INTRA BLOG: The ABC of Slovenian financial services for exporters

Although there are several financial services on the market, the Slovenian exporters have the choice: to go to the Slovenian export and development bank – SID Bank or to the commercial banks.

Lets start with what the exporters can get from the SID Bank.

SID Bank is a promotional export and development bank with the authority to carry out long-term financial services to complement the financial market in various areas in accordance with the Slovenian Export and Development Bank Act that are relevant for the sustainable development of the Republic of Slovenia.

SID Insurance services in the field of internationalisation

SID Bank insures risks of the nature and level for which financial institutions and private reinsurance market are not willing to cover or have limited capabilities to cover.

In the field of internationalisation, SID Bank offers following credit and investment insurance services:

1. Export credit insurance services
   1.1. Insurance of pre-delivery risks
   1.2. Insurance of post-delivery risks:
      a. supplier credit insurance,
      b. foreign buyer/bank credit insurance
         b.1. foreign buyer credit
         b.2. foreign bank credit
         b.3. purchase of trade receivables,
         b.4. post-financing of L/C
      c. performance of other transactions on special authorizations (official development aid).
2. Insurance of bank guarantees/contractual bonds
3. Insurance of pre-export financing
4. Investments insurance
5. Project financing insurance

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SID Bank was established in 1992 as Slovene Export Corporation with the aim of providing insurance and financing of export for Slovenian companies. Since then SID have grown and evolved in step with development of Slovene economy. The mission of SID Bank is to develop, provide and promote long-term financial services designed to supplement financial markets for the sustainable development of Slovenia. SID's primary orientation is to be complementary to the financial market in the areas not covered by the financial market, and which have a development component.

On behalf and for the account of state of Slovenia, SID Bank provides services of export credits and investment insurance as a national Export Credit Agency (ECA). The main activity provided for its own account is financing of business transactions in the area of market gaps (SME, internationalization, research, environment, etc.). SID Bank acquires resources mainly through borrowing on foreign financial markets on its own behalf and for its own account, as well as with the guarantee of the Republic of Slovenia. Possibility of this type of borrowing provides Slovene economy an opportunity to acquire competitive financial resources, which ensures directly or indirectly support of development and penetration onto foreign markets.

The Republic of Slovenia as the single shareholder is irrevocably and without limitations responsible for the liabilities incurred by SID Bank from transactions. If SID Bank fails to settle its due liability to a creditor at the latter's written request, the Republic of Slovenia is obliged to settle such liability promptly at the request of the creditor. This allows SID Bank to borrow on financial markets without the need to obtain a guarantee from the Republic of Slovenia for each transaction.

In pursuing its activities, it does not compete with other financial institutions on the market. To achieve the goal of non-competition with financial institutions on the market, SID Bank also follows the principle of equal access or non-discrimination for all users of SID Bank's financial services and the transparency of the services offered, business operations and business results.

SID Bank is the parent company of SID Bank Group, which provides its customers a wide range of services for promotion of competitiveness in international business cooperation:

- financing of the internationalisation of SMEs:
  - export loans;
  - financing of Slovenian outward FDI (stakes, shareholder and non-shareholder loans).
- Associated companies
  - insurance of short-term export receivables, risk management (SID-Prva kreditna zavarovalnica, d.d.; http://www.sid-pkz.si/en);
  - collection of debts, information on benefits, risk monitoring (Pro Kolekt d.o.o., http://www.prokolekt.com/);
  - factoring, receivable insurance, discount of bills of exchange, discount of invoices (Prvi Faktor d.o.o.);
  - export research, analysis and advisory services; bilateral official development aid – soft loans, mixed credits; Centre for International Cooperation and Development; http://www.cmsr.si/en/).

1. Export credit insurance services

As an authorized institution SID Bank insures on behalf and for the account of the Republic of Slovenia commercial and/or non-commercial (non-marketable) risks of the nature and level for which private reinsurance, market is not willing to cover or has limited capabilities to cover. In compliance with regulations of the European Union non-marketable risks are commercial and political risks above two years in countries members of OECD and all the risks in the countries outside OECD.

