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DO 1930



Distr.  
GENERAL

ID/CONF.1/55/Add.1\*  
2 August 1967

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT  
Athens, 29 November-20 December 1967  
Provisional agenda, Items 3(g) and 4(b)

EXPORT CREDITS AND DEVELOPMENT FINANCING

PART TWO

NATIONAL EXPORT CREDIT SYSTEMS

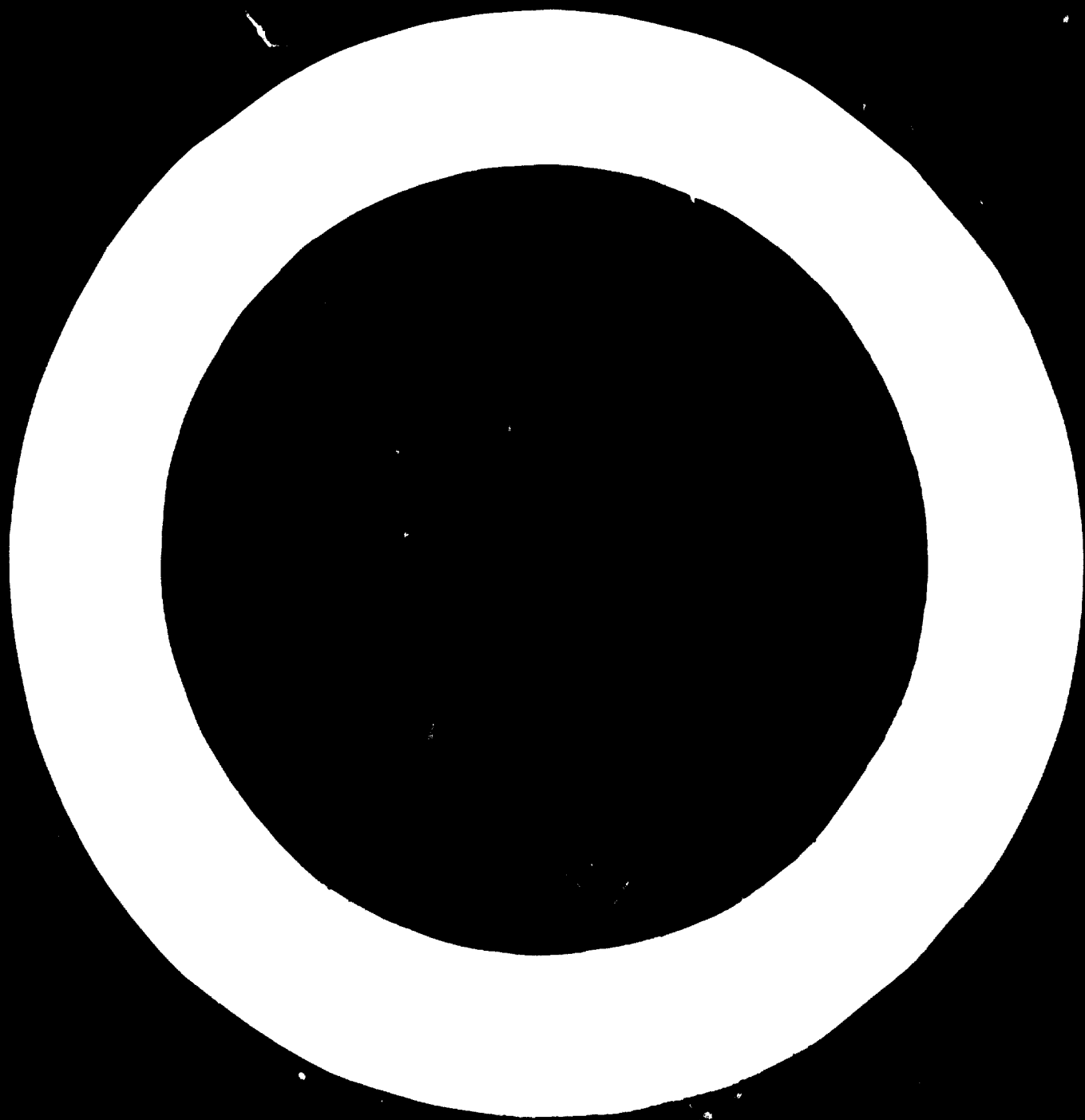
Prepared by the Fiscal and Financial Branch  
of the  
Department of Economic and Social Affairs

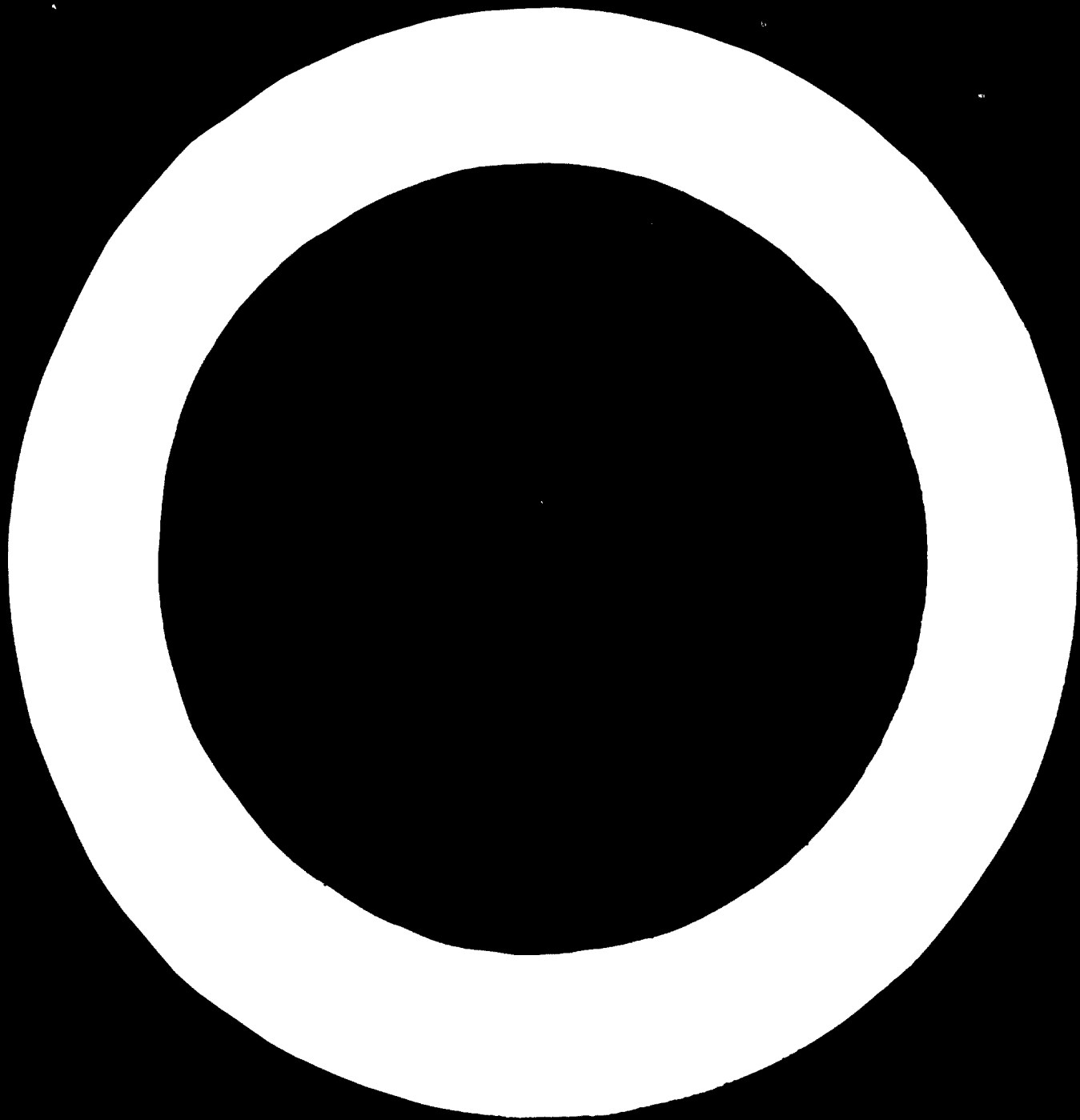
Submitted by the United Nations Department  
of Economic and Social Affairs

