldwide, each of which has their own set of parameters and indicators.

For instance, one of the most well-known frameworks is Sustainable Development Goals (SDG), a United Nations initiative that sets out 17 goals to "transform our world" (United Nations, 2015). Yet within the SDG, there are 231 unique indicators for companies to go ingest and implement.

To compound matters, no framework is considered industry-leading across export finance, and none provide a universally agreed definition of sustainability, what should be measured, or best practice for monitoring sustainability across the lifespan of the project. Many respondents referred to the specific initiatives they are implementing to become sustainable, but this was occurring in a fairly siloed manner.

Moreover, sustainability in export finance requires a more nuanced approach than what is currently being discussed. Developed countries are more likely to experience issues with climate change, which is arguably why sustainability tends to focus much more heavily on environmental issues. Yet in developing countries, climate change issues are accompanied by access water and waste management concerns, the provision of clean water, a lack of educational opportunities and social housing challenges to name a few.

While there was a great deal of enthusiasm for the export finance industry to become more sustainable, there was an overriding sense of inertia across the industry when it came to tackling climate change and implementing sustainable practices.

The export finance banks: In focus

1. Sector and regional activity and capital allocation: A look to the next 12 months
2. Optimism for aviation
3. While ships run aground
4. The cost of Covid on the cost of debt
5. Export finance banking in the age of remote working
6. The ECA landscape: A view from the export finance banks

Top take aways

1. Based on survey responses, renewable energy looks set to be the most invested in industry sector over the next 12 months, with an average capital allocation of $493 million. Europe looks set to be the most invested in region over the coming year with an average capital allocation of $582 million.

2. Despite a tough year for aviation 55% of the banks are to continue investing as normal in this asset class. However, the qualitative data shows that investment will be determined on a case-by-case basis, with ECAs playing a fundamental role. The shipping industry is in much hotter water and while there may be some investment in green financing for containment ships, the cruise ship industry is facing an uncertain year ahead.

3. A substantial 91% of the export finance banks reported being willing to provide more attractive financing for any sustainable deal, with 7.4 basis points reported as the average reduction in pricing. However, the qualitative data suggests that this is 'virtue signalling' from the banks and that sustainable deals will only appear more attractively priced, because the cost of non-sustainable projects will increase.

4. The export finance banks have largely responded well to working from home, with only some difficulties in training new staff virtually (3.4 out of five), originating new deals (2.9 out of five) and closing deals (2.5 out of five) virtually. However, there was a strong desire for remote working to end as the fundamental ingredient in successful export finance deals – **trust** – cannot be replicated virtually.

Sector and regional activity and capital allocation: A look to the next 12 months[5]

Across the sample of banks that took part in this survey, on average, renewable energy, infrastructure, and defence, are set to see the largest amount of capital allocation over the next 12 months, with $493 million, $449 million, and $427 million, respectively, invested in these industries (figure 15).

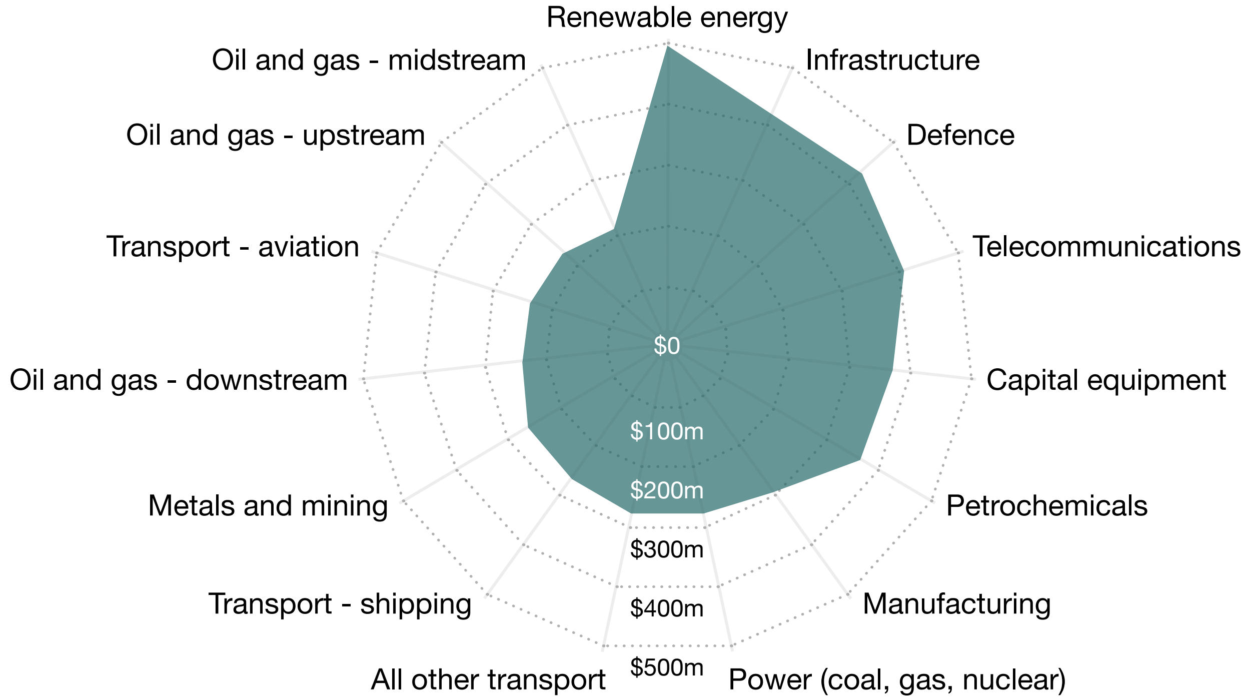
For renewable energy, this anticipated investment matches a strong year in 2020, where $16.7 billion worth of volume, split across 25 deals, closed[6]. The standout deal was the $7.3 billion Bpifrance, EKN and GIEK-backed Dogger Bank offshore wind farm in the UK, the largest offshore wind financing project to date.

Healthy levels of investment in infrastructure also comes on the back of a strong year in 2020, where $13.3 billion worth of deals, split across 59 deals, closed. The largest of these deals was the $2.1 billion UK Export Finance (UKEF)-covered loan for the Cairo Monorail Project, the largest amount of financing that UKEF has ever backed for an overseas infrastructure project.

Defence investment is a sector that tends to divide opinion, but it is clear that some countries are looking to increase defence expenditure. In 2020, US investments in weapons procurement and R&D were larger than China's total defence budget (Béraud-Sudreau, 2020); the UK has recently announced a £16.5 billion investment to UK defence (Sabbagh, 2020), supported by a £1 billion direct lending facility from UKEF over the coming four years (UK Export Finance, 2020); and the German Defence Minister is pushing to increase the country's defence expenditure by a further 10% (Sprenger, 2020).

[5] This section is based on data collected from respondents who identified as a bank only.
[6] Excluding all Covid-19 relief schemes

Figure 15. *Expected sector activity over the next 12 months*



Renewable energy	$493m
Infrastructure	$449m
Defence	$427m
Telecommunications	$408m
Capital equipment	$370m
Petrochemicals	$365m
Manufacturing	$294m
Power (coal, gas, nuclear)	$278m

All other transport	$278m
Transport - shipping	$266m
Metals and mining	$263m
Oil and gas - downstream	$240m
Transport - aviation	$236m
Oil and gas - upstream	$231m
Oil and gas - midstream	$213m

Looking at regional investment, across the survey respondents, Europe looks set to receive the highest average deal volume of investment over the coming year ($582 million), a trend that shows continual growth on a successful 2021 (figure 16). TXF Data shows that across 2020, Europe hosted 69 export finance deals with a total deal volume of $27 billion[7], the largest of which was the Dogger Bank offshore wind farm.

It is important to comment on Africa's relatively low position in terms of capital allocation – a position that contradicts prevailing opinion and the latest data. Africa had a strong year for export finance in 2020, with 71 deals closing at $34.5 billion – the highest region for export finance activity globally. The largest deal was the $14.9 billion, heavily backed ECA Mozambique LNG. ECA involvement included direct lending from US EXIM ($4.7 billion) and JBIC ($3 billion), plus five ECA tranches with guarantees from NEXI ($2 billion), UKEF ($1 billion), SACE, ($950 million), ECIC ($800 million) and Atradius ($640 million).

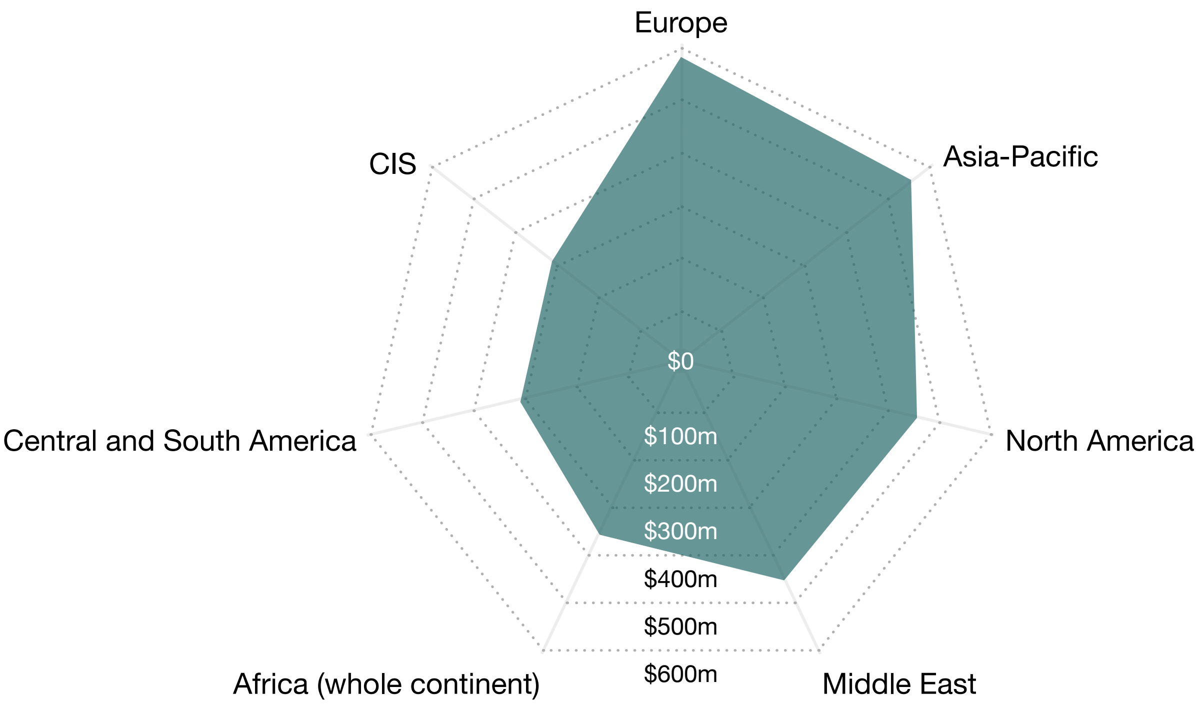
TXF Data shows that Africa's total export deal volume was $3 billion more than Europe, and a considerable $22 billion more than Asia Pacific, the second and third most active regions for export finance, respectively. One respondent summed up why Africa is likely to see high levels of investment:

[7] Excluding all Covid-19 relief schemes.