Non-commercial risks include: failure of repayment of a loan by public debtor; political occurrences, such as wars, revolutions and general strikes; moratorium of payments, restriction of conversion and transfer; restriction of import; unilateral termination of agreement by public-law entity client; various forms of dispossession of property or destruction of documents by the state and natural catastrophes.

Commercial risks include: an issued final order of court of other competent organ for institution of bankruptcy; concluded court settlement in out-of-court proceedings; unsuccessfully concluded execution; an issued final court decree for institution of court settlement; if 6 months have elapsed from the day policyholder notified the company about overdue outstanding debts, or 6 months from the day of the last payment made in the time period from the notification of overdue outstanding debts.

1.1 Insurance of pre-delivery risks:

Insurance of pre-delivery risks enables the exporter **reimbursement of production expenses**, due to his inability to supply the goods agreed by contract because of outset of non-commercial risks (including interruption of transport lines) and/or certain commercial risks (cancellation of contract, bankruptcy of the buyer).

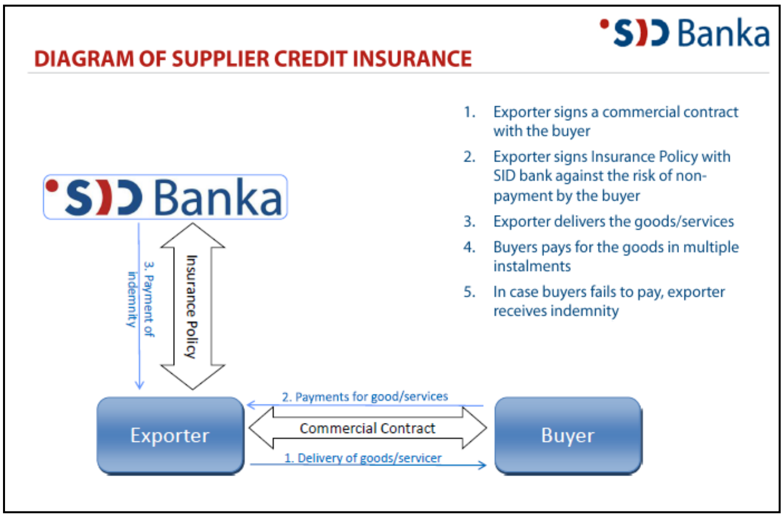
This type of insurance is used mainly **in case of special orders/contracts with a foreign buyer**, where preserver sale is hindered by special characteristics of the equipment, and when **performing investment work abroad**, where the performer is exposed to risks connected with already performed, but not yet acknowledged works, during the whole period of performance.

The basis for calculation of damages are the **actual expenses** of policyholder arising from production of the object of supply contract (planning expenses, services and work expenses, material expenses, other production expenses). All the amounts received by policyholder as advance and all the amounts received as purchase money in case of preserver sale (material, semi-products or products) are subtracted from the damages.

1.2. Insurance of post-delivery risks

a. Supplier credit insurance:

Insurance of receivables exporter holds to foreign buyer according to export agreement is one of the basic credit insurance schemes. Exporter is the policyholder; the object of insurance can be receivables connected with the agreed upon payment delay (credit), which enables the buyer to pay the supplied goods and/or services in a specified period after delivery. Exporter can transfer the rights arising from the insurance policy to a bank (assignment), therefore ensuring more favourable financing conditions or in some cases, making financing possible at all.