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\* This document was originally submitted to the Economic and Social Council as E/4274/Add.1. Only a limited distribution is being made for the International Symposium and participants are requested to bring their copies to the meeting.

67-18555





**Department of Economic and Social Affairs**

**Export  
Credits  
and  
Development  
Financing**



**Part Two  
National Export  
Credit Systems**

**UNITED NATIONS - New York, 1967**

**NOTE**

**Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.**

**E/4274/Add.1  
ST/BCA/96**

## PREFACE

Part One of this study,<sup>1</sup> which was prepared by the Fiscal and Financial Branch of the Department of Economic and Social Affairs, examines the problems involved in the granting and use of export credits for the financing of economic development. In reviewing those problems, it was shown that, while the use of export credits is subject to certain serious drawbacks, such credits have become an important source of external financing for developing countries.

As noted, a number of developed countries consider medium-term and long-term export credits as a major means of assisting the developing countries; they find it easier to increase the volume of export credits than that of aid credits, because in their view export credits—particularly long-term credits—have growth stimulating effects which benefit their domestic economies as well as aid features which benefit the developing countries.

In view of these circumstances, it becomes important for developing countries to make the best possible use of export credits; such credits can, indeed, play a useful role in the complex machinery of development financing provided that consideration of their flows, terms and conditions is integrated in a continuing review of the flows, terms and conditions of aggregate external financing. Within this context, Part Two is designed to provide the developing countries with information on sources of export credits for the financing of their capital goods requirements and the procedures, terms

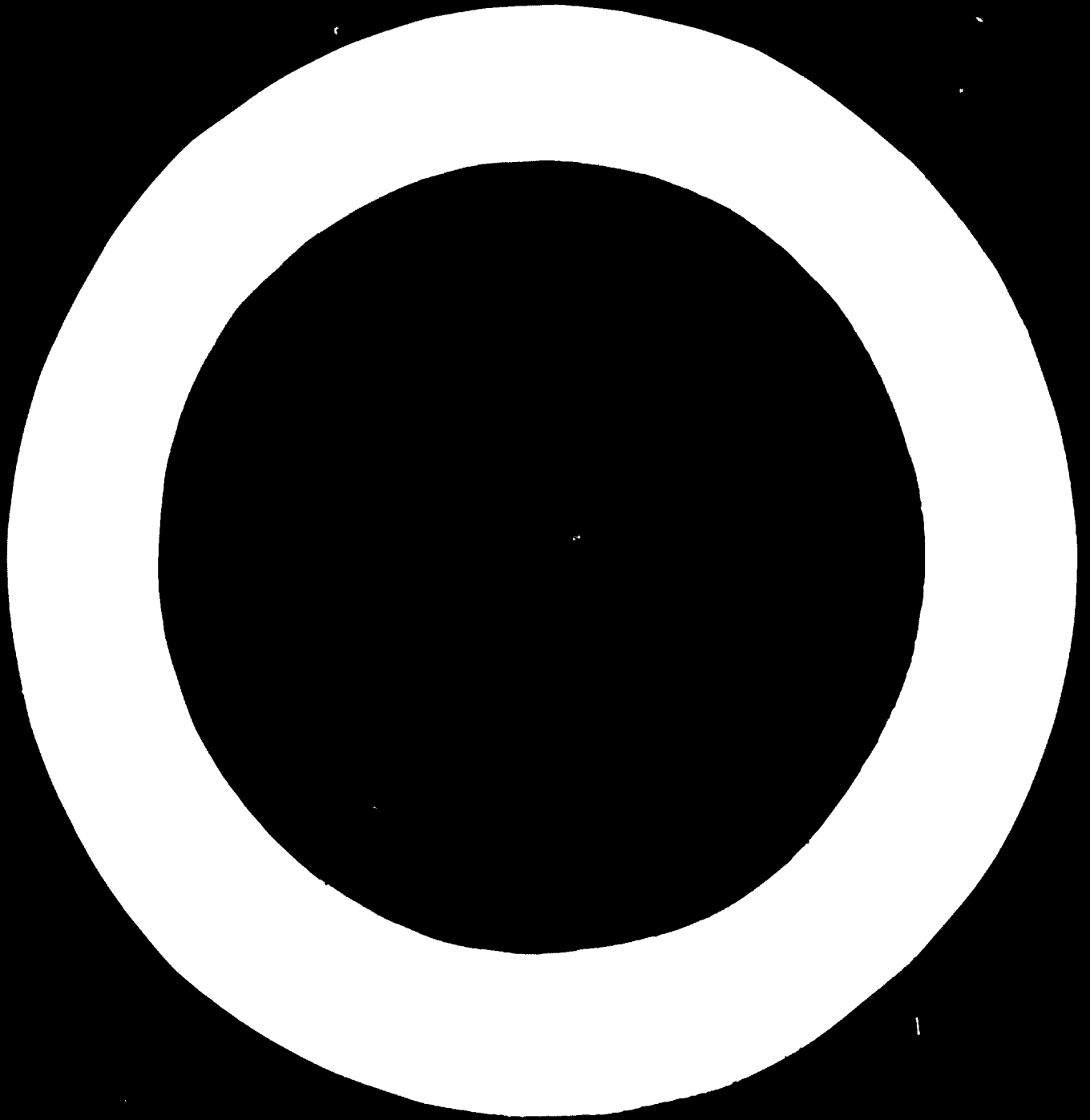
and conditions on which such credits may be obtained. It thus responds to General Assembly resolution 1715 (XVI) on the desirability of providing developing countries "with information and guidance concerning the policies, rules, regulations and practices of existing and future sources of development capital".