"Africa still needs a lot of development and with some countries having potential, but marred by poor ratings, it goes without saying that managing risk is a much greater challenge… but these countries with higher risk, have a huge amount of potential… Congo and Zimbabwe, for example. On top of this are the more economically and politically stable African economies - Botswana, Mozambique, Ghana and Kenya. Unlike Asia Pacific, there are still a lot of infrastructure and logistics opportunities that need developing in Africa."
(Exporter; Africa)

Post hoc analysis of the data shows that across the total sample of respondents, there was a low percentage of respondents who reported investing in Africa. It is unclear why this was, but the data on regional investment should be interpreted in the wider context of high level of recent export finance activity in Africa.

Figure 16. *Expected regional activity over the next 12 months*



Europe	$582m
Asia-Pacific	$558m
North America	$457m
Middle East	$451m
Africa (whole continent)	$357m
Central and South America	$313m
CIS	$313m

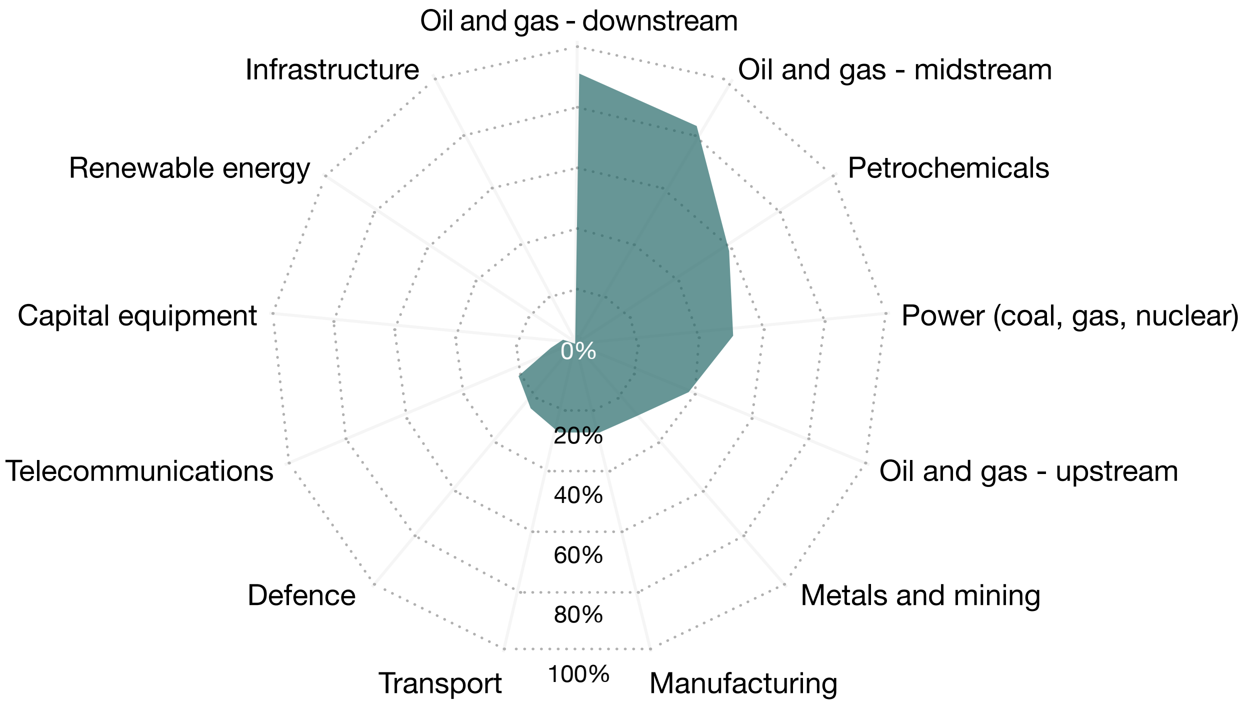
When banks were asked to predict which sectors will see the largest number of new deals being originated over the next 12 months, industries that have traditionally always drawn on export finance scored highly. A substantial 91% and 83% of the banks believe that oil and gas downstream and midstream will see high levels of export finance activity, respectively, 59% in petrochemicals and 50% in traditional power. Conversely, renewable energy (6%) is set to see very few new deals originated over the coming 12 months (figure 17).

Interpreting these data long with figure 15, enables this report to conclude the following: 2021 could be set to see a small number of renewable energy projects being financed, but each will be large in total deal volume, while many oil and gas projects are set to close in the export finance industry, but at much smaller deal volumes.

The interview data suggests that this is because oil and gas is a very familiar, and therefore perceived as safe, sector to invest in:

"We know it [oil and gas] well… and despite the move towards renewables, there are still a wealth of oil and gas projects to finance… we need to consolidate on what we have before we look to other [less familiar] industries." (Bank; Europe)

Figure 17. *Banks' perception on which industry sectors will see most new deals originated over the next 12 months*



Oil and gas - downstream	91%
Oil and gas - midstream	83%
Petrochemicals	59%
Power (coal, gas, nuclear)	50%
Oil and gas - upstream	38%
Metals and mining	29%
Manufacturing	27%

Transport	27%
Defence	24%
Telecommunications	21%
Capital equipment	8%
Renewable energy	6%
Infrastructure	3%

Optimism for aviation

TXF Data shows that in 2019, there were a total of 12 aviation deals with a total deal volume of $1.66 billion. In 2020, 14 deals were recorded with a total deal volume of $2.9 billion. None were identified as Covid-19-relief export finance activity.

Despite the turbulent time that the aviation industry faced in 2020, 55% of the banks surveyed plan to continue investing as normal in aviation (figure 18), albeit, one bank noted, with *"a heavy ECA presence."*

A recent publication by Ishka, one the industry's leading providers on aviation news and data, concluded in their 2021 market forecast report that the future of aviation depends on where investors are positioned. For those already invested in airlines, lessors or aircraft, reduced revenue and restricted demand will exert pressure on any business that has not fully reformed its cost structure to fit. These problems are compounded for relatively new investors that entered aviation at its peak.

However, with prices at much lower levels than have been seen for some time, there is an upside for existing investors, with opportunities available to invest and accelerate their fleet upgrades. For new investors or start-ups, be they airlines or lessors, they should be able to take advantage of low asset prices and lease rates (Ishka, 2021).

Figure 18. *Anticipated level of activity in aviation over the next 12 months*

While ships run aground

Shipping is not predicted to fare as well as aviation. In 2019, TXF Data recorded a total 42 deals with a volume of $14.4 billion, the largest of which was a $2.9 billion Euler Hermes and Finnvera covered loan for vessel acquisition by Genting Hong Kong. In 2020, a total of 38 deals were recorded with a combined volume of $4.7 billion – a 67% reduction in deal volume. Of this total, 28 deals, with a total deal volume of $1.5 billion were identified as Covid-19 relief schemes.

Despite this drop off in activity, 49% of the banks surveyed not that they will continue investing in shipping as normal (figure 19). One banker explained that their involvement in shipping will be on a case-by-case basis and, like aviation, will have a heavy ECA presence:

"It is no secret that some areas of shipping have been hit hard by Covid-19. Even strong and healthy companies cannot work with little to no revenues. While we expect that the old strength will return in the long run, we plan to selectively support our long-term clients in realizing new deals on a case-by-case decision in the near future... ECAs will be a big feature of any shipping deal we do" (Bank; Europe)

It is important to note that while the data in this report suggests that nearly half of the banks plan to continue investing in shipping as normal, 51% are partially pulling back (36%) or completely moving away from shipping for the foreseeable future (14%) (figure 19).

Cruise ships is an industry that appears to be some way off returning to normal. There are no planned new builds on the horizon for any supplier and the recent $1.05 billion debt holiday for 14 ships owned by Royal Caribbean is a sign that the cruise ship industry has a bleak future. Ovation of the Seas is also looking to defer an Euler Hermes-back loan of approximately $90 million of principal amortization payments due to between May 2021 and April 2022 (Kalosh, 2021). The outlook appears a little brighter for container shipping where green facilities are being provided for new ships. In February of this year, German manufacturer Hapag-Lloyd sealed green financing for six dual fuel 23,500 tonne ultra large container vessels, to be paid in two different transactions. The first transaction is a $417 million 11-bank strong syndicated loan backed by Korea Trade Insurance Cooperation. The second transaction is being financed by a leasing structure with China's ICBC for $472 million (Rowles, 2021).

Figure 19. *Anticipated level of activity in shipping over the next 12 months*

The cost of Covid on the cost of debt

Despite a challenging year for the export finance industry, the banks reported being in a strong position. Figure 20 shows that nearly all of the banks are able to fund the full tenors they are offering, a sign that the yield on ECA assets is high enough to cover, with 75% of the banks confident that they will be able to generate healthy margins above the cost of debt (figure 21). The qualitative data suggests a more muted sense of optimism, with margins driven more by a reduction in cost of funds, rather than healthy margins:

"If banks are making a healthy 'margin' in 2021, to me, it indicates lower funding costs or perhaps alternative funding. I do not see margins going up." (Bank; Asia Pacific)

Figure 22 lends weight to this conjecture, with a combined 86% of the sample either strongly agreeing (24%) or somewhat agreeing (62%) that the top performing bank at the end of 2021 will be the one with the lowest cost of debt:

Figure 20. *Ability to fund for the full tenors being offered by our bank*

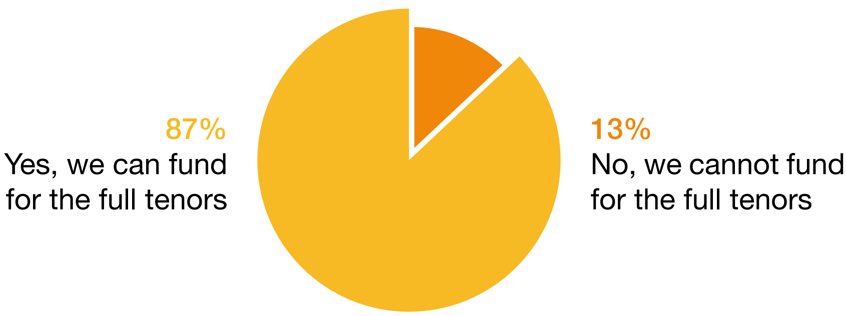


Figure 21. *Ability of export finance banks to make a healthy margin above the cost of debt*

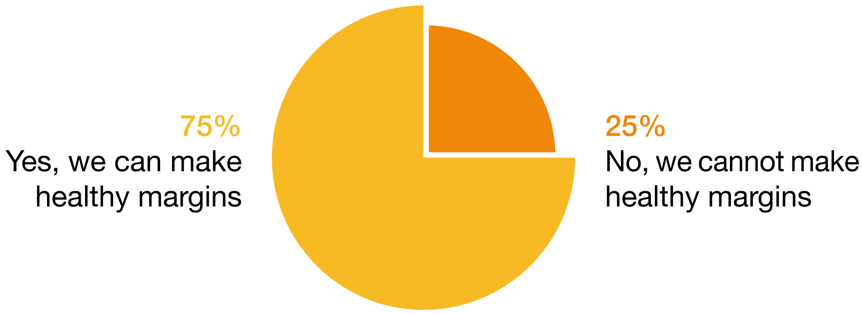
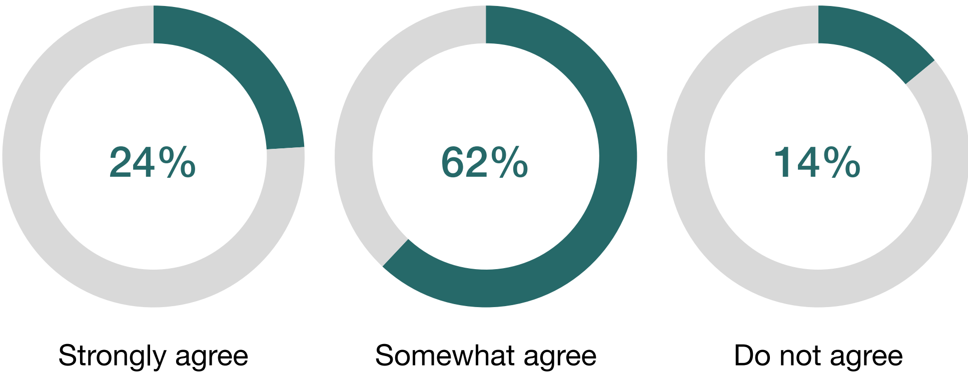


Figure 22. *Banks' perception on the following statement: "The best performing export finance banks over the next 12 months will be those with the lowest cost of debt."*



A significant 91% of the export finance banks surveyed noted that they would be willing to provide more attractive financing for sustainable projects (figure 23), with the average reduction in price being 7.4 basis points (figure 24). This is an encouraging sign for reducing the carbon footprint of the export finance industry.