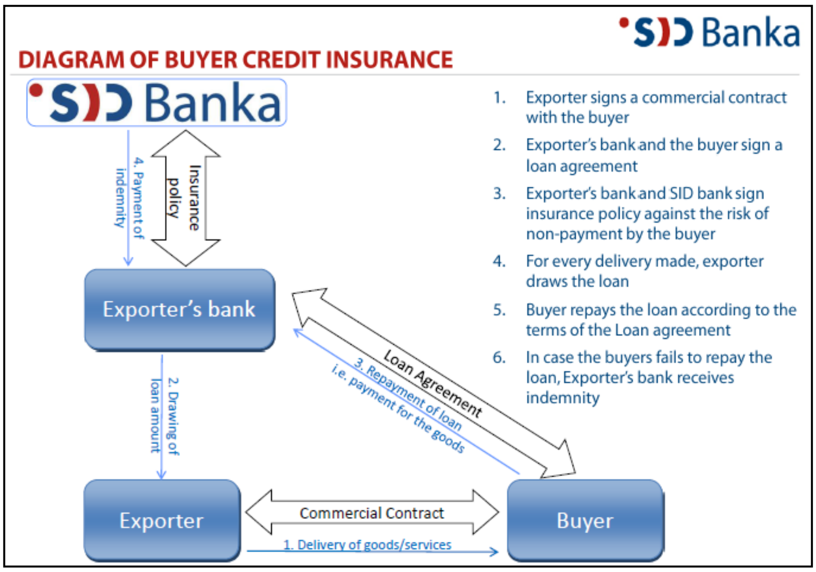
b. Foreign buyer/bank credit insurance

Foreign buyer/bank credit insurance is an advanced form of export transactions financing, which enables the exporter to receive the whole payment for each executed supply (situation) or conclusion of work abroad from the bank/creditor. Therefore, the exporter does not need to wait for the buyer's payment for a longer period or assume the risks connected with that.

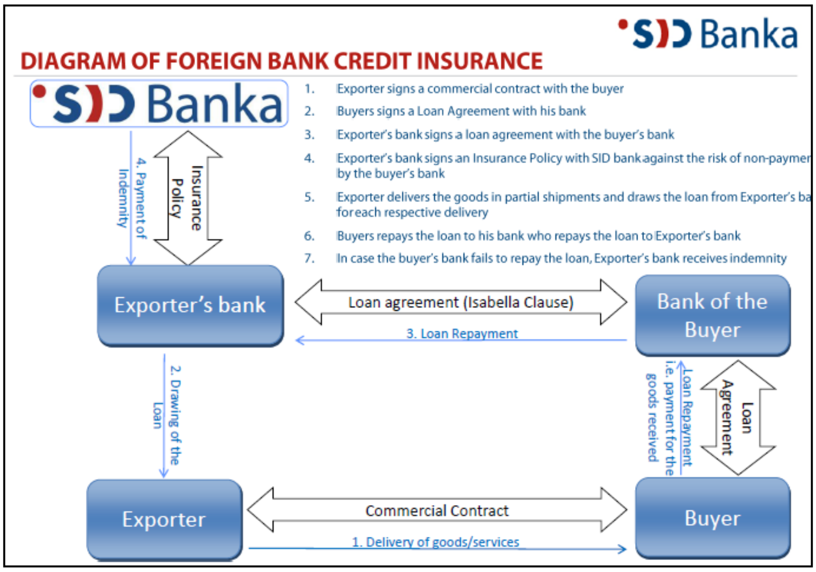
Buyer repays the exporter wholly with advances (pre-delivery payments or payments by delivery) and from the credit approved to the buyer by exporter's bank or bank/creditor. In this case the objects of insurance are receivables arising from this buyer credit, the policyholder being the bank or other financial institution, which grants it.

Several variations of this scheme are eligible for insurance (following are the most frequent ones):

Foreign buyer credit: Exporter's bank grants a credit directly to the buyer.