Part Two consists of nineteen country studies, each study being divided into three sections, "Institutional framework", "Financing procedures" and "Export credit insurance". The first section covers the institutions which finance and refinance medium-term and long-term suppliers' credits and grant buyers' credits.<sup>2</sup> The second section sets out the application procedure and the terms and conditions on which these credits are granted or financed and refinanced, while the third section describes the export credit insurance process and provides quantitative information on the insurance of all export credit transactions including short-term export credits.

The country studies have been prepared in direct consultation with the national agencies concerned and may be considered as representing the situation in mid-1966 except where (especially for statistics) an earlier date is noted. They will be expanded and brought up to date from time to time in the light of new developments. The Fiscal and Financial Branch would welcome any comments and suggestions which may help to increase the effectiveness of this service.

<sup>1</sup> *Export Credits and Development Financing. Part One. Current Practices and Problems (E/4274)*.

<sup>2</sup> For definitions of suppliers' credits and buyers' credits, see Part One, chapter II.





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## EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

A dash (—) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (—) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1960/61

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" (\$), United States dollars, unless otherwise stated.

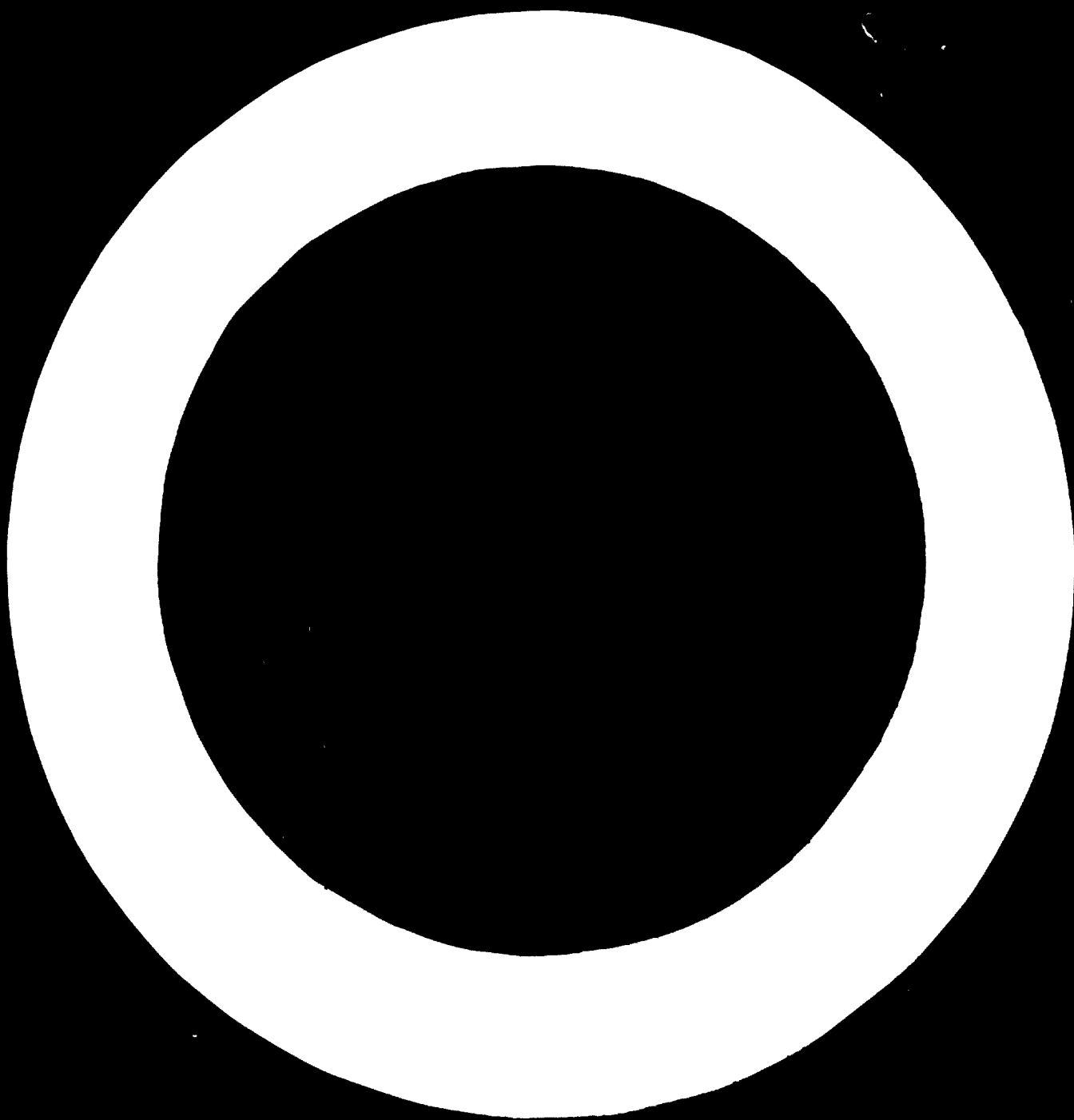
Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

