

Building and operating an MSME export credit insurance facility in Brazil*



ABGF has been working on MSME full-range insurance cover aimed at facilitating prospecting and exports to new buyers abroad. **Marcelo Franco**, CEO at ABGF, explains the new offering and how it was developed. Co-author **Pedro Carriço**, ABGF's Credit Underwriting & International Relations Executive Manager.

In 2015, Agência Brasileira Gestora de Fundos Garantidores e Garantias (ABGF), acting as an export credit insurance agency, deployed a micro, small and medium enterprises (MSME) export credit insurance official support scheme



together with the Guardian Authority (the Secretary for International Affairs – Sain of the Ministry of Finance as a policy maker which is responsible for the certificate of guarantee and for hiring ABGF, as fully state-owned enterprise, to run the export credit guarantee business). The instrument was developed over two years and required extensive research and deep discussions between the Brazilian authorities and exporters from different sectors and regions to capture the essence of business trends and demand.

The history of MSME export credit insurance support is short, dating back to 2013 when ABGF was requested to provide findings on market gaps in the segment and to assess the real need for such a tool. Brazilian exports have been extremely concentrated in the hands of 500 enterprises, which are responsible for 80% of the country's total exports. The remaining 20% comes from 23,000 enterprises with annual overseas sales worth up to \$5 million. Nevertheless, only a small fraction of Brazil's MSMEs are active exporters because of a guarantees market gap. Whereas in developing economies MSME exports

represent on average 10% of total exports, Brazilian MSMEs account for no more than 2.5% of the country's exports.

Product research

In our research, we quickly realised that MSMEs' inability to provide the guarantees traditionally requested by commercial banks marginalised an enormous number of enterprises from the financing system. This uncondusive environment needed to be corrected if MSMEs were to venture into overseas markets and increase their share of total exports. Official support in the form of export credit insurance seemed to be the right tool to fill the gap as banks were reluctant to engage in such MSME deals given that they systematically do not pay off. On the other hand, many MSMEs were seeking export cover on their own via self-insurance.

The desired solution to MSMEs' expectations would have to be simple, scalable and far-reaching from the point of view of the enterprises, the banks and the Guardian Authority. At the same time, it was imperative that any proposed scheme should have the lowest possible administrative cost to take into account the budget constraints and ABGF's "more with less" public policy approach.

Another key design issue was how to build a platform on which all players could interact securely, from the initial application to the issuance of the policy. Moreover, the market dynamics called for a tool that expedited the process of application, risk assessment, pricing and policy issuance as fast as possible. Adjustments were required after exhaustive testing and the first demo version outcomes, but gradually ABGF and the Guardian Authority have found the right path.

As a result, the product involves a fast track decision process, free of paperwork. The applicant goes online and applies for cover by simply stating country, sector, name and the buyer's characteristics, as well as requesting a credit limit for the export. ABGF assesses the exporter risk (pre-shipment cover) and/or the buyer (post-shipment cover) risk, flagging the credit limit available and a premium corresponding to the risk score. This whole process takes an average of five working days if there is enough information on the buyer's data and risk profile. ABGF estimates that end-to-end processing should take approximately 10 days.

MSME feedback good

The feedback from MSMEs that are in contact with ABGF experts is highly positive and gives us fresh input to keep improving. So far, the MSME team has processed 338

transactions from 130 unique exporters in 22 different countries, generating exposure of approximately \$13 million. As of yet, there have been no claims filed.

Although ABGF was pushed to launch with a post-shipment only cover, the current product is now closely aligned with initial market requests for a complete MSME tool encompassing pre- and post-shipment cover. Eligible enterprises must make no more than \$3 million of total export sales yearly and have total turnover of up to \$30 million. Roughly speaking, in this example, 10% of the total turnover can be insured by the current facility.



Behind the scenes, ABGF had a lot of paperwork to do in parallel with the product, such as step-by-step online system instructions and the export credit insurance general and particular conditions, as well as the actuarial and technical paper for pricing and risk assessment mapped to the correct rating. We are very proud of the product rolled out, which we believe meets the needs of both exporters and banks.

We realised however that gathering together even the above-mentioned 23,000 MSMEs already registered in officially compiled data and educating them about export credit insurance and the technicalities of this industry would be a big challenge.

In addition, an online presence would not be enough to reach the rest of the addressable market of non-exporter MSMEs. A toolkit, workshops and webinars have a role to play in reaching out to these firms, but there is still an important hurdle to overcome in the management style and mind-set of MSMEs to help them access a combination of insurance and financing via an online tool.

Education and export cover

Our current priority is education on export related insurance and how to apply for cover for overseas sales. But for those still outside the export business, ABGF has been looking at partnering with official banks and private export representatives, campaigning for more public information on export facilities.

Export and credit insurance promotion is inherent to ABGF's mandate and should be a constant focus of our activities, but we have been very careful to avoid undercutting or interfering with the market. Official support should come into play where there is a market gap or failure. Although a period of poor performance might open up space for public support, we stick to the philosophy of not competing with private insurers.

Since pre-shipment should be an incentive for export production, ABGF launched a product that combines a full working capital insurance facility with export credit risk cover. Doubtless there is a market gap in MSME working capital cover. Commercial banks are not willing to provide such a credit line without appropriate protection, basically relying on their credit scoring systems and/or recourse against MSME's balance sheet. In most cases, banks are unable to finance MSMEs without regular guarantees. ABGF has been studying this market and concluded that the most efficient cover would be a pre and/or post-shipment product. Of course, MSMEs served under the official support are expected to produce and sell abroad.

To that end, ABGF has also been preparing a stand-alone pre-shipment cover, which should be launched in the current year since the Guardian Authority has already revised and authorised the product. The main task for ABGF is to educate MSMEs and promote the official cover around the country, much as it did previously with the post-shipment product.

Furthermore, ABGF has also been looking at prospecting cover for MSMEs that are keen on exploring to overseas markets but do not have enough resources to look for business opportunities abroad. This should be challenging for MSMEs, and ABGF understands that a complete service for these enterprises should include prospecting as well as pre- and post-shipment cover.

In short, the ABGF team has been working on an MSME full-range insurance cover aimed at facilitating prospecting and exports to new buyers abroad. We are convinced that MSME export success depends on the facilities provided as well as on the enterprises' production ability and willingness to export.