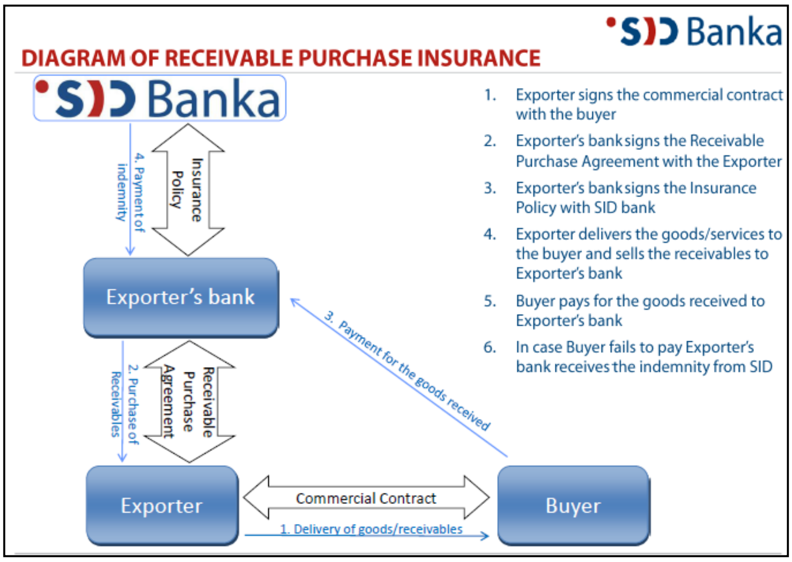


Foreign bank credit: Exporter's bank grants a credit to the buyer's bank, which finances the exporter's buyer.

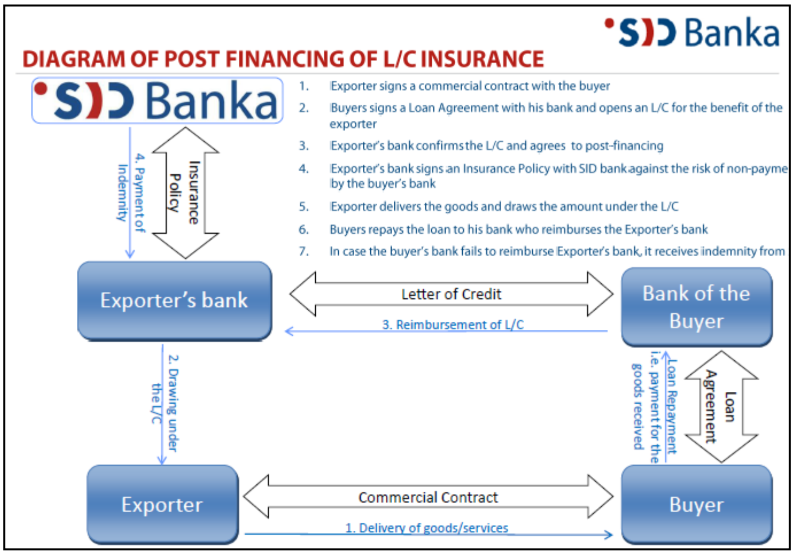


Purchase of receivables

In this case bank purchases receivables from the exporter, pays out the exporter and enters into a debt relationship.



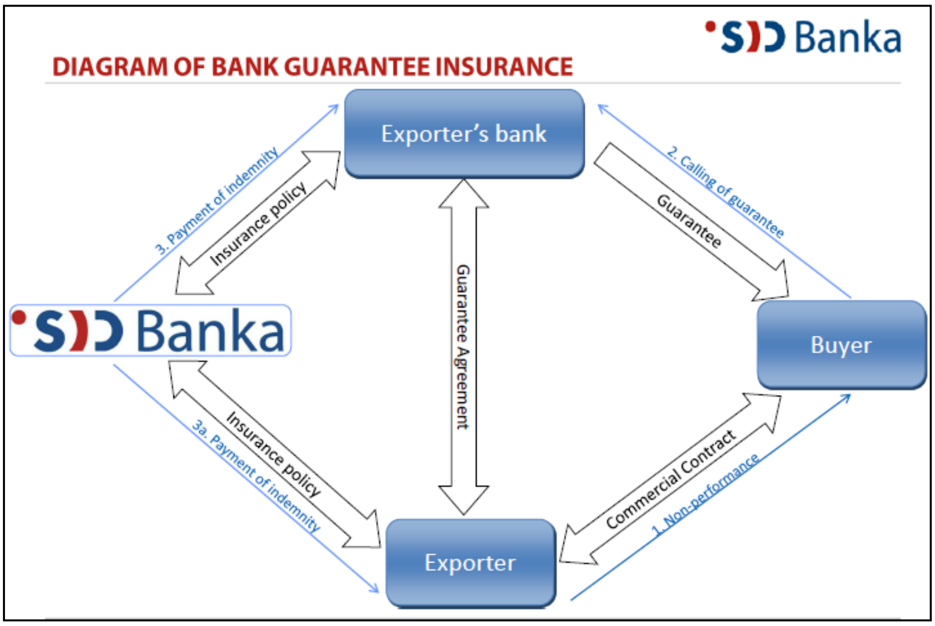
Letter of Credit	Various forms (sight, with deferment of payment, confirmed); deed of sale and payment terms are agreed under the letter of credit.