However, the qualitative data suggested that this is a sign of the banks 'virtue signalling' and that green loan terms only look more favourable, because non-green pricing is deliberately made more expensive:

"There is a lot of virtue signalling when it comes to sustainably-related price reduction. Banks have been working on ways to be seen to be going green for a long time, but I would not have thought there is too much in the way of favourable terms. Credit risk is credit risk whether it is green or not. It all depends on how you define favourable terms.

One way is to worsen the terms for non-green scenarios, so relatively the terms for green are favourable. If bank credit models start having a green factor that allows superior returns the regulator will not like it. Banks may be dressing it up as preferential for green." (Bank; Europe)

The latter point on increasing the price of non-green financial products so as to present the illusion of green deals being more favourably priced, featured elsewhere in the interviews. Some suggested that it was done to win new clients, while other suggested it was done to outwardly demonstrate commitment to sustainable practices.

Another bank also mentioned that the cost of funding for sustainable projects could actually be higher than non-green projects:

"It will be challenging to offer better pricing to a customer just because the loan is classified as "sustainable finance". The internal cost might even be higher if that label "sustainable finance" needs to be verified by each lender on the project. The necessary review of documents might be time consuming and additional due diligence might be required.

New technologies might lead to higher investment volumes and especially transactions in the renewables energy sector might require longer tenors which leads to a higher risk – and higher margins. It would be different, if for example an ECA would increase its cover quota or lower its premium for sustainable finance transactions. In that scenario, we feel comfortable *that banks could pass on savings to its customer."* (Bank; Europe)

The scepticism across the banking interviews did give way when discussing the fundamental need for schemes and initiatives to promote sustainability in export finance. There was a common sense that sustainability is becoming more engrained within export finance culture, and that for many banks, it is a concept that is starting to take root in banking governance.

Figure 23. *Willingness of the export finance banks to provide more attractive financing for sustainable projects*

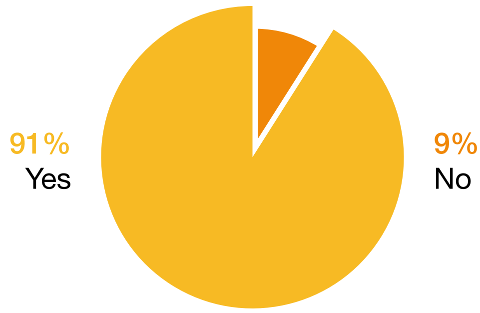


Figure 24. *Average number of basis points the export finance banks would be prepared to forgo in favour of a sustainable project*

7.4 basis points

Export finance banking in the age of remote working

The national lockdowns and travel bans brought on by Covid-19 have precipitated a global 'working from home' initiative that has never been seen before. KPMG (2020) found that for banks, extended periods of working from home increases the threat of fraud and cyber-attacks as work is being done on unsecured internet connections, calls going unrecorded, and work being improperly logged. Coupled with these challenges are the wider issues of people having to manage childcare, home school their children, and, most importantly, issues with mental health.

When the banking respondents were asked about their experiences of working from home, training new staff, originating new deals, and closing deals via video conference were all somewhat difficult (figures 25, 26 and 27), findings one banker reflected, were because some activities could not be replicated virtually:

"Some things can be done virtually with very little problem – writing reports, reading documents and even having weekly meetings… but originating and closing deals normally involves visiting the site multiple times, discussing the plan, in detail, face to face and, a lot of the time, closing deals over a meal… virtual working just does not work for some things." (Bank; Asia Pacific)

Figure 25. *Perceived difficulty of training new staff while working remotely*

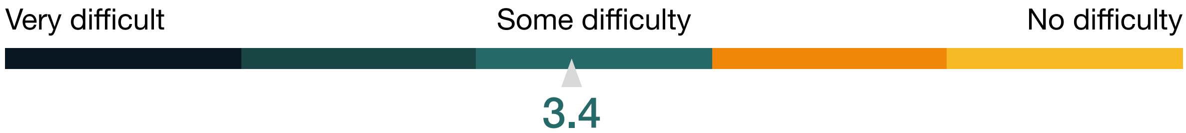


Figure 26. *Perceived difficulty of originating deals using video conferencing*

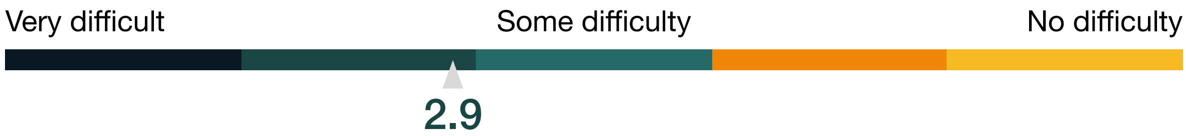
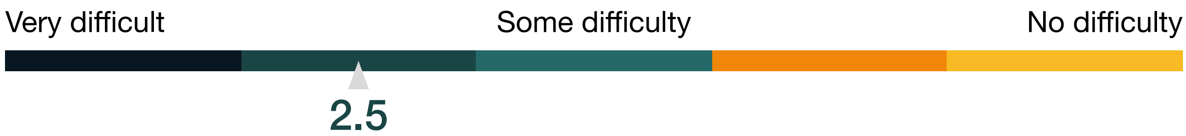


Figure 27. *Perceived difficulty of closing deals using video conferencing*



Looking beyond 2021, the banks were less optimistic about their ability to identify new deals, from new customers, with 14% citing it as a very difficult task, and 66% as somewhat difficult (figure 28). Several suggested that this was because fundamentally, export finance is a relatively small industry, with a finite number of banks and borrowers involved. Moreover, with regulators forcing the banks to better manage their non-performing loans (and to sell them at a loss if necessary), the list of potential projects that a bank can consider is diminished further *"if it is not the right ticket size."* Consequently, there are only a limited number of deals that banks may consider.

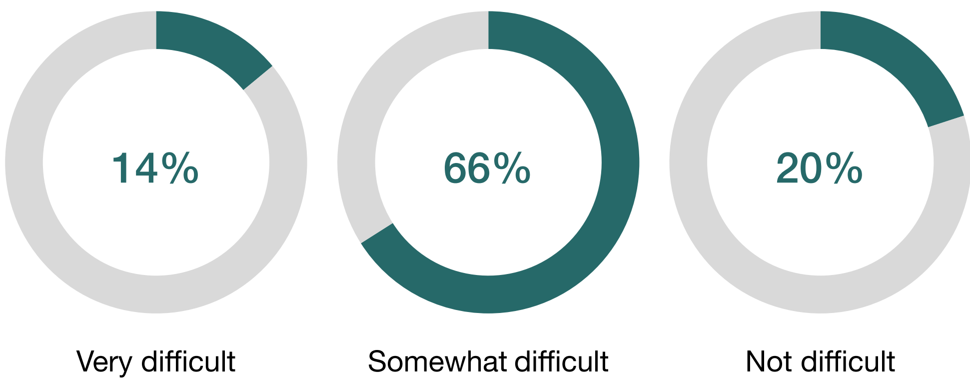
However, another reiterated that the essential ingredient in embarking on a new deal with a new customer is **trust**; a trait that is difficult to establish virtually:

"In export finance you are talking about large volumes and this is a business based on trust. Trust has to be created and this is much more challenging over the phone or in a video conference. In some cultures, you are not even allowed to speak about certain details until you have met someone several times in person.

Therefore, it is easier to identify a new transaction with an existing client and to process the transaction even in distance on a digital basis… new deals with new clients is much harder. Nevertheless, the current situation is a learning curve for all parties involved and might change the acquisition strategy of banks and clients in the future." (Bank; Europe)

A common theme that all of the banking interviewees agreed on, was that working from home is not a long-term solution for export finance, and that as soon as it is safe to do so, returning to the office will be more beneficial for the industry.

Figure 28. *Perceived difficulty of identifying new deals, from new customers, beyond 2021*



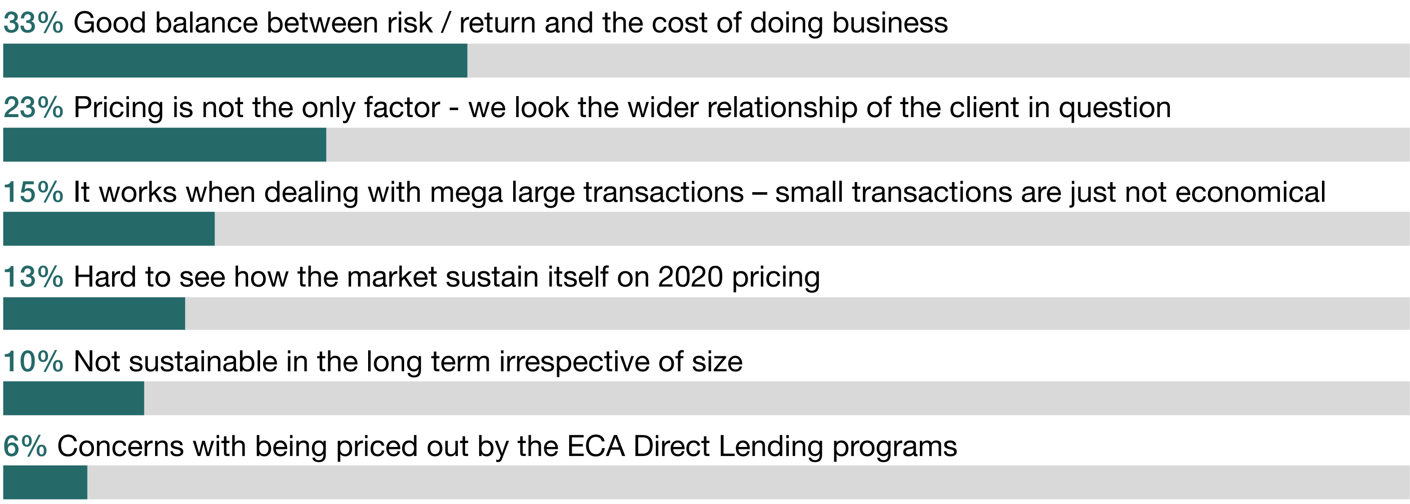
The ECA landscape: A view from the export finance banks

When the banks were asked to comment on ECA pricing across 2020, a third of the banks reported that they felt the ECAs established a good balance between the risk and return associated with export finance (figure 29). Just 6% of the banking respondents reported a concern from being priced out by ECA direct lending, a facility that was traditionally implemented to prevent a lack of commercial bank liquidity.

