

## ECAs looking to Islamic finance: A boon for Islamic cross-border transactions?

Trade finance is an important tool for the import and export sectors. While Islamic banks may face some limitations in catering to the growing demand of trade financing, there is a new kid on the block with expertise in this area that could help fill the gap. NURUL ABD HALIM looks at the role of export credit agencies (ECAs) in assisting Islamic finance.

Access to finance is crucial as it provides companies with much-needed liquidity to facilitate expansion, purchase assets and invest in cross-border projects. Usually secured by assets, financing a trade makes a compelling case for Islamic finance. However, this area of financing is not heavily tapped by Islamic banks due to their relatively small balance sheet size as well as various regulatory, taxation and standardization issues. Yet although trade finance is still dominated by conventional players who offer competitive rates and favorable tenors, there is an emerging trend that could tip the trade finance scales in the favor of the Shariah finance industry – ECAs supporting Islamic transactions.

### The ABCs of ECAs

An ECA is a private or quasi-governmental institution that issues export financing: usually in the forms of credits (financial support), insurance and guarantees (pure cover) or both, depending on the mandate from its government. Some agencies may be state-sponsored while others can be private entities or a combination of both, but they share a common purpose: to intermediate between national governments and exporters.

Although their activities have generally remained outside the media spotlight, their substantial contributions to global trade cannot be ignored. According to industry data, new export and investment credit commitments made by members of the Berne Union (government-endorsed ECAs) and the Prague Club (of which the Islamic Corporation for the Insurance of Investment and Export Credit, or ICIEC, is a member) amounted to approximately US\$2 trillion in 2015, with overall commitments representing over 10% of the world's trade.



With the main objective of stimulating trade through the provision of credits and covers, ECAs must not be mistaken as rivals to banking institutions. It is worth noting that ECA involvement in financing, especially in major infrastructure projects, either by underwriting or guaranteeing a portion of finance or via direct funding, is often seen by banking institutions as a prerequisite as this benefits lenders in terms of reduced risks of transactions as well as minimizing the cost of funding for borrowers.

### Islamic opportunity

With an instrumental role and wide geographic presence (over 100 worldwide including in core Islamic finance markets), ECAs could provide a significant boost to the Islamic finance industry. "A significant number of the countries to which European and other exporters want to tap into now operate a financial system which is wholly or substantially Shariah compliant, with borrowers based there, themselves increasingly wanting to raise their finance in a manner which is Shariah compliant," said Neale Downes, a partner with Watson Farley & Williams, speaking to IFN. "ECAs wanting to participate in those financings now need to better understand Islamic finance and the contracts and structures typically employed and also need to offer export finance solutions which are Shariah compliant." Downes suggests that as most of ECA financing relates to real goods and actual tangible assets, using Islamic finance methods such as Murabahah, Istisnah, Salam or Ijarah should be relatively straightforward.

In fact, increasing numbers of ECAs, especially those in non-traditional Islamic finance markets, are already moving into the Islamic space. In 2015, UK Export Finance became the world's first export credit agency to guarantee Sukuk, which were issued by Emirates

Airline to finance the acquisition of A380 aircraft – the largest-ever debt capital markets offering in the aviation sector with an ECA guarantee. Back in 2008, Finland's Finnvera became one of the first western ECAs to cover export credit via a Shariah compliant structure of Murabahah to finance the supply of Wertasila Oy's 50MW captive power plant to Al Qatrana in Jordan. In 2013, Finnvera together with Swedish Export Credit Guarantee Board guaranteed two Shariah compliant financing facilities for Saudi Arabia's Etihad Etisalat Company (Mobily) to finance deliveries of telecommunications equipment from Nokia Solutions. Ethiopian Airlines in 2014 closed a US\$100 million 12-year Shariah compliant agreement with Bahrain-based Ibdar Bank and Export Development Canada for the leasing of four Bombardier Q400 NextGen planes. Most recently, the Italy's SACE is studying the possible conversion of two of its basic conventional finance structures (buyer and supplier credits) to be Shariah compliant in response to demands from clients in the MENA region.

Interestingly, the IDB's ICIEC is also looking at supporting the Islamic debt capital markets with a pioneering product: a Sukuk insurance instrument, for which ICIEC has secured preliminary approvals, CEO Oussama A Kaissi confirmed with IFN.

However, some have argued that ECAs represent nothing more than export subsidies with doubtful macroeconomic benefits. "In light of some of the criticism of ECAs – notably that they can force buyers to put financing cost ahead of quality and pricing and that they can distort markets through excess or false subsidies – ECAs will need to ensure that any finance they supply adheres not only to Shariah compliant form but also to Shariah compliant ideals," cautioned Downes. (2)