2. Insurance of bank guarantees

In international business operation, particularly in export of equipment, performance of investment work etc., it is an established practice for the buyer to require from the exporter adequate guarantees for coverage of risks on exporter's side (i.e.: bid bond, performance bond - for good execution of works, advance payment bond, warranty bond, retention money bond).

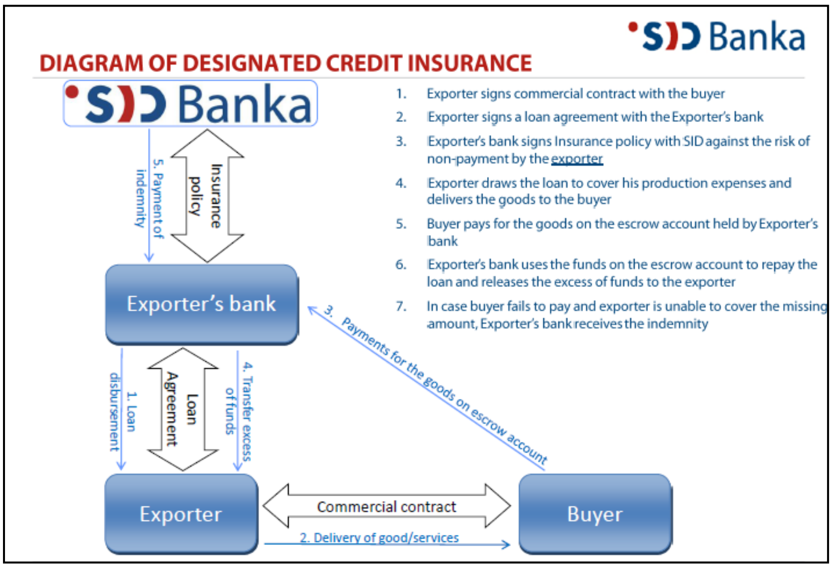
These guarantees are often a prerequisite for the exported to obtain the business. Guarantees, issued mostly by first-class banks and other financial institutions upon order of originator, are issued in content and form as required by beneficiaries and therefore efficiently protect them against commercial risks, and have to be provided by the exporter - the opposite party of the original agreement.