A recent report by TXF Research[8] found that exporters and buyers will look to ECA direct lending over the coming 12 months as the commercial interest reference rate (CIRR), the interest rate at which ECAs price their direct lending facilities, is so low. At the time of writing[9], the US Dollar CIRR for >8.5 year repayment term was 1.77%, with the Euro CIRR for the same term rate even lower at 0.34%[10]. Comparing this to the CIRR pre-Covid-19, under the same repayment terms, the US Dollar was 2.79% and the Euro was 0.61[11]%.

While bank pricing is rarely revealed, the cost of debt is generally much higher, as they have to factor in KYC ('know your client) and KYCC ('know your clients' client) checks, anti-money laundering checks[12], fees, and margins. Consequently, ECA direct lending at lower interest rates, could be an attractive proposition for exporters and buyers that struggle to obtain commercial bank loans.

Figure 29. *Banks' perception on ECA pricing in the market during 2020*

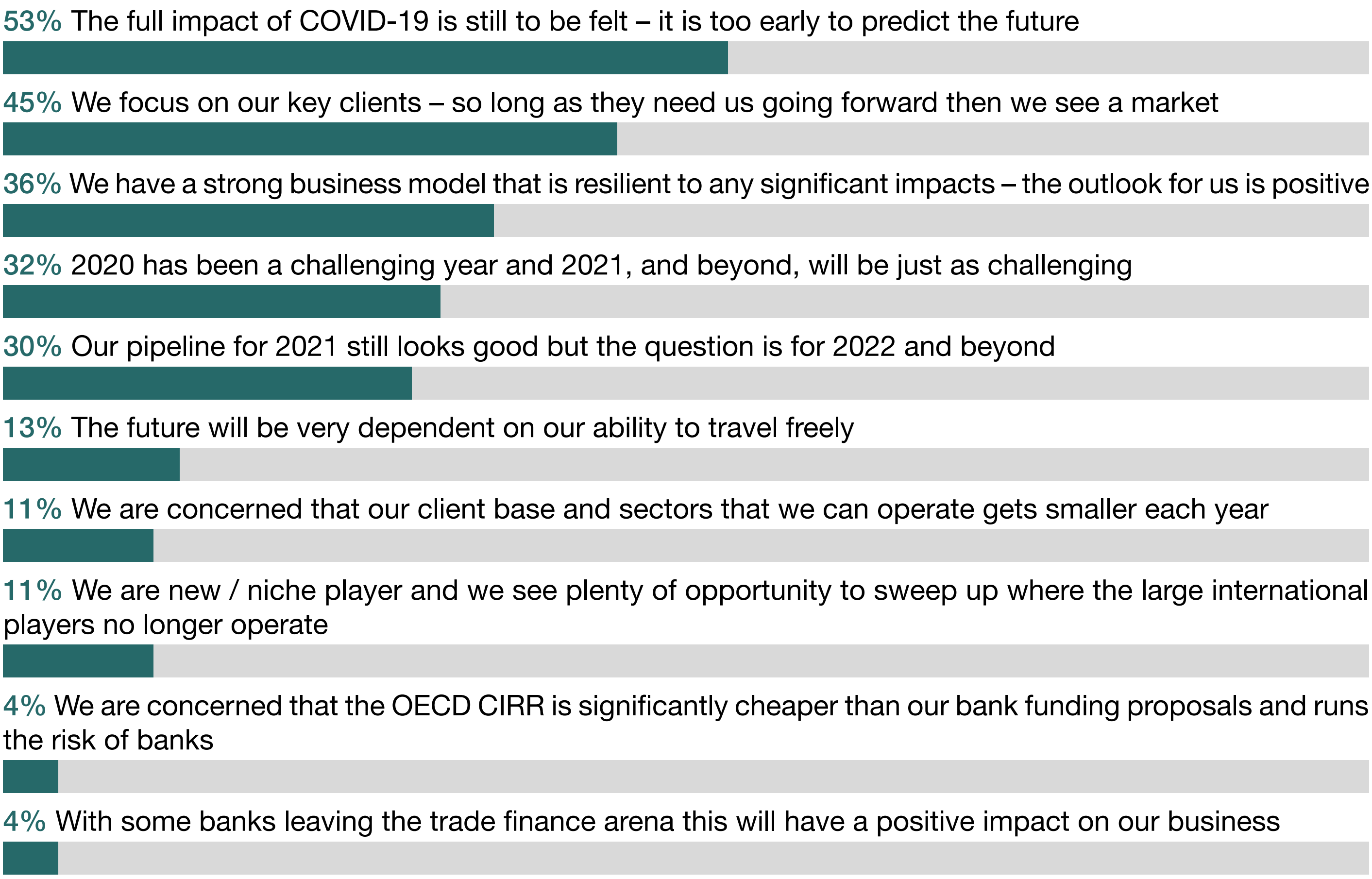


Looking forward to how the banks believe the ECA market will unfold in 2021, more than half think that the full impact of Covid-19 is still to be felt (figure 30). There was an air of uncertainty over which specific policies and protocols the ECA industry will unfurl over 2021, principally, because the fallout of Covid-19 is still to be determined. However, the banks were clear that whatever role they play, it will be an important one:

"The majority of ECAs reacted very quickly to the obvious impact suffered by a number of industry sectors. Once identified, the ECAs proactively sought fast solutions that have, to certain extent, assisted with keeping vulnerable companies in aviation and cruise away from bankruptcy. There have, of course, been a number of high profile casualties but these also required host government support, which was not always available... going forward, they will have to operate with the same level of ingenuity and speed in order to support their clients." (Bank; Asia Pacific)

[8] A closer look at the ECA landscape. TXF (2021).
[9] 15th February 2021
[10] Obtained from the OECD official release on the 8th February 2021. Retrieved from: https://www.oecd.org/trade/topics/export-credits/documents/cirrs.pdf
[11] Accessed via OECD archives: https://www.oecd.org/trade/topics/export-credits/documents/xls-historical_1993_today.xlsx
[12] This report acknowledges that ECAs also have to closely monitor KYC, KYCC and AML

Figure 30. *Banks' perception of how the ECA market will unfold during 2021*



The export credit agencies: In focus

1. Time to take a breath: Where the ECAs are now
2. Direct lending to challenge commercial bank lending?
3. The intricacies of CIRR
4. The OECD Consensus: The not so level playing field
5. ECAs and sustainability: Kicking the recyclable can down the road

Top take aways

1. A combined 85% of the ECAs surveyed reported an increase in the number of deal restructurings they have been involved in over the previous 12 months, a consequence of Covid-19 placing significant strain on their national exporters.

2. Just over 40% of the ECAs surveyed noted that they do have flexibility to access the CIRR with unlimited capacity. Moreover, 30% noted that they do intend to increase the level of direct lending on offer to their clients.

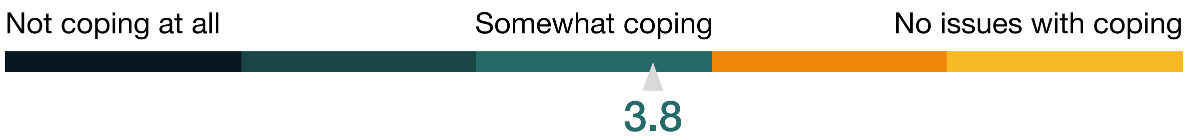
3. Most (82%) of the OECD Member ECAs reported no flexibility in being able to undercut the OECD Consensus. However, when the ECAs were asked about their perception of how the OECD Consensus was being undercut, longer tenors (45%), 100% content cover (40%), and pricing terms that fall below the minimum interest rates stipulated by the OECD Consensus (20%), were reported.

Time to take a breath: Where the ECAs are now

Figure 31 shows that despite one of the most challenging years that the ECAs have faced for some time, they are relatively positive about how they are coping in the current export finance industry (figure 32). This, one of the ECAs explains, is because their demand has never been higher:

"Needless to say, we have had so many clients contact us… not all to ask for debt holidays or payment relief, but many just enquiring as to what they are and are not entitled to. There are often not enough hours in the day!"
(ECA; Europe)

Figure 31. *Perception of how well the ECA industry is coping in the current export finance industry*



Across the ECA respondents, nearly 40% have been dealing with more sovereign and financial payment defaults (figure 32), a stark reminder that despite the size and external rating of many of these institutions, Covid-19 has impacted every part of the export finance industry.

Perhaps unsurprisingly, a combined 85% of the ECAs surveyed have seen an increase in the level of deal restructurings they have been involved in over the past 12 months (figure 33).

TXF Data shows that excluding Covid-19 relief deals over 2020, of the total $114 billion closed, ECAs were involved in the refinancing of $15.7 billion across 11 deals, with the largest being the heavily ECA-backed $8.2 billion Ichthys LNG refinancing. Looking specifically at Coivid-19 relief deals, $1.8 billion split across 38 deals were refinancings, almost all of which was in transport ($1.72 billion).

It is important to caveat these findings by stating that while there is overlap between restructuring and refinancing, without knowing the details of all the deals that TXF Data records, it is difficult to conclude that all refinancings were actual restructurings, and vice versa.

Figure 32. *ECAs' views on sovereign and financial institution payment default rates*

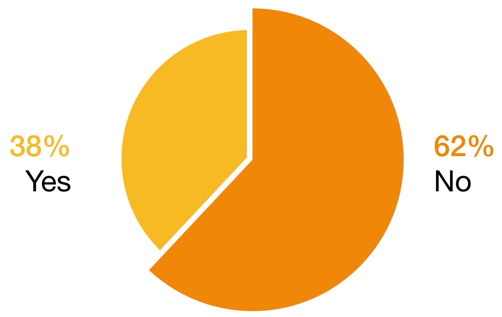
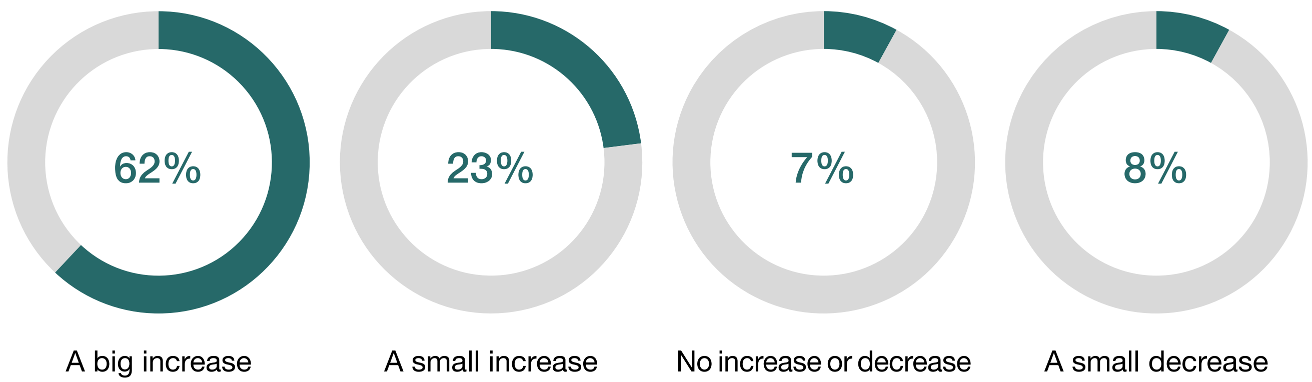