<b>APFE</b>	Aksjeselskapet Forretningsbankenes Finansierings-og Eksportkredit-institutt [Norway]
<b>AID</b>	Agency for International Development [United States of America]
<b>AKA</b>	Ausfuhrkredit Aktiengesellschaft [Federal Republic of Germany]
<b>BFCE</b>	Banque française du commerce extérieur
<b>CCCE</b>	Caisse centrale de coopération économique [France]
<b>COFACE</b>	Compagnie française d'assurance pour le commerce extérieur
<b>ECGD</b>	Export Credits Guarantee Department [United Kingdom]
<b>EEC</b>	European Economic Community
<b>EFC</b>	Export Finance Corporation of Canada, Ltd.
<b>Efbanca</b>	Ente Finanziario Interbancario [Italy]
<b>EFM</b>	N.V. Export-Financiering-Maatschappij [Netherlands]
<b>EFTA</b>	European Free Trade Association
<b>EKN</b>	Exportkreditnämnden [Sweden]
<b>ERP</b>	European Recovery Programme
<b>Eximbank</b>	Export-Import Bank of Washington
<b>FCIA</b>	Foreign Credit Insurance Association [United States of America]
<b>GICEX</b>	Groupement interbancaire pour le commerce extérieur [France]
<b>GIE</b>	Garanti-Instituttet for Eksportkredit [Norway]
<b>IDB</b>	Inter-American Development Bank
<b>IMI</b>	Instituto Mobiliare Italiano
<b>INA</b>	Instituto Nazionale delle Assicurazioni [Italy]
<b>KfW</b>	Kreditanstalt für Wiederaufbau [Federal Republic of Germany]
<b>Mediobanca</b>	Banco di Credito Finanziario [Italy]
<b>MITI</b>	Ministry of International Trade and Industry [Japan]
<b>NCM</b>	Nederlandse Credietverzekering Maatschappij N.V.
<b>ENCI</b>	Société nationale de crédit à l'industrie [Belgium]

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The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.



## AUSTRIA

### INSTITUTIONAL FRAMEWORK

1. In Austria, suppliers' credits for the acquisition of capital goods in that country are financed by the commercial banks, which also grant buyers' credits for that purpose; the commercial banks most active in the export credit financing field are the Creditanstalt-Bankverein, the Oesterreichische Landesbank, the Girozentrale und Bank der österreichischen Sparkassen, the Bank für Arbeit und Wirtschaft and Schoeller and Company.

2. Suppliers' credits with maturities of between six months and three years after shipment of the goods granted in connexion with exports of goods produced by Austrian enterprises and services performed abroad by Austrian firms may be refinanced up to a global ceiling of S 1,500 million under the Export Promotion Credit Scheme from a special fund administered by the Oesterreichische Nationalbank, the central bank of Austria. These refinancing facilities may in some cases be extended to suppliers' credits with maturities of less than six months or of between three and five years.

3. Long-term export credits (suppliers' credits and buyers' credits), which are granted for projects of major importance involving the purchase of complete plants or other expensive machinery and equipment, may be refinanced under two schemes operated by the Oesterreichische Kontrollbank (OKB). This institution was established in 1946 to provide services not normally made available by commercial banks, which had in most cases been provided until 1942 by the former Oesterreichische Kontrollbank für Industrie und Handel. The OKB's capital originally totalled S 1 million, contributed by five shareholders; it was subsequently increased to S 14 million and the number of shareholders increased to twelve (two Government-controlled credit institutions, one Government-owned credit institution, one credit institution owned by rural co-operatives and eight privately owned credit institutions).

4. In addition to operating the two long-term export credit refinancing schemes, the OKB, as an agent of the Government, administers the entire Austrian export credit insurance scheme. It also performs various other capital market functions unrelated to exports.

5. The first long-term export credit refinancing scheme (scheme I) is intended for exports of investment goods and services to all countries, while the second (scheme II) applies only to exports of investment goods and services to developing countries. The resources for scheme I are obtained from a fund contributed by a number of commercial banks, which is replenished by borrowing on the Austrian capital market on the basis of the export credit instruments in the OKB's portfolio. The OKB acts as a trustee for the banks which contribute to the fund. The resources for scheme II consist of funds contributed by the Government and commercial banks: the Counterpart

Funds Administration of the European Recovery Programme (ERP) has made available to the OKB credits now totalling S 200 million at a special rate of one-eighth of one per cent per annum; a consortium of commercial banks has agreed to make available at any time an amount four times as great as that contributed by the Counterpart Funds Administration, so that total funds potentially available for refinancing investment goods transactions with developing countries now amount to S 1,000 million (public funds: 200 million; private funds: 800 million).

### FINANCING PROCEDURES

#### *Medium-term suppliers' credits refinaceable under the Export Promotion Scheme*

6. Before concluding an export contract, the supplier will normally undertake quasi-simultaneous negotiations with the prospective buyer (regarding the terms and conditions of the contract), with his bank (regarding the financing of the contemplated credit) and with the Oesterreichische Kontrollbank (regarding the insurance of the credit). His bank, before committing itself, will ascertain whether the Oesterreichische Nationalbank will provide refinancing.

7. The buyer is expected to make a down payment of approximately 20 per cent of the contract value before or upon delivery, the remaining 80 per cent constituting the credit. The bank in turn is unlikely to finance more than 80 per cent of the credit, since this is the maximum percentage that can be insured under the Export Promotion Scheme. The supplier must therefore bear the financial burden for the remainder of the credit—as for any shortfall in the down payment—or cover it through parallel financing.

8. In order to obtain refinancing from the Oesterreichische Nationalbank, the supplier's bank draws a draft for the amount and duration of the export credit, which is accepted by the supplier. The Oesterreichische Nationalbank then discounts the accepted draft and retains the original export bills as collateral.

9. The financing rate charged by the commercial banks has been set at 1.5 per cent above the refinancing rate of the Oesterreichische Nationalbank, which at the end of July 1966 stood at 4.5 per cent. The total cost of financing medium-term suppliers' credits at that time was 6.5 per cent. In addition there is a tax on the first draft of one-eighth of one per cent of the face value of the draft.

#### *Long-term export credits (suppliers' credits and buyers' credits) refinaceable under long-term refinancing scheme I (investment goods transactions with all countries)*

10. In the case of suppliers' credits, the conclusion of an export contract involves negotiations between the supplier and the foreign buyer on the one hand and the suppliers' bank on the other. Before committing itself

to finance the credit, the latter seeks a refinancing commitment from the Osterreichische Kontrollbank which will promise refinancing if the contemplated credit is eligible for insurance. In the case of buyers' credits, which are granted directly by commercial banks in Austria to foreign buyers to enable them to purchase Austrian goods and services entirely on a cash basis, the negotiations leading to the conclusion of an export contract are usually conducted with the help and often on the initiative of the supplier; the commercial banks do not normally commit themselves to grant such credits unless they obtain a refinancing commitment from the Osterreichische Kontrollbank.