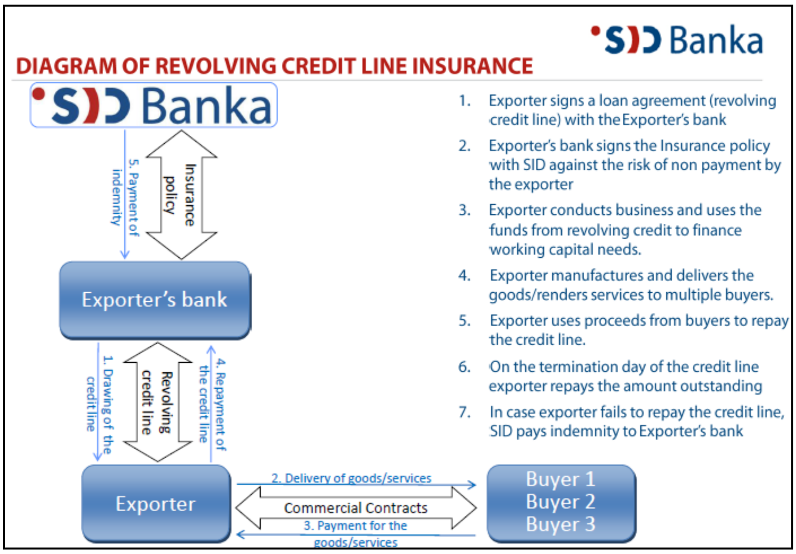
The exporter and exporter's bank (the latter in case exporter is insolvent or the given guarantees fail to cover its recourse) face certain risks in connection to guarantees in international trade, which they can insure at SID Bank. Part of these risks can be transferred to the insurer - SID Bank - with insurance against unfair calling and calling of guarantees due to political and other non-commercial risks.

3. Insurance of pre-export financing

Insurance of pre-export financing is available in two options. One option in terms of designated credit with specific intention to finance the production of goods subject to signed export contract.



Second option is in term of revolving credit line. Eligibile exporters for the revolving line must exhibit at least 50% of export proceeds on last three year average.



Both options enable exporters to raise fund to finance their production. Funds are to be used for working capital needs specifically.

4. Investment insurance services

Outward investment indicates complicated and time consuming projects, during which investors are exposed to risks quite different from the risks inherent in the domestic market. These risks are a sign of force majeure and are not under control of the investor; nevertheless, they can severely jeopardize the existence and performance of the investment (war, civil unrest, natural catastrophes, expropriation, conversion restrictions etc.). Therefore, it is advisable for investors to insure their investments against these risks with investment insurance for the Slovene economy on behalf and for the account of the Republic of Slovenia, provided by SID Bank.

Forms of investment eligible for insurance:

a. equity,
b. shareholder's loan
c. non-shareholder's loan.

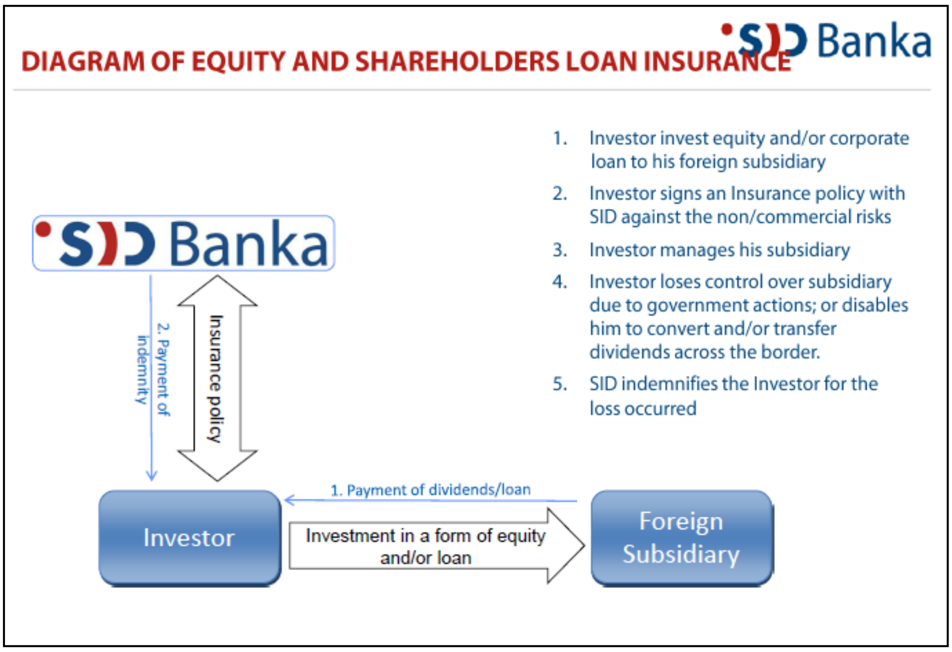
a./b. Equity insurance and shareholder’s loan

Equity insurance is insurance of funds invested by a Slovenian investor into the project company abroad. This can include founding of a new company (including joint investments), purchase of an existing company or increase in capital of a company. The investor can also invest funds in the form of long-term loan **(shareholder's loan**).