Figure 33. *Changes in the level of deal restructurings*



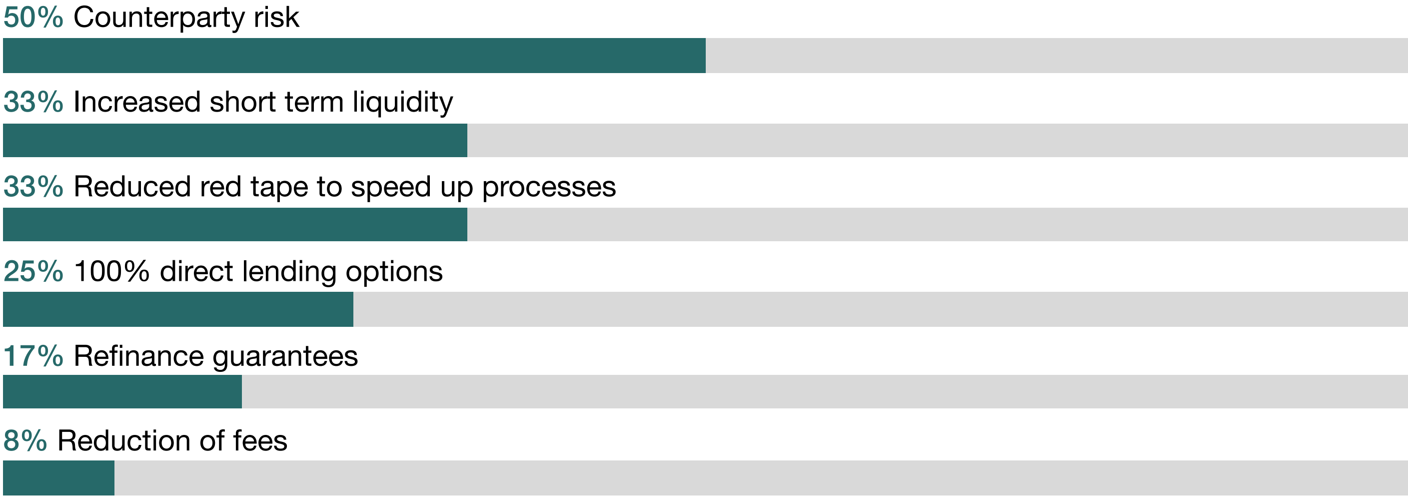
When the ECAs were asked about the products they have mostly been delivering to support their exporters and buyers through Covid-19, counterparty risk (50%), increased short term liquidity (33%) and a reduction in red tape to speed up processes (33%) were the top three (figure 34).

A recent report conducted by TXF Research (2021)[13] that looked specifically at the ECA landscape found that the most valued ECA products by exporters and buyers were also increased short term liquidity, improved counterparty risk terms and conditions and a reduction in red tape to speed up processes. This suggests that ECAs are catering to the needs of their clients, as one exporter commented:

"They have been excellent throughout [Covid-19]… they have always addressed our needs quickly… they have definitely softened the blow."
(Exporter; Asia Pacific)

[13] A closer look at the ECA landscape. TXF (2021).

Figure 34. *ECA products being delivered to support corporates through the Covid-19 pandemic*



Direct lending to challenge commercial bank lending?

Just over 40% of the ECAs surveyed noted that have unlimited capacity to access the CIRR (figure 35) with 30% citing that they intend to do more direct lending in the future (figure 36).

Figure 35. *Flexibility of the ECAs to access with CIRR rate with unlimited capacity*

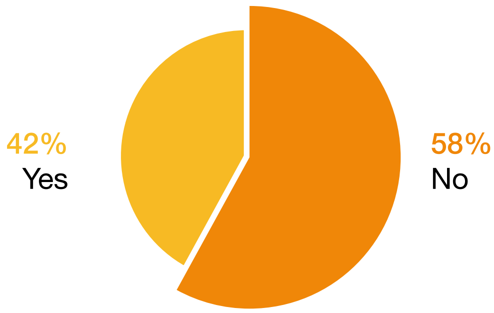
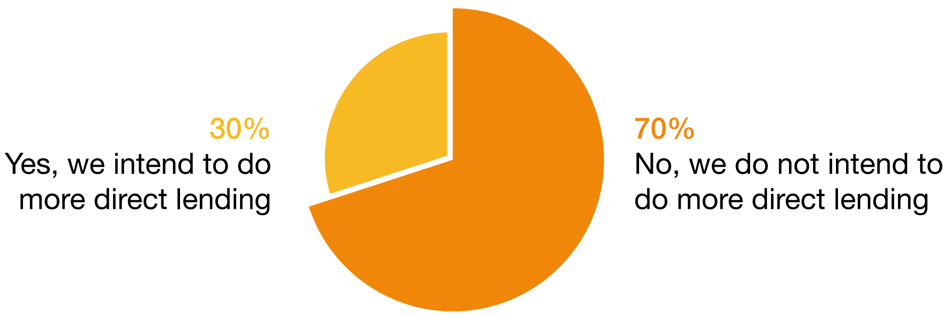


Figure 36. *ECAs views on the future of their direct lending programmes*



Those interviewees who had an interest in accessing developing markets, were particularly interested in accessing more ECA direct lending schemes in the future:

"We want more direct lending. This is because in developing economies, we believe that ECA direct lending will still be one of the best ways to finance and deliver the projects – more so than other finance structures under the current context." (Exporter; Europe)

"ECA´s involvement and efforts over the last year have been great. Those ECAs with direct lending capabilities will receive more applicants because of the effectiveness and umbrella effect in emerging and frontier markets." (Exporter; Africa)

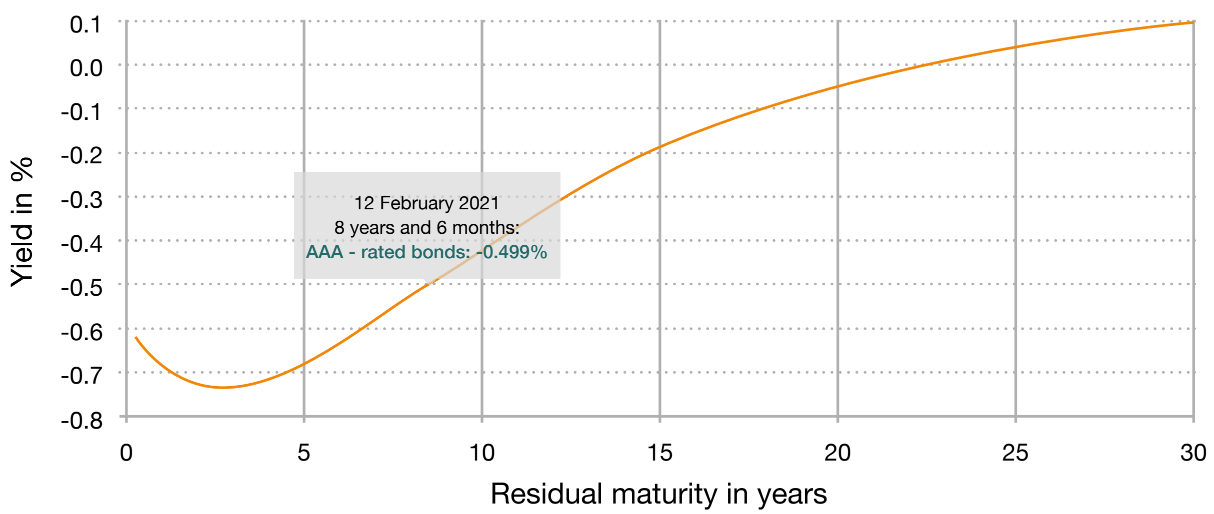
ECA direct lending was traditionally introduced to fund certain projects on a fixed rate basis (for example, the UK and the US) or small deals, and to cover sectors and regions where commercial banks were reluctant to be involved. However, more recently, direct lending has started take on a more prominent role as a form on financing that can challenge bank lending. The driving reason behind this: ECA direct lending is cheaper than bank lending because of the reference rate used to price ECA direct lending. That reference rate is the commercial interest rate reference rate, or CIRR.

The intricacies of CIRR

To better understand the how the CIRR is priced and why it is so attractive it is important to understand the construct as to how it is calculated. First, CIRR is priced using the yield curve of AAA-rated sovereign bonds not Libor (which is often much higher). Second, whilst priced off the yield curve, it is not on a matched basis. For example, the 8.5 year CIRR is based on a 5 year bond rate (plus 1%). Finally, it is a fixed rate with no commitment fees during the drawdown period.

Caption 1 shows the yield curve for Euros as of the 12th February 2021. The yield curve is a forward rate curve which plots the yield of a AAA-rated sovereign bond against the residual maturity of a loan. Loan maturity can range from 3 months to 30 years.

Caption 1. *Euro area yield curve*



The caption shows that for an 8.5 year term, the cost of an AAA-rated bond is minus 0.49%, or minus 49 basis points. However, the 8.5-year CIRR is priced off the 5-year bond which has an even lower rate. Even when the 1% margin is added, CIRR remains very low.

This means that the ECA is able to fund itself through the bond market (to institutional investors) at very low rates, and then on lend at the OECD CIRR. In doing so it makes an additional margin, or turn, as the 'direct lender'. This 'turn' is on top of what the ECA receives as a premium for taking on the credit risk. In essence, for an ECA that provides direct lending and a guarantee, it makes money on lending against its own guarantee. Consequently, it means that any ECA offering direct lending would stand to make a very healthy profit on top of the premium for the guarantee.

Turning to bank lending, because their funds are not AAA-rated, they come at a higher price for the borrower, and this is before the bank has added any margin.

It important to state that CIRR is for OECD Member ECAs and as part of the guidelines, OECD Member ECAs are required to price based solely on CIRR. However, non-OECD ECAs such as Sinosure, have the flexibility to use floating rates or to do untied financing – lending not tied to a specific export finance project.

This creates several issues for export finance banks ***and*** OECD Member ECAs. First, non-OECD Member ECAs are still able to offer CIRR loans by currency as well as any other floating rate they decide to choose. Second, it gives the non-OECD Member ECAs an unfair competitive advantage over Member ECAs as they have more flexibility to choose the most advantageous rate. Third, because the floating rates are not covered by the OECD Consensus, there is no visibility surrounding such credits. Finally, floating rate direct loans compete much more closely with commercial bank lending than CIRR-bases loans (Thompson, 2016).

Consequently, not only do the banks find it hard to compete on price with OECD Member ECA direct lending based on CIRR, but they also have to contend with non-OECD Member ECAs that have even greater flexibility to use floating rates or untied lending.

It is important to caveat these findings on CIRR with the borrower's position. It is true that under current circumstances, with CIRR so low, most borrowers will look to direct lending as a source of financing. A recent report conducted by TXF Research into the current state of the ECA industry supports this, as it found that corporates are looking to direct lending, especially in more risky regions where the banks are reticent to currently enter.

However, some borrowers prefer to borrow on a floating rate basis as they find it difficult to reimburse in advance a loan with fixed rates. Moreover, some ECAs, such as SERV in Switzerland or NEXI in Japan, do not offer fixed rate lending, meaning that floating rates are the only option in these countries. Consequently, bank lending could be a more viable solution for borrowers under these circumstances.

The OECD Consensus: The not so level playing field

According to the OECD's official document titled Arrangement on Officially Supported Export Credits (commonly referred to as the Consensus), the two main purposes of the Consensus are to:

1. Provide a framework for the orderly use of official supported export credits.

2. Foster a level playing field for official support, in order to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.

Encouragingly, 82% of the OECD Member ECAs noted that they have do not have flexibility to undercut the Consensus (figure 37) – a sign that the integrity of the Consensus is being preserved.