11. Here, as in the case of medium-term credits, the buyer is expected to make a 20 per cent down payment, but the bank financing of the credit, that is the remaining 80 per cent of the contract value, is unlikely to exceed 90 per cent, which is the maximum insurable under the export credit insurance scheme. Once the credit has been financed or granted by the bank, the Kontrollbank buys from the latter the claims of the exporter against his foreign buyer. The commercial bank charges an interest rate which is set at 1.25 per cent per annum above the rate of the Kontrollbank. At the end of July 1966 the latter cost, including the insurance premium of 0.50 per cent per annum, was 6.50 per cent per annum. The total cost of the credit was 7.75 per cent per annum.

*Long-term export credits (suppliers' credits and buyers' credits) refinancable under long-term refinancing scheme II (investment goods transactions with developing countries)*

12. The financing and refinancing procedures are virtually the same as those for long-term refinancing scheme I. Eligibility for financing or refinancing under scheme II for buyers from developing countries (who otherwise can have recourse to scheme I) is examined by a special committee composed of representatives of the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Trade and Commerce and the ERP Counterpart Funds Administration. Decisions are taken on a case-by-case basis with due consideration for the nature of the goods to be exported, the value of the transaction, the Austrian industry involved, the buyer's credit-worthiness and the economic and financial situation of the buyer's country. The total financing cost of 5.50 per cent, including the insurance premium, is thus 2.25 per cent below that for export credits under scheme I.

#### EXPORT CREDIT INSURANCE

13. The Austrian export credit insurance scheme is operated by the Osterreichische Kontrollbank as trustee of the Republic of Austria within the framework of the 1964 Export Promotion Act, which set a guarantee ceiling of S 6,500 million for the Austrian guarantee programme.

14. The following transactions are eligible for insurance:

- Sales of Austrian goods;
- Sales of foreign goods acquired in exchange for exports of Austrian goods, provided no government liability was assumed for these exports;
- Performance of services abroad by Austrian firms.

15. There are five types of insurance:<sup>1</sup>

Type G1, covering direct sales of goods and performance of services by Austrian firms;

Type G2, covering Austrian goods and services supplied as part of an order contract concluded between exporters in foreign countries and purchasers in third countries;

Type G3, covering loans granted by domestic and foreign credit institutions in Austria directly to foreign buyers for the purchase of Austrian goods and services;

Type G4, covering non-commercial risks incurred by Austrian firms in connexion with participation in business abroad;

Type W, which takes the form of a guarantee of drafts drawn by the commercial banks on the exporter.

16. Type G3 corresponds to what is known in other countries as a financial guarantee, while type G4 corresponds to investment insurance and falls outside the scope of this study. In type W, the commercial bank draws a draft on the exporter with a face value equivalent to the invoice value of the export. This draft is then guaranteed by the Austrian Government for 80 per cent of its face value through the Osterreichische Kontrollbank. If the exporter defaults, the Government reimburses the commercial bank the guaranteed percentage of the loss, receiving in exchange 80 per cent of the bank's claim against the exporter. However, the Government waives its claim against the latter in the case of default by the foreign buyer.

17. An application must be filed for each individual transaction; applications for types G1 and G2 are filed at the exporter's bank or at the Osterreichische Kontrollbank, while applications for type G3 are filed only with the Osterreichische Kontrollbank and applications for type W are filed only at the exporter's bank. Applications for all guarantees involving sums under S 5 million are examined by the Erweitertes Zensurkomitee, an examination committee of the Osterreichische Nationalbank, while applications for all guarantees exceeding S 5 million are examined by the Erweitertes Zensurkomitee and the Exportbeirat, the consulting export council of the Federal Ministry of Finance.

18. The following risks are covered:

##### *Commercial risks:*

Insolvency

Default

Strikes and *force majeure* in the buyer's country, and

Non-acceptance of the goods by the buyer;

##### *Political risks:*

Transfer risks

War or revolution

Embargo and similar risks.

19. In principle, exchange risks are not covered, but exchange losses incurred as a result of transfer difficulties are covered under transfer risks. Risks which are insurable with commercial insurance companies are not covered.

<sup>1</sup> A new type of guarantee (G5) is now in preparation, which will cover the Austrian exporter for all business with one foreign buyer.



20. No distinction is drawn between pre-shipment and post-shipment risks, although in special cases pre-shipment risks may be excluded. The exporter is not allowed to insure only some of the risks; the insurer may, however, exclude certain risks, but this does not affect the premium. In the case of long-term suppliers' credits, 90 per cent of the credit is the maximum which can be insured, which means that the maximum indemnity which can be claimed is 90 per cent of the loss. For buyers' credits, the amount guaranteed is the full amount of the bank credit plus interest. The premium for types G1 and G2 is 0.125 per cent for each three-month period covered by the insurance. The premium for type W is 0.5 per cent per annum. A processing fee is charged for the examination of applications for all types of guarantee, amounting to one per cent of the value of the proposed transaction; the minimum processing fee is S 50 and this fee can in no case exceed S 2,000.

TABLE 1. AUSTRIA: GEOGRAPHICAL DISTRIBUTION OF OUTSTANDING GUARANTEES (IN RESPECT OF SHORT-TERM, MEDIUM-TERM AND LONG-TERM EXPORT CREDITS) AS OF 31 DECEMBER 1965

Area	Guarantees (millions of schillings)	Percentage of total
Africa	486.2	10.3
Asia	1,017.8	21.6
Australia	1.8	—
North America	196.7	4.2
South America	403.5	8.6
Eastern Europe	2,153.2	45.7
Western Europe	451.1	9.6
<b>TOTAL</b>	<b>4,710.3</b>	<b>100.0</b>

TABLE 2. AUSTRIA: DISTRIBUTION OF GUARANTEES (IN RESPECT OF SHORT-TERM, MEDIUM-TERM AND LONG-TERM EXPORT CREDITS) ISSUED IN 1965, BY TYPE OF GOODS

Type of goods	Guarantees (millions of schillings)	Percentage of total
Chemical products	128.6	5.1
Food-stuffs and animals	8.3	0.3
Beverages and tobacco	0.2	—
Semi-finished and finished products	516.4	20.3
Machinery and means of transportation	1,611.1	63.4
Raw materials (excluding fuels)	72.4	2.9
Other finished products	202.8	8.0
Sundry items	0.5	—
<b>TOTAL</b>	<b>2,540.3</b>	<b>100.0</b>

TABLE 3. AUSTRIA: DISTRIBUTION OF GUARANTEE COMMITMENTS MADE IN 1965 IN RESPECT OF SHORT-TERM, MEDIUM-TERM AND LONG-TERM EXPORT CREDITS, BY TYPE OF GUARANTEE

