

## Summary of Findings of NZECO's Business Survey

*As New Zealand's official export credit agency, the New Zealand Export Credit Office (NZECO) is responsible for providing trade finance and risk management solutions to New Zealand companies. Our support is aimed at assisting exporters to take advantage of commercial export opportunities when the private sector is unable to.*

*During July and August, NZECO undertook a survey seeking exporters' feedback on their experiences and key challenges in respect to insuring, funding and securing export sales. We also asked for feedback into how NZECO can improve its services to exporting firms.*

*We received over 80 responses, and the results and feedback have been aggregated to help inform a review by the New Zealand Treasury into the market need, role and performance of NZECO. This review is intended to be presented to the Government to support any decisions on the future mandate and operations of NZECO.*

### Respondent profile

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A wide range of industries were represented in the survey. The top five sectors were manufacturing, food and beverage, ICT, services and agriculture & forestry.

The majority of respondents had previously engaged with NZECO and /or had applied for NZECO's support.

### Potential Barriers to International Trade

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Exporters were asked to rate potential barriers to increasing their international trade in order of perceived significance:

	Not at all significant	Not very significant	Neutral	Significant	Very Significant	Blank
Shortage of Working Capital to fulfil export orders	20%	19%	13%	18%	21%	7%
Performance Bond requirements	25%	13%	14%	11%	21%	15%
Uncertainty of buyers' ability to pay	12%	27%	15%	17%	21%	7%
Buyers' requiring extended repayment options	12%	23%	17%	24%	17%	8%

The majority of comments fell into two distinct categories:

1. *"Knowing Your Customer"*. Challenges included:
  - a lack of confidence in their buyers' intention to pay;
  - the inability to differentiate genuine queries from "tyre kickers or scammers"; and
  - how New Zealand's 'distance to market' can hinder a company's ability to monitor what is happening in their export markets.

## 2. *Cost of working capital and bonds requirements:*

- the high cost and availability of working capital and/or performance bond requirements for export contracts. This was particularly an issue for companies operating in sectors that prevent them from using property / goods as security. E.g. the wine industry.

## Trade Credit Insurance

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A quarter of respondents use trade credit insurance to safe-guard against non-payment from their international buyers.

Less than 10% of respondents who have trade credit insurance use it to advance cashflow from their bank. The reasons from the 90% of respondents who do not use trade credit as a trade finance solution were evenly split between:

- cashflow not being a problem;
- not being aware of this option; or
- this solution being unavailable from their bank.

In order to be eligible for NZECO's trade credit insurance, exporters must first seek cover from private trade credit insurers. The key reason exporters had been declined trade credit insurance from the private sector was the lack of appetite to insure a **single buyer** (or a small range of buyers), particularly for SME firms with low insurable turnover.

The results also highlighted that the majority of exporters were unaware that NZECO has the ability to provide **top up cover**, in partnership with private insurers<sup>1</sup>, on insufficient buyer limits.

## NZ exporters - outmatched repayment terms

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Some exporters considered that the Canadian, US, Malaysian, European<sup>2</sup> and South African export credit agencies had supported their exporting firms in offering extended repayment terms to foreign buyers, which may have resulted in the NZ firm losing export sales.

## Opportunities with Sovereign or Public Agency Buyers

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The majority of respondents to this question said they had lost or declined opportunities with a Sovereign or Public Agency because of:

- high levels of performance or surety bonds;
- the buyer's requirement to contract with locally-registered companies or agents;
- a requirement to offer extended repayment terms to win contracts; or
- concerns with political risks.

## Access to Working Capital

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In this section we asked exporters to reflect on the availability of working capital and other bank facilities to support export delivery. A third of respondents confirmed they experienced difficulty accessing working capital, citing the following reasons:

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<sup>1</sup> NZECO currently has top-up cover arrangements with Euler Hermes, Atradius and AIG.

<sup>2</sup> Particularly Denmark, Sweden and the Netherlands.

- Lack of sufficient collateral to secure the lending;
- Low equity ratio due to fast growth;
- Reduced bank credit appetite following the financial crisis;
- Weak balance sheet, particularly for companies in start-up phase or with a lumpy cash-flow business, and/or
- Restricted appetite for funding trade to higher risk regions or sanctioned countries.

