

Bond a catalyst for growth into Africa

The Challenge: Providing a two year performance guarantee for an IT project in Swaziland.

The Solution: The Treasury's New Zealand Export Credit team (NZEK) provided its Contract Bond Guarantee to BNZ as collateral to issue the Performance Bond required.

The Benefit: Data Torque was able to secure and deliver their first contract in Africa.



A Wellington IT company established in the Pacific saw an opportunity to expand into new markets in Africa. How could it finance this and maintain working capital for the expansion?

Their first project was a two year project to design and implement “revenue management software” to the Swaziland Revenue Authority. A condition of this contract was the issuance of a performance bond which was to extend during the full term of the project.

Bill Chatwin, Managing Director of the company – Data Torque – says he approached his bank, BNZ, who in turn contacted the Treasury's New Zealand Export Credit (NZEK) to enable the issuance of this performance bond.

“NZEK supported our application and underwrote the bond. We didn't need a loan to cover it. Without that support, our growth would have been constrained.”

Microsoft-certified, Data Torque provides easy-to-use tax systems to developing countries and competes against large multinational companies for multi-million-dollar contracts.

As a result of choosing Data Torque, the Swaziland government has been able to reform and modernise its tax system ahead of forecast, says Bill Chatwin. "We're now able to use Swaziland as a reference site. We've just signed up The Bahamas and have identified 27 countries in Africa to approach."

It is this potential for further growth that caught the attention of BNZ's international trade specialist, Hayden Douglas, when Data Torque first approached the bank.

"Data Torque had an excellent product and a great track record in the Pacific helping developing nations. It was a business on a growth trajectory. "Bonds are not an everyday occurrence and a market like Swaziland is not typical but it was an opportunity for us to develop our relationship with Data Torque.

"I could see it was a good fit for NZEK and I'm a big fan of what they do. I always offer their services to customers as an alternative. They're also another set of eyes on a business," he said.

Hayden Douglas says NZEC services can be applied right across the board, including to other IT companies, manufacturers and even specialist industries like aviation.

"IT companies can be challenging for banks to finance because they don't necessarily have a tangible product. Banks typically like to be able to touch and feel what they're investing in."

IT companies, like other industries, need to demonstrate to banks a concise business plan and should have the support of professional advisors like an accountant and a lawyer, he says.

"Data Torque is a good business using New Zealand talent and competing on the world stage to help developing nations."

NZEC manager Chris Chapman says the Swaziland government was looking for a foreign guarantee before it would sign up with a supplier. "This protects the Swaziland government from default – they can call on a bank to mitigate their losses. With the NZEC guaranteeing the bond, the company didn't have to finance the cash security. It's a very effective solution for a growing company."

NZEC takes on the risk and needs to satisfy itself that the company can fulfill the contract. It assesses the company's management, technical and financial capability, as well as the shareholders' commitment.

NZEC undertakes analysis of each transaction on a commercial basis and does not approve every transaction it looks at. The transactions declined involve companies that have limited experience, or are under-capitalized. Shareholders and banks are often unable or unwilling to invest in them, particularly to fund any cash flow shortfalls.

NZEC anticipates supporting Data Torque with further deals in Africa, says Chris Chapman.

"Our bond guarantee is often a critical factor in enabling a firm to bid for, and accept, an international contract."

Bill Chatwin says he found NZEC supportive and responsive to work with during the demanding tender process. "It's great to see New Zealand government support for technology-led companies expanding into the developing world. We've helped Swaziland improve compliance and their public spending programme as a result."

If you want to understand more about how our **Contract Bond Guarantee** may help you finance your **IT services**, or any other **export-related contract**, then get in touch.

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