Type of guarantee	Guarantee commitments (millions of schillings)	Percentage of total
G1	2,672.8	79.4
G2	434.1	12.9
W	258.3	7.7
<b>TOTAL</b>	<b>3,365.2</b>	<b>100.0</b>

TABLE 4. AUSTRIA: DISTRIBUTION OF GUARANTEES ISSUED IN 1965 IN RESPECT OF SHORT-TERM, MEDIUM-TERM AND LONG-TERM EXPORT CREDITS, BY TYPE OF GUARANTEE

Type of guarantee	Guarantees (millions of schillings)	Percentage of total
G1	1,228.3	48.4
G2	13.8	0.5
G3	100.9	4.0
W	1,197.3	47.1
<b>TOTAL</b>	<b>2,540.3</b>	<b>100.0</b>

TABLE 5. AUSTRIA: CLAIMS EXPERIENCE, 1950-1965  
(Thousands of schillings)

Type of risk	Claims paid out	Recoveries	Written off	Outstanding as of 31 December 1965
Commercial risks	46,300	16,766	5,285	24,249
Political risks	54,081	32,495	26	21,560
<b>TOTAL</b>	<b>100,381</b>	<b>49,261</b>	<b>5,311</b>	<b>45,809</b>

Claims outstanding as percentage of outstanding guarantees: 0.9

## BELGIUM

### INSTITUTIONAL FRAMEWORK

21. In Belgium export credits for the acquisition of capital goods in that country are financed from a special pool established on 30 April 1966 under an agreement valid until 6 August 1968, signed by three public credit institutions and thirteen commercial banks. The pool is endowed with potential resources consisting of revolving credit lines totalling B fr 12,000 million, 50 per cent being committed by the public credit institutions and 50 per cent by the commercial banks. The participants in the pool are as follows:

#### *Public credit institutions:*

Société nationale de crédit à l'industrie  
Caisse générale d'épargne et de retraite  
Caisse nationale de crédit professionnel

#### *Commercial banks:*

Société générale de banque  
Banque de Bruxelles  
Kredietbank  
Banque Lambert  
Banque de Paris et des Pays Bas  
Banque belge pour l'industrie  
Banque de commerce  
Crédit lyonnais  
J. Degroff & Cie.  
Nagelmackers Fils & Cie.  
Crédit général de Belgique  
Crédit du nord belge  
O. de Schaetzen & Cie., banquiers.

22. Prior to 30 April 1966, export credits for capital goods were financed from two pools, the Pool de financement à moyen-terme des exportations de biens d'équipement ou d'investissement, usually referred to as Pool I, for medium-term suppliers' credits (credits of between two and five years), and the Pool de financement des exportations de biens d'équipement ou d'investissement à plus de cinq ans, usually referred to as Pool II, for long-term suppliers' credits (credits in excess of five years). On that date, however, the two pools were merged and their aggregate potential resources increased from B fr 10,937.5 million to B fr 12,000 million.

23. The participants in the pool do not specifically pay over any funds but have agreed to contribute the necessary funds up to the limit of their quotas when each operation is realized. Financing from the pool is granted upon recommendation of the Association pour la coordination du financement à moyen-terme des exportations belges (Creditexport), a non-profit organization established in August 1959 (at the same time as the former Pool I) to examine applications for the financing of medium-term suppliers' credits.

24. In addition to the participants in the pool, the members of Creditexport include the Banque Nationale de Belgique, the central bank of Belgium, and the Office national du Ducroire, the government export credit insurance institution. The Board of Directors is composed of eleven directors, of whom six are representatives of the government institutions and five are nominated by the commercial banks. The Secretary or Assistant Secretary of the Ministerial Committee of Economic and Social Co-ordination, the Director in the Ministry of Finance in charge of matters regarding public credit and the senior ministerial officer in charge of foreign trade may attend meetings of the Board of Directors in a consultative capacity. The representative of the Banque nationale de Belgique is *de jure* chairman of the Board of Directors. The Institut de réescompte et de garantie acts as the secretariat of the pool and of Creditexport. The task of carrying out financing operations from the pool has been entrusted to the Société nationale de crédit à l'industrie (SNCI).

25. If the pool's funds should prove temporarily insufficient, financing for medium-term and long-term export credits can in exceptional cases be obtained from the Office national du Ducroire, which was authorized under an Act adopted in June 1962 to utilize parts of its accumulated reserves to finance medium-term and long-term export credits for transactions of particular importance. So far, however, it has not been necessary to resort to this procedure.

26. From the establishment of Pool I in 1959 until 31 December 1965, credits totalling B fr 10,080 million were authorized and as at 31 December 1965 credits outstanding from that pool totalled B fr 5,386 million. From the establishment of Pool II in 1962 until 31 December 1965, credits totalling B fr 3,077 million were authorized and as at 31 December 1965 credits outstanding from that pool totalled B fr 2 900 million. With the financial support of the two pools, Belgian entrepreneurs and suppliers were able to execute a wide range of projects in developing countries, including the following (in Belgian francs):

#### *Colombia*

Supply and installation of the first two units for a power plant. *Credit: 51 million*

#### *Guinea*

Supply of machinery for processing diamond-bearing gravel. *Credit: 59 million*

#### *India*

Supply of a complete tubing plant. *Credit: 52 million*

#### *Iran*

Supply of sugar factory equipment. *Credit: 75 million*

#### *Israel*

Construction of a car ferry. *Credit: 225 million*

#### *Mexico*

Supply of a telephone exchange and transmission equipment. *Credit: 400 million*

Construction of a zinc plant. *Credit: 616 million*

*Pakistan*  
Enlargement of a nitrate fertilizer plant. *Credit: 106 million*

*Panama*  
Construction of a 22,000-ton bulk carrier. *Credit: 120 million*

*Peru*  
Construction of a steel mill. *Credit: 1,201 million*

*Philippines*  
Supply of two oil extracting plants. *Credit: 76 million*

*Yugoslavia*  
Modernization of a steel mill. *Credit: 229 million*  
Supply of 1,100 automatic looms. *Credit: 99 million*  
Supply of a cement factory. *Credit: 130 million*

TABLE 6. BELGIUM, CREDITEXPORT: VALUE OF TRANSACTIONS FOR WHICH CREDITS HAVE BEEN REQUESTED  
(Millions of Belgian francs, except as indicated)