Insurance policy usually covers a "package" of risks, with an option of custom-made choice of insurance coverage with regard to type of risks as well as coverage level of each risk. This is a 90% coverage, where 10% stands for own share of the investor (meaning that the policy holder to assumes the risk amounting to 10% of sum insured).

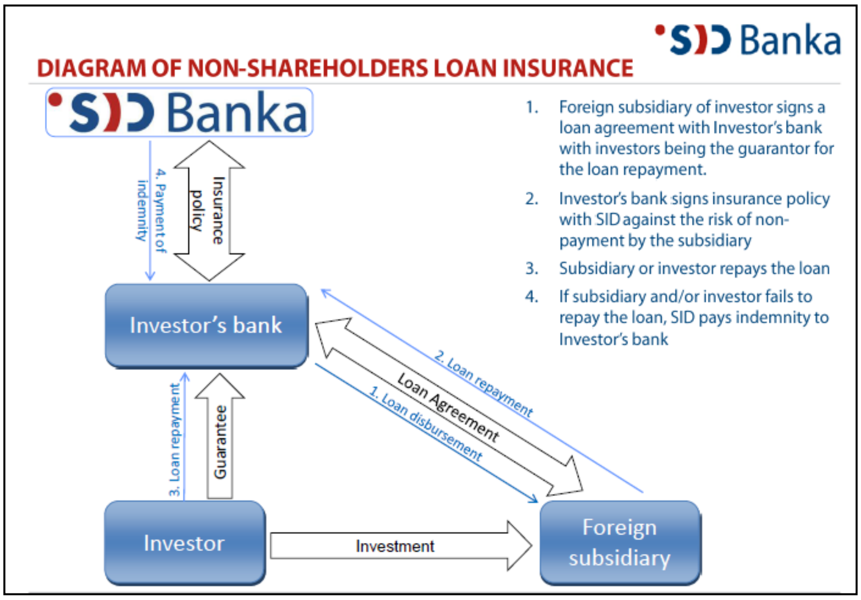
Sum insured is the amount of investment the investor wants insured. Investor can include in insurance just a portion of investment, as a current sum insured. The portion of investment not included in the first period of insurance, or for including future undistributed profits, can be included in the insurance in the form of reserved sum insured, for which the policy holder pays only a portion of premium charged for the current sum insured.

Insurance period can last from minimum 3 (or 5 when insuring shareholder's loans) to maximum 15 years. Nevertheless, policyholder can cancel the insurance any time after expiration of the minimum insurance period.



c. Insurance of non-shareholder's loan

When issuing a non-shareholder's loan, SID Bank insures funds/loan granted by a financial institution to the investment company with a majority ownership share of a Slovenian investor.



5. Project financing insurance

Project financing is the most complex service of insuring and financing of (export) projects. It represents a special non-conventional form of financing of long-term projects, where creditors and insurers in their decisions mainly rely on the planned future income of the project company (the newly founded company) as the principal resource for the servicing of granted loans and the property of the project company as the main form of insurance (collateral).

The policy is based on risk sharing among the participants in the project (non-commercial as well as commercial under certain conditions), following the principle that a certain risk is assumed by the participant best equipped for its managing, or most capable of influencing it. The minimum of 30% of the project value has to be provided by the project sponsors, while SID Bank provides up to 40% with its support, and the remainder minimum 30% is provided by commercial banks experienced in the area of project financing. Combinations with other financing sources are also possible.