When the ECAs were asked about their perception of how the OECD Consensus was being undercut, longer tenors (45%), 100% content cover (40%), and pricing terms that fall below the minimum interest rates stipulated by the OECD Consensus (20%), were reported (figure 38). These terms offered by non-OECD Member ECAs were reported as reasons why they are sometimes preferred to OECD Member ECAs:

"Sinosure closed a huge deal for Mozambique in the middle of a crisis when OECD registered ECAs were seeing Mozambique as a no-go country. Sinosure went in hard and strong and priced low… The flexibility

of OECD non-registered ECA's is what most clients want, especially where they want to do projects that are not viable theoretically but believe they are reality." (Buyer; Africa)

The buyer goes on to say, however, that OECD Member ECAs should be valued:

"OECD registered ECA's promote and encourage fair competition and give ECA's more room to work together. This promotes a fair playing field. I prefer OECD registered ECAs because of this… but I do consider all options." (Buyer; Africa)

Figure 37. *Perceived flexibility within the ECAs to undercut the OECD Consensus*

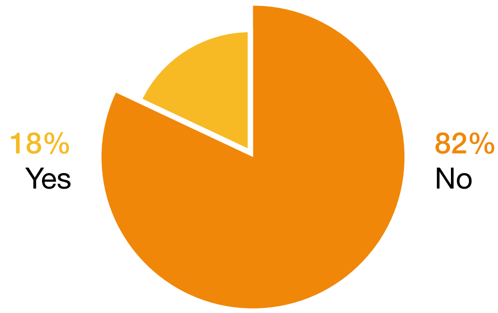
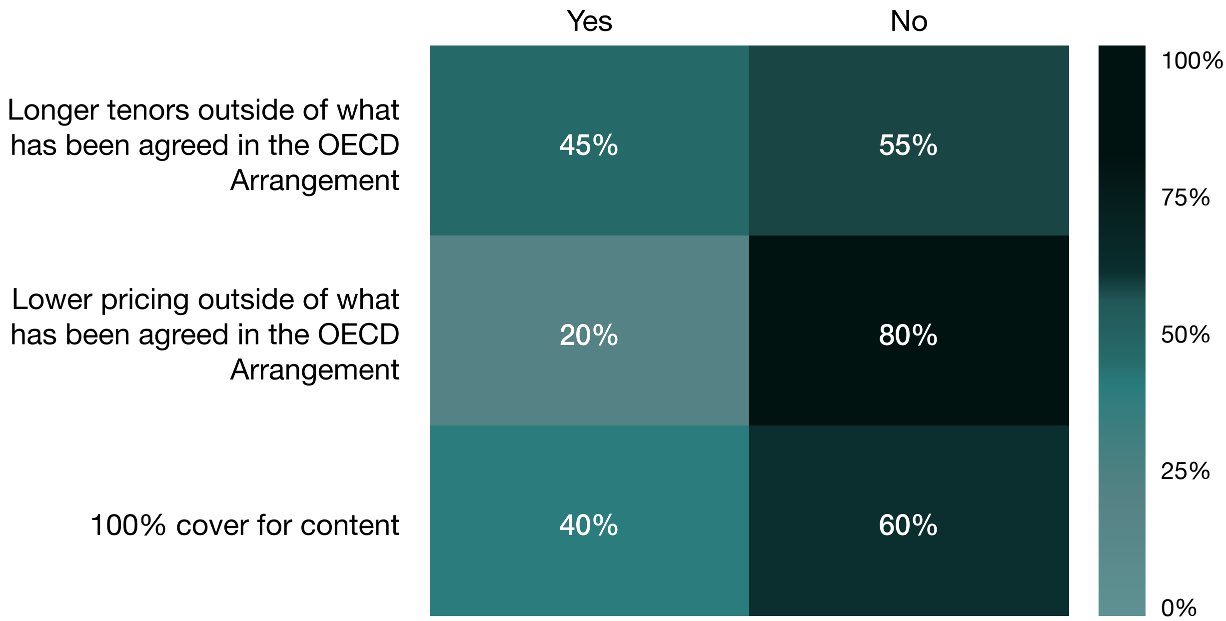


Figure 38. *Perception of how ECAs are undercutting the OECD Consensus*



The ECA respondents reported that they received satisfactory coordination and guidance from the OECD over the Covid-19 pandemic (figures 39 and 40).

In August 2020, recognising the rapidly growing difficulties posed by Covid-19, the OECD conducted a survey amongst its Member ECAs to identify how to tackle these challenges. Based on analysis of the survey data, the OECD's Working Group on Export Credits and Credit Guarantees[14] set out five broad category changes it implemented:

1. Modification of the terms and conditions of official support. This covers repayment flexibilities, interest rate and flexibilities, changes in premiums, cover changes, claim flexibilities, deferment of payment, national content changes and flexibilities for cancellations.

2. Working capital. This covers increasing facilities, cover changes, and repayment flexibilities.

3. Increased capacity.

4. New facilities. This covers insurance/guarantee

[14] Full document available here: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=TAD/ECG(2020)10

facilities and direct lending programmes.

5. 'Other'. This covers application flexibilities, documentation flexibilities, and reinsurance schemes and private insurers.

While these amendments were reported as useful amongst a few of the ECAs, others suggested that they should have come sooner, *"it [the pandemic] started in February… their guidance didn't arrive until August."*

Figure 39. *ECAs' perception of how well the OECD has coordinated its response to the Covid-19 pandemic*

Figure 40. *ECAs' perception of how well the OECD has provided guidance to the ECAs throughout the Covid-19 pandemic*

ECAs and sustainability: Kicking the recyclable can down the road

While more than half of the ECAs noted that they do not currently tie sustainability-linked ECA debt to pre-agreed KPIs (figure 41), an overwhelming 91% of the ECAs stated that they think sustainability-linked ECA debt will become commonplace within the industry (figure 42). Nearly half of the ECA respondents believe that sustainability-linked ECA debt will be commonplace within the next one to three years, with a further 36% estimating it will take between four and six years. Less than a fifth felt it would be within the next 12 months (figure 43).

All of the ECA interviewees noted that sustainability is at the vanguard of their focus. Coupled with this was a reported increase in interested from their national exporters on being involved in more ESG-focused projects. While this is an encouraging sign, several interviewees pointed to the fairly slow-moving nature of export finance as a potential hurdle to sustainability becoming commonplace:

"Most international banks and ECAs are taking ESG very seriously and have set themselves medium- and long-term targets and commitments to increase the amount of ESG eligible assets in their portfolio… but typically export finance can fall behind other industries... it is certainly behind some when it comes to sustainability-related technology" (Bank; Europe)

Figure 41. *ECAs' position on tying sustainability-linked ECA debt with pre-agreed KPIs (e.g. reduced emissions, gender equality, or deaths per capita)*

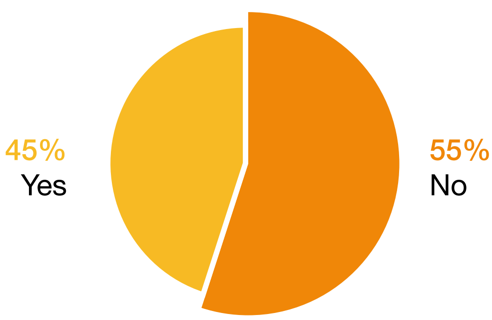


Figure 42. *ECAs' perception on whether or not sustainability-linked ESG debt will become commonplace across the ECA industry*

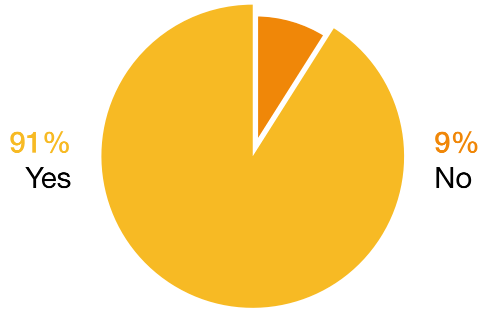
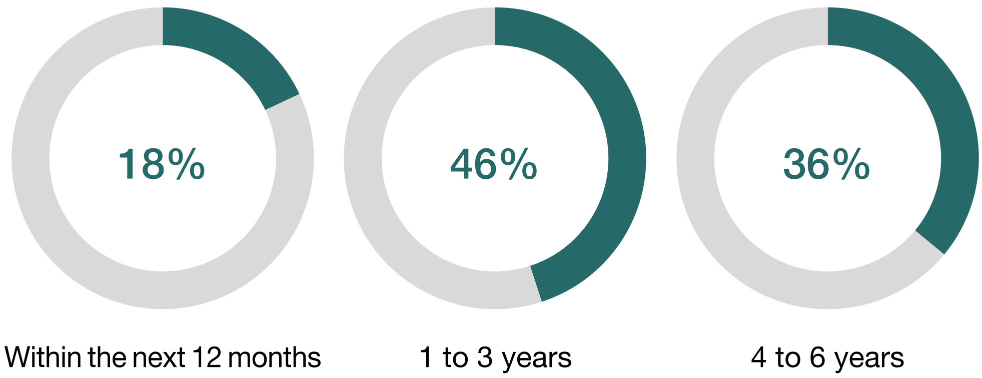


Figure 43. *Length of time for sustainability-linked ESG debt to become commonplace*



There are several OECD ECAs such as UKEF, EKN and EKF that have made decisions to support sustainable deals more actively and to be less focused on carbon intensive projects. Indeed, many OECD ECA respondents were forthcoming in their focus on supporting more green projects:

"We are very focused on it [sustainability] and make every effort to incorporate across our organisation." (ECA; Europe)

However, there are still many exporters who want to be involved in projects that are typically very carbon intensive. Consequently, they identify ECAs that will still support these projects, several of which are OECD ECAs.

Herein lies the dilemma.

At the same time as some the OECD actively promoting their sustainability agenda[15] and taking an active role in policing environmental standards for projects supported by OECD ECAs, if a borrower opts for an OECD ECA that will support non-green projects, of which there are several, the integrity of the OECD's sustainable agenda is undermined.

The situation is made even more murky if non-OECD Member ECAs such as Sinosure step in to support non-green projects, principally because they are not mandated to follow the same reporting standards and levels of transparency that OECD Member ECAs adhere to.

[15] For instance, its explicit support of the United Nations' Sustainable Development Goals, its own publications on green growth and sustainable development (see: http://www.oecd.org/greengrowth/) and the release of its Common Approaches for Officially Supported Export Credits for Environmental and Social Due Diligence (2016).

The exporters and buyers: In focus

1. A closer look at green deals
2. The export finance banking heatmap
3. The export credit agency heatmap

Top take aways

1. Less than 40% of the exporters and buyers were prepared to pay more for green financial products. For exporters and buyers to be encouraged to enter into a sustainable deal, the average reduction in price that they expect was 17.3 basis points – 9.9 basis points higher than what the banks are prepared to offer.

2. The top-rated export finance bank across all of the exporters and buyers was Credit Agricole CIB with an average score of 4.2 out of 5. KfW-IPEX Bank (4.1 out of 5) ranked second overall, followed by LBBW, Standard Chartered and ING Bank (all 4.0) in joint third. The banks that scored highest in the heatmap were those that excelled in client focused attributes, including **understanding of their clients' business, industry expertise,** and **customer service,** all of which had the highest overall scores across all of the banks. This shows how important client focus is during times of stress.

3. The Korean ECAs performed particularly well over the past 12 months, with KEXIM (4.4) and KSURE (4.3) the top two rated ECAs according to their exporters and buyers. Like the export finance banks, **industry expertise** and **understanding of their clients' business** were the attributes with the second and third highest averages across all of the ECAs, respectively. **Appetite for sustainable deals** had the highest average across the ECAs, showing that according to their clients, the ECAs are working to ensure sustainability is part of their export finance agenda.