#### Political Risk

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Half of the respondents considered the political risk in certain countries to be un-manageable, and consequently have not pursued export sales to those regions.

These respondents then ranked those political risks that they considered to be the most significant in presenting a barrier to trade:

	Not at all significant	Not very significant	Neutral	Significant	Very Significant	Blank / No response
Currency inconvertibility and transfer restriction	9%	7%	7%	6%	10%	61%
Expropriation of funds or assets	9%	9%	7%	4%	7%	65%
War, terrorism and civil disturbance	5%	7%	7%	9%	13%	59%
Breach of contract	2%	4%	9%	10%	17%	60%
Non-honouring of financial obligations	2%	2%	4%	16%	20%	59%

Respondents listed the following countries that had they had considered or experienced as having high levels of risk and political uncertainty:

- *Asia and Oceania* – China, Papua New Guinea, India, Bangladesh, Pakistan, Sri Lanka, Indonesia, Myanmar, Iraq and Iran
- *Africa* - particularly Libya, Kenya, Ethiopia, Egypt and Nigeria
- *Europe* - Spain
- *South America* – Argentina

#### Leasing

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A quarter of respondents had been asked by overseas buyers if they were able to lease their products. Most of these respondents were subsequently unable to obtain additional banking credit facilities to enable them to fund these leasing export opportunities, which resulted in them declining the lease sale opportunity. A third of respondents believed they would increase export sales if they were able to offer leasing as an option.

#### Supply Chain

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Exporters reflected on how their domestic (NZ) supply chain supports or encumbers their export trade. A quarter of respondents considered that their export growth has been less than what it might have been because their NZ suppliers' payment terms have been a constraining factor on their working capital. Likewise, 14% of respondents considered that their export

growth has been constrained by the inability of New Zealand suppliers to meet your increased demand.

#### Limitations of availability of NZECO products

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*Annual Turnover:* Almost 20% of respondents had an annual turnover greater than \$50m. Of those, 20% acknowledged having working capital constraints in funding their export growth. Currently, those firms are restricted from NZECO's Loan Guarantee which is limited to firms with annual turnover of less than \$50m.

#### Feedback of NZECO's services

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We sought feedback on NZECO's services, operations and general awareness of our services. Exporters ranked how the following factors had influenced their decision to apply – or not apply - for NZECO support.

	Not at all significant	Not very significant	Neutral	Significant	Very Significant	Blank / No response
Lack of understanding of the benefits of NZECO's products	17%	16%	13%	26%	6%	22%
Amount of information required by NZECO to support an application	13%	11%	20%	15%	17%	23%
Processing time from application to policy	17%	13%	21%	13%	11%	24%
Level of pre-assessment application fees charged	16%	20%	22%	11%	10%	22%
Premium pricing	11%	17%	20%	12%	20%	21%

We provided an opportunity for exporters to provide additional feedback. Most comments related to:

- Challenging whether NZECO's risk appetite level was sufficient to properly support smaller firms as well as trade into some export markets;
- NZECO's requirements to support an application, especially the level of information sought which was considered to be too high;
- Requests to implement a pre-approval stage to our assessment;
- NZECO's lack of 'aggressively pursuing' opportunities like other export credit agencies<sup>3</sup>;
- NZECO staff's role in helping to provide an understanding of the process and products.

#### Next Steps

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NZECO is taking steps to have one-on-one discussions with some of the respondents in order to obtain fuller feedback. If NZECO has not contacted you, and you would like the opportunity to share your views face to face, then please contact us.

<sup>3</sup> Particularly the Canadian and US export credit agencies

We're closely reviewing the constructive feedback and suggested innovations that were suggested. Some of the product recommendations will require Ministerial approval, and accordingly these results will feed into the proposed review of NZECO.

We are also engaging closely with the Australian, UK, Danish and Swedish export credit agencies (in the first instance) in order to learn about their recent reviews and changes to the way that they are supporting their SME businesses – both in terms of new products, marketing and procedures.

Thank you again to all you completed this survey.