Year	Value of transactions	Credits requested		Credits requested as percentage of value of transactions
		Pool I	Pool II	
1959	2,355	1,784	—	76
1960	6,767	5,594	—	83
1961	8,484	6,469	—	77
1962	5,114	3,230	711	76
1963	7,495	3,798	2,249	81
1964	8,766	5,703	1,367	81
1965	5,663	3,511	1,205	83

TABLE 7. BELGIUM, CREDITEXPORT: GEOGRAPHICAL DISTRIBUTION OF TRANSACTIONS (MEDIUM-TERM AND LONG-TERM) EXAMINED

Area	1961		1962		1963		1964		1965	
	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total
Africa	555	7	787	15	1,353	19	392	4	337	6
Asia	800	9	1,401	28	2,510	33	1,057	12	226	4
North America	1,260	15	351	7	107	1	484	6	66	1
South America	4,335	51	732	14	730	10	265	3	28	—
Western Europe	350	4	785	15	892	12	868	10	250	5
Eastern Europe	1,184	14	1,058	21	1,903	25	5,700	65	4,756	84
<b>TOTAL</b>	<b>8,484</b>	<b>100</b>	<b>5,114</b>	<b>100</b>	<b>7,495</b>	<b>100</b>	<b>8,766</b>	<b>100</b>	<b>5,663</b>	<b>100</b>

TABLE 8. BELGIUM, CREDITEXPORT: DISTRIBUTION OF TRANSACTIONS (MEDIUM-TERM AND LONG-TERM), BY TYPE OF GOODS

Type of goods	1961		1962		1963		1964		1965	
	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total	Millions of Belgian francs	Per-centage of total
Food processing plants	700	8	400	8	257	3	—	—	—	—
Metallurgical plants and equipment	1,956	23	725	14	1,064	14	235	3	484	9
Electric power plants and equipment	325	4	332	6	1,199	16	255	3	1,267	23
Telephone equipment	453	5	119	2	310	4	1,647	19	—	—
Chemical plants	135	2	890	18	1,426	19	4,530	52	1,661	29
Textile equipment	205	2	469	9	896	12	113	1	151	3
Glass manufacturing equipment	433	5	17	—	153	2	—	—	868	15
Ships	808	10	951	19	—	—	1,103	12	809	14
Rolling stock	2,027	24	339	6	893	12	766	9	356	6
Miscellaneous	1,442	17	872	18	1,297	18	117	1	67	1
<b>TOTAL</b>	<b>8,484</b>	<b>100</b>	<b>5,114</b>	<b>100</b>	<b>7,495</b>	<b>100</b>	<b>8,766</b>	<b>100</b>	<b>5,663</b>	<b>100</b>

TABLE 9. BELGIUM, CREDITEXPORT: CREDIT AUTHORIZATIONS (MEDIUM-TERM AND LONG-TERM)  
(Millions of Belgian francs)

Year	Pool I	Pool II	Total
1959	210	—	210
1960	2,207	—	2,207
1961	1,510	—	1,510
1962	1,183	387	1,570
1963	1,481	1,522	3,003
1964	1,400	317	1,717
1965	2,089	851	2,940

TABLE 10. BELGIUM, CREDITEXPORT: GEOGRAPHICAL DISTRIBUTION OF CREDITS OUTSTANDING (MEDIUM-TERM AND LONG-TERM), END-1965

Area	Credits outstanding (millions of Belgian francs)	Percentage of total
Africa	320	4
Asia	640	8
North America	1,466	17
South America	1,306	16
Western Europe	842	10
Eastern Europe	3,712	45
<b>TOTAL</b>	<b>8,286</b>	<b>100</b>

## FINANCING PROCEDURES

27. Whatever the type of credit involved—medium-term suppliers' credits or long-term export credits (suppliers' credits or buyers' credits)—the bank sponsoring the export credit transaction requests Creditexport to give an opinion (*avis de principe*) or a financing promise (*promesse de crédit*). A favourable opinion is in no way binding and signifies merely that at the time when it is expressed there is no reason why a financing application should not be approved. Creditexport is bound only by a financing promise, which is always valid for a specific period only. If desired, the financing rate may be specified in the financing promise.

28. Conditions of eligibility are established by Creditexport as follows:

(a) The foreign buyer must in principle make a down payment of at least 20 per cent of the invoice value before the goods are shipped, though in some cases 15 or even 10 per cent may be deemed sufficient;

(b) The export contract must stipulate the settlement of the debt in equal instalments at intervals of up to six months or, in exceptional cases, up to one year;

(c) The export bills must bear the "visa" of the Banque nationale de Belgique; this "visa" is granted only to export bills drawn on and accepted by the foreign buyer and expressed in Belgian francs;

(d) The export transaction must be insured by the Office national du Ducroire (financing is not likely to exceed the amount thus insured).

29. When these conditions are fulfilled, a favourable decision by the Board of Directors of Creditexport can be obtained by a two-thirds majority vote. However, if the above conditions are not fulfilled, financing can be authorized only when unanimously approved by the Board. Any pool participant has the right to finance transactions which have not been approved by Creditexport and to deduct the corresponding amount from its commitment to the pool, provided that the transaction is carried out at a cost which is not inferior to that charged for pool transactions.

30. When the Board of Directors of Creditexport has approved the financing of an operation, the Société nationale de crédit à l'industrie informs pool participants of the amount each is to contribute, this amount being determined on a *pro rata* basis according to the participants' commitments. The SNCI informs participants of the total amount involved, the interest rate, the maturity period and repayment schedule, but other details, such as the exporter's identity, are not revealed. The SNCI retains the export bills and issues to each participant a letter representing his claims on these bills. The financing cost, excluding insurance, is fixed periodically by the participants.

## EXPORT CREDIT INSURANCE

31. In Belgium, export credits are insured mainly by a private company, the Compagnie belge d'assurance-crédit, and a government organization, the Office national du Ducroire. In accordance with the terms of an agreement signed in 1956, the Compagnie belge d'assurance-crédit insures sales to private firms in western Europe, covering commercial risks for its own account and political risks for the account of the Office

TABLE 11. BELGIUM: COST OF FINANCING MEDIUM-TERM AND LONG-TERM SUPPLIERS' CREDITS AND OF GRANTING BUYERS' CREDITS

(Percentage)

Date	Medium-term suppliers' credits	Suppliers' credits and buyers' credits	
		Portions of credits up to 5 years	Portions exceeding 5 years
6 August 1959	5.50		
18 February 1960	5.75		
22 September 1960	6.00		
8 March 1962	5.75		
23 March 1962	5.75	5.75	6.00
22 November 1962	5.50	5.50	5.75
25 July 1963	5.75	5.75	6.00
7 November 1963	6.00	6.00	6.25
5 March 1964	6.25	6.25	6.50
1 January 1966	6.25	6.50	6.50
1 July 1966	6.25	6.50	6.50

national du Ducroire. The latter insures sales to other countries and in addition reinsures a certain percentage of commercial risks (at present up to 50 per cent) covered by the Compagnie belge d'assurance-crédit for western Europe. It is also possible for a Belgian manufacturer wishing to export goods to a western European country to insure the political risks with the Office national du Ducroire and the commercial risks with a private insurance company other than the Compagnie belge d'assurance-crédit.

