

# ECA Review: EKN: more and more mobile

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EKN's current speciality is telecoms. The sector brought in SKr15 billion of new business in 2000 alone. "EKN has always been active in telecoms," says Lena Hoglund, head of the telecoms underwriting team. "The market is huge and there is a lack of appetite in the capital markets." And this trend looks set to grow. As long as leading equipment supplier Ericsson keeps expanding, the telecoms team at EKN is going to be busy.

Wireless telecommunication projects throw up more risks than most. They are characterised by large start up costs, including purchasing licenses and building out networks, all of which must be complete before revenues come in. New technology also carries substantial risk, in terms of both technical operation and consumer appetite. This is currently most prevalent in the attempted build out of UMTS by debt riddled telecoms operators.

GSM is largely proven technologically, but its development across emerging markets creates new commercial and political risks. In recent years EKN has followed Ericsson to establish a significant presence in South America and Africa. With current confidence in emerging markets wavering these projects present a high-risk category in a high-risk region. ECAs or other insurers are a must.

2001 has seen syndication of the Eu1 billion Medi Telecom deal. Funding development of Morocco's second GSM license, Medi marks EKN's largest telecoms project to date. Debt is comprised of IFC A, B and C loans, EKN and COSEC covered tranches, an uncovered loan and an Eu200 million equivalent portion of local financing.

As telecom industries in emerging markets expand, increasingly complex financing packages are demanded. Co-operation with other agencies is crucial to financing large projects. EKN stipulates four types of agreement it will enter into with other ECAs; a reinsurance agreement, a parallel insurance agreement, a percentage agreement and a joint insurance. Altogether EKN has agreements with 21 other ECAs, the most recent signed with KEIC of South Korea in 2000. Reinsurance by private insurers is also an avenue that EKN is actively exploring.

Smaller GSM deals closed this year have included MTN Cameroon, on which EKN was the sole backer of a Eu60 million international loan. Like Medi, MTN is also characterised by a locally syndicated tranche. Enhanced by the African Development Bank and Dutch development agency SMO, this was allegedly heavily oversubscribed. Drawing on local liquidity is an important component of financing deals in risky climates.

GSM projects will keep coming. "But the real challenge for the coming year or two is 3G build outs," states Hoglund. "Although technical risks were obviously inherent when GSM networks first set up, the huge size of UMTS deals puts them in a different league."

EKN is no stranger to commercial risk. Unlike some of the more conservative ECAs, it does not distinguish between pre and post completion on projects, entering into full risk on the date of disbursement. An average greenfield project will be awarded 100% political and 50% commercial cover, although a brownfield project could have up to 75% commercial.

Hoglund believes this will exacerbate. "EKN definitely takes on more commercial risk than in the past," she says. "We work very closely with commercial banks on the documentation process." The growing size of projects in diversifying markets demands flexibility and competitiveness. But UMTS will really test their capacity. The sums involved in

combination with a widespread burst in the new technology bubble means that architects of UMTS financings have to be innovative indeed.

Project risk is not such an issue with power projects, says another EKN representative. Corporate risk has not been unusual for many years. The power sector has accounted for the greatest amount of EKN's credits outside of telecommunications. Two transmission lines running from Argentina to Brazil have compounded the agency's presence in Latin America. CIEN phase II is still currently in finance and includes involvement from MIGA and the Inter-American development bank.

Multi-sourcing and flexibility is not confined to telecoms, although it seems likely that it will remain EKN's emphasis for the near future. With reference to all its work, 2000 saw EKN work an environmental policy into its procedure and establish a special group for intensifying its work with smaller and middle-sized companies. The agency also states that a portfolio risk group has been established to handle the considerable risk concentration in EKN's exposure.

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