A closer look at green deals

Nearly two-thirds of the total sample of exporters and buyers noted that they are not prepared to pay more for green financial products (figure 44). However, for those that would be prepared to pay a higher price, the minimum reduction they would expect to see from the banks is 17.3 basis points (figure 45). This reduction is 9.9 basis points higher than the average amount that the banks would be prepared to forgo (see figure 24).

This could pose a problem for sustainable deals in export finance.

From the banks' perspective, their cost of debt is increasing, driven largely by increasingly stringent KYC (know your client) and AML (anti-money laundering) legislation, and the impending arrival of Basel IV. Coupled with this is that sustainable projects tend to generate less return on investment than a comparable traditional power project, principally because the latter are cheaper to set up and have more developed technology. Consequently, banks could find it increasingly difficult to lend on sustainable projects.

The reluctance from a corporate perspective to become more involved in sustainable deals, appeared to be due to their current circumstances brought on by Covid-19:

"We do not have the capital to do sustainable deals at the moment… we need to bank down on what we do well to ensure we can continue going forward… this may change in the future as things start to look up again." (Exporter; Europe)

'Surviving' the pandemic was a common theme across many of the interviewees and it was a stance that reflected the difficulties they have faced over the past 12 months. However, the data did tentatively suggest that as they move further away from Covid-19, back to a more normal way of operating, sustainable deals could become more appealing to them.

The question remains: can the difference in price expectations between the banks and corporates be overcome?

Figure 44. *Willingness of exporters and buyers to pay more for green financial products*

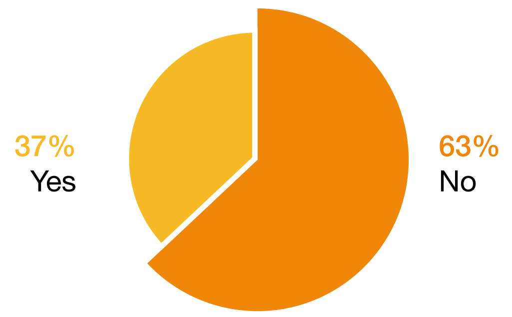


Figure 45. *Minimum reduction in price that exporters and buyers need to encourage them to participate in a sustainable deal*

17.3 basis points

The export finance banking heatmap

Across the sample of more than 200 exporters and buyers, the most used export finance banks were Credit Agricole CIB (39%), BNP Paribas (34%) and Societe Generale (31%) (figure 46). Looking at TXF Data over the past year, the French banks were also some of the most active in terms of deal volume and the number of deals they were involved in.

Credit Agricole CIB lent on 18 projects with a total deal volume of $2.5 billion, BNP Paribas were involved in 25 deals with a total deal volume of $4.12 billion, and Societe Generale were involved in 27 deals with a total deal volume of $4.17 billion[16].

Looking in more detail at which export finance bank was reported as being the most supportive[17] to their clients over the past 12 months, LBBW ranked top with nearly one-fifth of the votes, followed by Credit Agricole CIB (15%) and KfW-IPEX Bank (10%) (figure 47).

Export credits over the past 12 months have arguably been like no other period, with specific Covid-19 relief schemes brought in by the banks to support their clients through the pandemic. TXF Data shows that in total, the banks implemented nearly $17 billion worth of Covid-19 relief funding, with Intesa Sanpaolo the standout bank, lending nearly $7 billion to their exporters. This was likely the result of Italy being a large financier and producer of cruise ships, a sector that has been severely impacted by travel restrictions and lockdowns (Steer & Wright, 2020).

[16] Excluding Covid-19 relief schemes

[17] TXF Research defines 'supportive' as any action that was perceived by the exporter or buyer as helping them in any given situation. This involves all types of support including replying to emails quickly, finding solutions to problems (often Covid-19-related), explaining documents, clarifying terms and conditions, responding to queries outside of office hours, and where appropriate, engaging in face-to-face meetings to discuss deals.

Figure 46. *Most used export finance banks*

CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK 39%	BNP PARIBAS 34%	SOCIETE GENERALE 31%	LBBW 27%	HSBC 26%
ING BANK 26%	COMMERZBANK 24%	Deutsche Bank 24%	Santander 22%	Standard Chartered 21%
KFW IPEX-Bank 21%	UniCredit Bank 19%	DZ BANK 13%	SMBC 13%	BBVA 10%

Figure 47. *Most supportive export finance bank through the Covid-19 pandemic*

LBBW 19%	CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK 15%	KFW IPEX-Bank 10%	ING BANK 9%	BNP PARIBAS 6%
SOCIETE GENERALE 6%	Santander 4%	HSBC 2%	BBVA 2%	Standard Chartered 2%
Deutsche Bank 2%	COMMERZBANK 2%	UniCredit Bank 1%	DZ BANK 1%	SMBC 1%

When the exporters and buyers were asked about the single most important attribute they consider when choosing an export finance bank, **product offering** (54%) was the stand-out factor, followed by an **appetite for sustainable deals** (29%) and **best pricing** (27%) a distant second and third, respectively (figure 48).

Despite the importance placed on product offering by exporters and buyers, it ranked as the second lowest performing attribute across all of the banks, with Credit Agricole CIB the only bank to score at least an average score of 4.0 out of five (figure 49). Compared to all of the other attributes, product offering was the only attribute to have a single bank with an average rating of at least 4.0.

These data suggest, therefore, that product offering could be an area where export finance banks look to improve over the coming months.

Figure 48. *Most important attributes when choosing an export finance bank*

Figure 49 shows that across all of the exporters and buyers, Credit Agricole CIB was the top-rated export finance bank with an overall average score of 4.2, followed by KfW-IPEX Bank (4.1) and LBBW, ING Bank and Standard Chartered in third (all scoring 4.0).

Looking in more detail at the attributes, Credit Agricole CIB top scored in five of the six criteria, with KfW-IPEX Bank the only bank to rank above the French bank for industry expertise. Across the exporters and buyers, the banks' **understanding of their clients' business** had the highest average score (3.93) with eight of the banks scoring at least 4.0 out of five. **Industry expertise** (3.88) and **customer service** (3.82) had the second and third highest averages, respectively, both attributes that had at least five of the banks scoring, on average, 4.0 or higher.

These client-focused attributes were repeatedly mentioned as important to several of the corporates, with one exporter stating:

"Arranging an export finance deal takes time, usually four to five years as a maturing time. Being helped during this lengthy period from our partners or financiers will count a lot... this means they get to know our business very well, a factor that definitely helps… they get to know where we are strong and where we need more support" (Exporter; Europe)

These data suggest that across 2020, a difficult and challenging year for everyone involved in export finance, the export finance banks supported their clients well through the pandemic.

The top-rated bank according to TXF Data over the past 12 months was Intesa Sanpaolo, with a total deal volume of $7.1 billion across 5 deals. However, 2 of these deals had a total deal volume of $6.7 billion and were defined as Covid-19 relief schemes, the largest of which was $7.6 billion SACE covered loan to Fiat Chrysler Automobiles.

If Intesa Sanpaolo is removed, SMBC (30 deals totalling $4.5 billion), Societe Generale (27 deals totalling $4.17 billion) and BNP Paribas (24 deals totalling $4.16 billion) were the top three rated banks for deal volume. According to the views and experiences of exporters and buyers in this report, SMBC, Societe Generale and BNP Paribas ranked as the 7th, 6th, and 11th top-rated export finance banks, respectively (figure 49).

It is important to note why there is a disparity in scores between the heatmap presented in figure 51 and the TXF Data league table. The banking heatmap is based on data that asks the clients of the banks to rate them across a number of market sentiment attributes that have no direct relationship to deal volume and export finance activity. Conversely, TXF Data is based on closed deal data submitted by the banks on the level of their activity and their deal volumes, with no relationship to how the clients of these banks felt during these deals. Importantly, the two different data sources complement each another.

Without an understanding of how the banks are engaging and supporting their clients, it could be logical to conclude that the banks with the highest deal volumes, and that do the most activity, might also be the best in areas such as customer service and creative thinking. Equally, if we only used market sentiment data, it might be logical to conclude that smaller, more niche banks are the best performing in terms of deal volume and activity levels.

Consequently, depending on what someone wants to understand, either market sentiment data or closed deal data, will depend on which data source one accesses. In either case, the Global Export Finance Industry Report and the annual TXF Data Report provide the most nuanced views of the global export finance banking landscape in the industry.

Figure 49. *The export finance banking heatmap*

	Appetite for sustainable deals	Customer service	Fast deal execution	Industry expertise	Product offering	Understanding of their clients' business	Total	TXF Data league table position
Credit Agricole CIB	4.2	4.5	4.1	4.2	4.0	4.4	4.2	8th
KfW-IPEX Bank	4.1	4.1	3.8	4.5	3.9	4.2	4.1	9th
LBBW	4.0	4.1	4.0	4.0	3.9	4.1	4.0	32nd
ING Bank	4.0	4.0	4.0	4.0	3.9	4.0	4.0	14th
Standard Chartered	3.8	4.0	3.9	4.1	3.9	4.1	4.0	10th
Societe Generale	3.9	3.9	3.7	4.0	3.9	4.1	3.9	4th
SMBC	3.8	3.7	3.7	3.9	3.8	4.4	3.9	3rd
Santander	3.8	3.8	3.7	3.9	3.8	3.9	3.8	6th
BBVA	3.9	3.9	3.4	3.9	3.8	3.6	3.7	21st
Deutsche Bank	3.6	3.7	3.4	3.8	3.7	4.0	3.7	13th
BNP Paribas	3.6	3.7	3.5	3.7	3.5	3.7	3.6	2nd
HSBC	3.5	3.3	3.5	3.8	3.8	3.7	3.6	15th
Commerzbank	3.5	3.7	3.5	3.5	3.5	3.7	3.6	20th
UniCredit	3.6	3.5	3.3	3.7	3.4	3.6	3.5	29th
DZ Bank	3.2	3.5	3.3	3.3	3.3	3.5	3.3	38th
Average attribute score	3.77	3.82	3.66	3.88	3.75	3.93		
Attribute ranking	4th	3rd	6th	2nd	5th	1st		
Top performing bank	Credit Agricole CIB	Credit Agricole CIB	Credit Agricole CIB	KfW-IPEX Bank	Credit Agricole CIB	Credit Agricole CIB		

The export credit agency heatmap

Over the past 12 months, Euler Hermes (41%), Bpifrance (25%), and SACE (21%) were the top three most used ECAs by exporters and buyers surveyed for this report (figure 50). Euler Hermes (32%) and Bpifrance (18%) were also the top two rated ECAs for being most supportive through the Covid-19 pandemic (figure 51).

TXF Data shows that over the past 12 months, Euler Hermes ($764 million across 16 deals) and Bpifrance ($703 million across 14 deals) provided comparable levels of Covid-19 support to their national exporters, ranking them as the 4th and 5th most used ECAs for this form of support.

The standout ECA for Covid-19 relief support, however, was SACE, with nearly $9 billion split across 12 deals, with the largest being the $7.6 billion ECA-backed loan to Fiat Chrysler Automobiles.

Figure 50. *Most used ECAs*

Euler Hermes	bpifrance	sace simest	UK Export Finance	Sino Sure
41%	25%	21%	16%	15%
EKF	**Korea Eximbank**	**Ksure**	**CESCE**	**EXIM**
13%	13%	12%	10%	9%

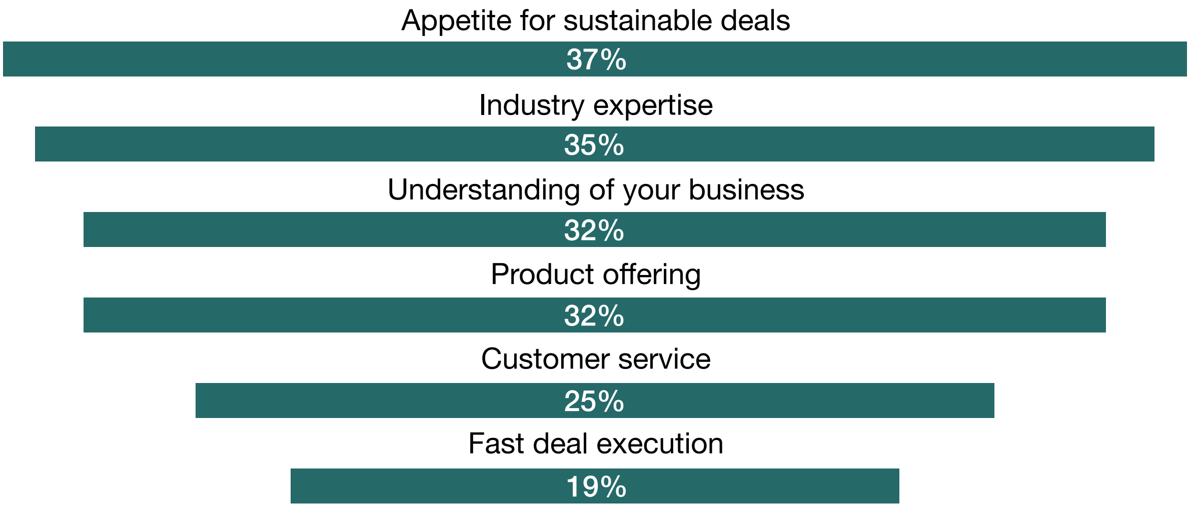
Figure 51. *Most supportive ECA through the Covid-19 pandemic*

Euler Hermes	bpifrance	Korea Eximbank	sace simest	Sino Sure
32%	18%	15%	10%	8%
UK Export Finance	**EKF**	**CESCE**	**Ksure**	**EXIM**
7%	6%	4%	1%	0%

Across the exporters and buyers in this survey, **appetite for sustainable deals** (37%) was reported as the most important factor when choosing an ECA, followed closely by **industry expertise** (35%), and ECAs **understanding of their clients' business** (32%) (figure 52). Each of these attributes also had the highest average scores across the ECAs (figure 53), which suggests that the approach taken by ECAs over the past 12 months is being experienced by their clients. The benefits of this relationship, one exporter explained, is continuity in operations:

"We feel our primary ECA definitely understands us. We have worked with them for a long time and we have built up a good rapport and understanding with them… it really helps us in how we operate across continents and jurisdictions because we know what we will and will not get cover for." (Exporter; Asia Pacific)

Figure 52. *Most important factor when choosing an ECA*



The top performing ECA across all of the attributes was the South Korean Export Import Bank, KEXIM, with an overall average score of 4.4. KSURE, another of South Korea's ECAs that focuses more on insurance, rated 2nd (4.3), followed by UKEF in third (4.1) (figure 53).

Looking at the attributes in more detail, **understanding of their clients' business** and **appetite for sustainable deals** (both 3.91), **industry expertise** (3.90) and **customer service** (3.85) had the top three highest averages across the banks; a finding that mirrors the export finance banks. Both KEXIM and KSURE feature heavily across these attributes with KEXIM and KSURE the top-rated ECAs for both customer service and industry expertise.

A recent document released by the European Bank for Reconstruction and Development (EBRD) noted that KEXIM has reacted particularly to support its SMEs through the Covid-19 pandemic by introducing a reduction and deferral of operational costs scheme, financial support to boost liquidity, tax incentives to boost demand, fiscal support programmes to maintain employment, and reduced administrative procedures and streamlined processes (EBRD, 2020).

While many ECAs have provided similar schemes, the speed with which KEXIM operated was noted by several of the interviewees:

"I think all of the ECAs have responded particularly well… but KEXIM for us have been superb. They acted quicker than everyone and when we needed advice, they were on hand… they could not have done more." (Exporter; Asia Pacific)

In addition, despite the challenges presented by Covid-19, KEXIM priced a dual tranche bond offering totalling $1.46 billion. The first tranche had a floating $700 million floating rate note (FRN) for three years priced at 120 basis points over a three-month US Dollar LIBOR; 40 basis points lower than the initial guide price of 160 basis points. The second tranche was a green bond offering that totalled €700 million for five years, priced equivalent to a spread of 105 basis points over mid-swaps (Santiago, 2020). The green bond issuance further cemented the country's position as one of the world leaders in transitioning to a lower carbon economy (BNP Paribas press release, 2020).

It has been a year like no other for ECAs. They have come under immense pressure to support their clients through a pandemic that sent a monumental shockwave through the global economy and its supply lines. However, as one banker pointed out, this shockwave has only served to reinforce the integral role that ECAs play in the export finance industry:

"ECAs have not had much to do for 12 years [since the 200 global financial crisis] They have just been there in the background… I am sure many wondered how they might react in times of stress… but they have reacted superbly and I think the biggest positive for the ECA markets from all of this, is that lenders and borrowers have been reminded of just how important their role is in export finance." (Bank; Europe)

Figure 53. *The export credit agency heatmap*

	Appetite for sustainable deals	Customer service	Fast deal execution	Industry expertise	Product offering	Understanding of their clients' business	Total	TXF Data league table position
KEXIM	4.2	4.4	4.3	4.3	4.5	4.4	4.4	8th
KSURE	4.1	4.4	4.2	4.3	4.3	4.3	4.3	5th
UKEF	4.0	4.2	3.8	4.2	4.1	4.1	4.1	4th
EKF	4.2	3.8	3.7	3.8	3.8	4.1	3.9	13th
Euler Hermes	4.0	3.8	3.5	4.0	3.9	3.9	3.8	9th
Bpifrance	4.0	3.7	3.3	3.9	3.7	4.1	3.8	11th
Sinosure	4.0	3.8	3.7	3.8	3.6	3.9	3.8	12th
CESCE	4.1	3.9	3.0	3.8	3.0	3.4	3.5	17th
SACE	3.4	3.5	3.2	3.7	3.7	3.6	3.5	10th
US EXIM	3.1	2.9	2.9	3.1	2.8	3.2	3.0	6th
Average attribute score	3.91	3.85	3.56	3.90	3.73	3.91		
Attribute ranking	=1st	3rd	5th	2nd	4th	=1st		
Top performing ECA	KEXIM and EKF	KEXIM and KSURE	KEXIM	KEXIM and KSURE	KEXIM	KEXIM		

What next for the export finance industry?

The two main aims of this research were to present the latest market trends on the export finance industry and to present the top-rated export finance banks and ECAs based on the views and experiences of their own clients. Using a mixed methodology that combined 452 unique survey responses with insights from 20 interviewees who spanned the bank, ECA and corporate sectors, this report concludes:

Market sentiment across the export finance banks is positive, with a sense of optimism about their prospects going into 2021. Despite 2020 being one of the most turbulent years in export finance for a long time, bank and ECA optimism is being driven by the counter cyclical nature of the industry. For the banks, they appear optimistic about their ability to generate healthy margins above the cost of debt and are reportedly able to finance the full tenors they are offering. Looking beyond 2021, banks may continue to adopt some virtual meetings for certain elements of a deal, primarily because they are most efficient and cost-saving. However, there was an air of uncertainty across the banks when discussing the potential to identify new deals from new customers. The size of the volumes involved in export finance necessitate that face-to-face meetings are fundamental in originating and closing deals on a longer term basis. If Covid-19 continues to keep international travel to a minimum, the optimism they currently have could give way to uncertainty.

The level of understanding and commitment to TCFDs across export finance appears to be limited – a potential barrier to implementation. Across the banks, corporates, and ECAs, ambivalence best summed up the sentiment on TCFDs. This was partly driven by a lack of understanding but there was also a deep rooted issue around commitment. While there is an appetite across the export finance industry to improve sustainable practices, with several stating that ESG is becoming more central in decision-making, there appears to a lack of any clear understanding about how sustainability is defined, measured, and monitored. The TCFD framework, while another important step, is just one of a substantial number of different sustainability-related indices and metrics that could be followed, none of which are universally agreed as the industry leading. It appears that over the last few years, the export finance industry has found itself in a state of inertia, which, unless a clear route can be mapped forward, could continue for a little while longer.

The banks are cautiously optimistic about aviation investing but shipping appears dead in the water. It is no secret that aviation and shipping have been hit the hardest by Covid-19. TXF Data confirms this as most Covid-19 relief schemes were targeted at these sectors. However, while the banks appeared to be cautiously optimistic about aviation, shipping, in particular cruise ships, appears to have a hard road ahead. Container shipping appears to be a beacon of light in the shipping industry, but cruise ships appear to still be reeling from the effects of international travel bans and lockdowns that have severely stunted the travel and leisure industry.

The export finance banks are showing an appetite for green financing, but the corporates appear reticent. Banks also described a strong appetite for sustainability, with export finance banks prepared to forgo an average of 7.4 basis points to be involved in a sustainable deal. However, there was much less appetite from their corporates and for those that do want to be involved, the average reduction in price they expect to receive is 17.3 basis points. Unless this difference in opinion is overcome, it could prove fairly sizeable stumbling block for the rollout of more sustainable deals in export finance.

There appears to be a growing interest for ECAs to implement more direct lending facilities to their clients. While commercial bank lending is not under threat of being usurped by direct lending, this research, combined with TXF Data suggests that ECA direct lending could be on the rise. The cost of bank debt is generally much higher than CIRR-based ECA direct lending, primarily because of the external rating of the underlying assets. To compound matters further for banks, non-OECD Member ECAs are able to access CIRR-based currencies, other floating rates such as LIBOR, and can offer higher levels of untied lending. It also appears that banks may be reserving their liquidity for the largest borrowers involved on the largest deals. A consequence of this is that SMEs and MMEs will find it very difficult to access liquidity from commercial banks, a hole which could be filled by ECA direct lending.

Covid-19 will continue to shape the export finance industry for some time yet. It is true that many people in the industry are growing weary of continually talking about the impact of Covid-19, but that is because it is continuing to have an impact. Exporters and buyers remain uncertain about the next 12 months, driven in large part by uncertainty over working capital and liquidity issues. Banks expressed a frustration at having to continue remote working, a position that makes it difficult to train new staff, to originate new deals and to identify new deals beyond 2021. And, while ECAs have been lauded for their ongoing support of exporters, it remains to be seen how long they can continue this level of support.

The top performing export finance banks and ECAs were those that scored strongly in client focused attributes such as customer service, industry expertise, understanding of their clients' business. Credit Agricole CIB, KfW-IPEX Bank and LBBW, along with KEXIM, KSURE and UKEF were the top-rated export finance banks and ECAs, respectively, based on the views and experiences of those clients that have engaged them over the past 12 months. With working capital and liquidity the main drivers behind exporter and buyer uncertainty, the banks and ECAs have generally worked well to support their clients through these challenges. It is likely that those banks and ECAs that cater to their clients' needs over the next 12 months, will score strongly in next year's heatmap.

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About TXF Research

TXF Research makes up one third of TXF Intelligence along with TXF Data and TXF Essentials. TXF Research supplies the most detailed market insights into the export, commodity, and trade finance industries. Using an in-depth and robust methodology that combines quantitative trends with thought provoking qualitative insights, TXF Research provides unique and proprietary data and analysis based on primary sources. In addition, TXF Research offers a bespoke research service to paying clients. Working in collaboration, TXF Research collect, collate, analyse, and write reports to the focus and scope of the research, with the final product being a thought leadership piece to be used by the client as they choose.

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