EXTRACT FROM:
WORLD BANK PORT REFORM TOOL KIT
Financial Implications of Port Reform, Part II,
Principles of Financial Modelling, Engineering and Analysis

Principal Guarantees Offered by an Export Credit Agency for Project Financing: The COFACE Example

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1. Risks Definition

COFACE insurance policies cover four categories of risks:

- ***Manufacturing Risk:*** it materialises when the fulfilment of exporter's contractual obligations is suspended for at least a 6-month period, inasmuch as this situation results exclusively from factors spelled out in the insurance policy subscribed by the exporter.

- ***Credit Risk:*** it materialises when the exporter's commercial bank finds it impossible to recover all or part of the debt relating to the guaranteed contract, inasmuch as this situation results exclusively from factors spelled out in the insurance policy subscribed by the exporter.

- ***Performance Bond and Advance Payment Reimbursement Guarantee Risk:*** upon request from the exporter, these guarantees and bond commitments may be included in the scope of the Manufacturing or Credit Risk guarantees.

- ***Bid Guarantee Risk:*** it materialises when the exporter cannot recover from the beneficiary of the bid guarantee all or part of the guarantee amount.

In principle, the COFACE also demands that:

- In order to cover the Manufacturing Risk, the Credit Risk be covered;
- In order to cover the Credit Risk, in the case of progressive payments, that the Manufacturing Risk be covered.

2. Facts Triggering Guarantees

COFACE General Conditions list 8 factors triggering a call on guarantees (manufacturing or credit):
- Arbitrary cancellation of the guaranteed contract by the debtor;
- Mere *carence* of the debtor
- Insolvency of the debtor, consisting in its incapacity to meet its financial commitments, resulting from: