Project sponsors want insurers who can mitigate political risk and assist with commercial risk as well. ECIC delivers on this front.”

Mandisi Nkuhlu, COO of Export Credit Insurance Corporation of South Africa SOC Ltd
Opportunities for new business in South Africa’s mining sector are negligible at present. This is largely the result of the global commodity recession which is further exacerbated by an ageing industry entering maturity, writes LAURA CORNISH.

Export Credit Insurance Corporation of South Africa SOC Ltd (ECIC) is compensating for this challenge by facilitating the exportation of local goods and services for the mining sector into Africa and in turn driving the creation of South African jobs, GDP growth and fiscal revenue.

Subsequently, ECIC has quickly gained recognition in the South African and global mining industry, having contributed positively towards the successful development of new projects in Africa and further afield.

The state-owned company was established in 2001 and provides political and commercial risk insurance to facilitate the bankability of export transactions. “We facilitate this service because in many instances commercial lenders are unable or unwilling to accept these risks in medium-term and long-term transactions,” starts COO Mandisi Nkuhlu.

Additionally, ECIC provides export credit and foreign investment insurance cover to commercial banks and development finance institutions and in return ensures 50% of goods and services procurement for African projects is secured in South Africa. Consequently, the corporation is fulfilling its strategic goals and government-driven mandate – to accelerate economic growth, create and preserve employment opportunities and reduce economic inequalities.

Mining a key business sector
While its insurance and export credit investments focus on a number of large-scale industries – including agriculture, telecommunications, transport and infrastructure – the mining sector has traditionally contributed around 50% of ECIC’s business and project portfolio, and still does according to Nkuhlu, despite the current recession.

“Because we compete in a global market space, we need to leverage off our local economy’s greatest strengths, which in South Africa has historically been in the mining sector. The industry has also retained a strong position in the country having developed expertise which provides it with the ability to compete on a global stage.” As such, ECIC has been promoting this advantage and continues to use it as a springboard to support well-structured mining projects in Africa, supported by the local mining supply industry.

Fundraising for projects in Africa is particularly difficult, Nkuhlu continues, because they are generally in remote and politically-challenging regions and locations. “Project sponsors want insurers who can mitigate that political risk and assist with commercial risk as well. ECIC delivers on this front; thereby supporting the mining projects while opening up doorways for South African businesses to contribute towards their construction and development and furthermore providing them with a foothold into doing future...
COVER STORY

business in the country.”

More recently, ECIC’s mining exposure has been driven primarily by the African copper sector in Zambia (33%), as well as the gold (in Liberia), diamonds (in Lesotho) and titanium (in Mozambique) sectors.

Shining examples of insurance support and success
ECIC’s mining project support is well demonstrated through its financial role with AIM/TSX-listed West African gold mining company Aureus Mining.

The company supported, facilitated and enabled the US$88 million loan facility provided by Nedbank and RMB with political and commercial risk insurance for the miner’s New Liberty gold project development in Liberia which delivered its first gold in June 2015. Its construction was overseen by South African engineering firm DRA and numerous local entities exporting equipment and services to the project.

Konkola Copper Mines’ (KCM) Brownfields expansion in 2013 was also supported by ECIC. In 2012, Standard Bank was jointly mandated by KCM to arrange its debt funding for the project. The debt funding was split into a $300 million commercial facility with a three-year tenor and a $400 million ECIC-backed facility with a five-year tenor. It remains the single largest mining project backed by the ECIC.

“We provided a degree of debt relief for the project which had to consider operational and price challenges,” Nkuhlu notes.

ECIC’s growing successes and project list portfolio can largely be attributed to its 10+ year track record stemming across various commodities from the African continent.

“We have a strong team that understands country risk, regulatory frameworks, etc. which is vital in understanding how to provide export financial support. We also work closely in collaboration with our finance partners and technical specialists to fully comprehend all aspects of a mining project to deliver the best assistance to the project,” Nkuhlu notes.

Operating in a mining recession
The COO does not deny that the impact of the mining recession is reducing the number of opportunities for new mining projects to gain finance and in turn for local businesses to acquire new export work.

“Projects still need to be bankable for us to insure them and the subdued global markets have affected us from this perspective,” Nkuhlu emphasises.

THE RIGHT MAN FOR THE JOB

Nkuhlu has worked for various financial institutions involved in the financing of infrastructure development. He spent five years at the Development Bank of Southern Africa (DBSA) as the legal advisor to the project finance team responsible for cross-border private sector projects. During his stay at DBSA, he was seconded to Masons in London, a law firm specialising in public private partnerships.

Later on, Nkuhlu worked for the Industrial Development Corporation of South Africa (IDC) as a senior account manager in the international finance department. Prior to rejoining ECIC in February 2011, he was a director of export finance at Standard Bank of South Africa.

The COO has worked on numerous infrastructure and mining projects. He cut his teeth on the Mozal I and Mozal II projects and worked on the Nelspruit Water PPP Concession, the first bank financed water PPP Concession in South Africa.

He holds a B Iuris and an LLB degree from the University of the Western Cape and is an admitted attorney. He furthered his studies at Wits Business School – Management Advancement Programme and at the UCT Graduate School of Business – Executive Leadership Programme.

PORTUNITIES

With changing commodity cycles, projects are more likely to run into financial stress and need additional facilities to compensate for this. As the ultimate risk taker, ECIC is able to revisit its financial terms and bring flexibility to the whole ECIC-backed finance package. This offers relief and helps projects weather the storm,”

Mandisi Nkuhlu
“Our evaluation criteria have become more stringent as a result. There are however still a few transactions under current consideration and these will require appropriate risk allocation and robust financial structuring to progress.”

Project cost drivers are pivotal in reducing project risk and also provide a competitive advantage – being close to necessary infrastructure is a good example. “These projects are considered more robust and are more likely to secure the necessary finance.”

ECIC also supports infrastructure (port, rail, power, etc.) projects in Africa and has significant insight into their current and potential future influence on mining projects. A broader insight into this sector, alongside its relationships with African governments, provides ECIC with considerable understanding of greater mining project risks.

RMB structures a unique export guarantee facility with ECIC

In November 2015 Rand Merchant Bank (RMB) South Africa announced the structure of a unique export guarantee facility with the ECIC, paving the way for similar products between banks and insurance companies.

The ECIC and FirstRand Bank (FRB), parent company of RMB, signed a multi-currency guarantee facility equivalent to $200 million under a risk participation agreement. The product is unique as the ECIC, which traditionally provides export credit insurance, has for the first time agreed to share the risk of a number of South African corporates’ export guarantees with a bank.

The ECIC and FRB will share the default risk on a portfolio of South African corporates’ export guarantees which have been originated by FRB. The three-year facility, which has an option to be extended, is a 50/50 risk sharing arrangement that will enable the ECIC to match FRB’s undertaking in every transaction.

The facility will also enhance FRB’s risk-bearing capacity and therefore increase its ability to support export trade-related transactions for South African corporates across the African continent.

“This transaction is aligned with the ECIC’s mandate to facilitate export trade so South African contractors can compete for and win capital goods and services contracts in other countries,” says Nkuhlu. “Through these types of strategic partnerships between the ECIC and the banking sector, we can encourage further debt facilities for our exporters and provide them with additional financing solutions to compete effectively on the international stage.”