32. The Office national du Ducroire is an autonomous Government-owned agency backed by government guarantee, which was created for the purpose of promoting exports by providing insurance against credit risks. Its statutes have since been revised on several occasions and its functions considerably enlarged. It is administered by a Governing Board composed of ten members appointed by the King, including a representative of the Minister of Economic Affairs, a representative of the Minister of Foreign Affairs and Foreign Trade and a representative of the Minister of Finance. The Office national du Ducroire is managed by a Directeur Général and a Directeur who are also appointed by the King. It is entirely autonomous both financially and administratively; its financial resources are derived from a B fr 650 million government grant, plus accumulated reserves. Its liability ceiling was B fr 24,000 million at the end of 1965.

33. The Office national du Ducroire insures short-term and medium-term suppliers' credits; it also insures long-term export credits (suppliers' credits and buyers' credits) granted under the "matching principle" or in connexion with sales of ships and sales of complete plants or similar heavy equipment.

34. Insurance may be obtained from the Office national du Ducroire for exports of all categories of goods. Insurance may also be obtained for other types of transactions likely to encourage exports, such as contract work abroad, consultative or advisory services and accumulation of stocks abroad. In most countries insurance is granted only for exports of national products, but because the transit trade is relatively important in Belgium it is also possible to obtain insurance for short-term export credits for goods manufactured abroad but sold from Belgium, provided that

such transactions are not detrimental to Belgian industry.

35. Insurance policies may fall into one of four different categories.

(a) The *police individuelle* (individual or specific policy), which covers a specific transaction. Policies of this type are issued if the exporter requests insurance against:

Political risks for a transaction with a private firm;  
Payment and transfer risks for a transaction with a public body;

Political and commercial risks for a transaction with a private firm, but only if the exporter has signed a *convention globale* with the Office (see below);

(b) The *police d'abonnement* (floating policy), by which a seller may cover political risks, payment and transfer risks (the latter if the purchaser is a public body) and cancellation of the contract before delivery, for short-term transactions with both private firms and public bodies in a given country during twelve months, within an over-all ceiling;

(c) The *police globale* (comprehensive policy), by which a seller may cover—also within an over-all ceiling—both political and commercial risks in respect of short-term transactions with private firms only regardless of the country of destination; this type of policy, like the *police d'abonnement*, also covers a twelve-month period;

(d) The *convention globale* (comprehensive agreement) is the formula generally used for transactions of either between one and five years or exceeding five years. Within the framework of a *convention globale*, the exporter obtains certain advantages similar to those provided by the *police globale* (comprehensive policy) but must agree to request insurance against political and commercial risks for all his export business or sales to a given group of countries. The Office requires the prior signature of a *convention globale* before agreeing to issue a *police individuelle* (specific policy) covering political and commercial risks combined for transactions with private firms involving maturities of between one and five years or exceeding five years.

36. The insurance mechanism differs according to whether the insurance is to cover risks liable to occur between the ordering and delivery of the goods or after delivery of the goods.

#### *Insurance of pre-delivery risks*

37. The risks covered differ according to whether the purchaser is a private firm or a public body (state, provincial or communal administration, government-owned or government-controlled enterprise).

38. Transactions involving private firms may be insured against:

Political risks, defined as the breaking of the order contract caused by a political event occurring abroad or by political or administrative measures taken in the country of the would-be buyer (for example, arbitrary cancellation of the import licence);

Commercial risks, defined as the breaking of the order contract caused by the *de jure* insolvency (bankruptcy, *concordat judiciaire ou amiable*)

of the would-be importer or by his *de facto* insolvency.

39. Transactions involving public bodies may be insured against:

The breaking of the order contract caused by the would-be buyer's failure to fulfil his obligations: arbitrary cancellation of the order or non-payment of sums due before delivery;

The breaking of the order contract caused by a political event occurring abroad or by political or administrative measures taken by the country of the would-be importer (for example, arbitrary cancellation of the import licence).

#### *Insurance of post-delivery risks*

40. The risks covered differ according to whether the buyer is a private firm or a public body.

41. Transactions involving private firms may be insured against:

Political risks only. These risks include delayed payment or default caused by a political event occurring in the buyer's country, such as war, revolution, rebellion or political or administrative measures taken by the government, including restrictions on the transfer of payments made by the buyer in his national currency;

Political and commercial risks combined, the latter being defined as the *de facto* or *de jure* insolvency of the buyer. Commercial risks cannot be insured alone and political and commercial risks combined cannot be covered for isolated transactions but only within the framework of a comprehensive insurance policy, which in the case of medium-term and long-term transactions is known as a *convention globale* (comprehensive agreement).<sup>1</sup>

42. Transactions involving public bodies may be insured against:

Delayed payment or default caused by the buyer's inability or arbitrary refusal to pay;

Delayed payment or default caused by a political event in the importing country such as war, revolution, rebellion, or political or administrative measures taken by the government (moratorium, foreign trade or foreign exchange regulations leading to transfer delays).

43. Certain risks are not covered at the present time. They include:

Non-payment by a private buyer which is not caused by insolvency (bad faith or arbitrary refusal, etc.) with the exception of non-payment occurring in connexion with short-term transactions falling within the scope of a *police globale*, which covers protracted defaults or non-payment by a private buyer after twelve months from maturity date;

Risks caused by occurrences beyond the control of the buyer other than those of a political nature (for example, natural catastrophe, strikes);

Exchange risks (as distinguished from transfer risks which are covered under political risks),

<sup>1</sup> In the case of short-term transactions, the policy is known as a *police globale* (comprehensive policy).

namely, risks of fluctuation or devaluation of the Belgian franc or the buyer's currency;

Risks arising from measures taken by the Belgian Government which prevent the fulfilment of the order contract (for example, prohibition of export of the goods ordered), except when these measures have been motivated by or are taken in connexion with measures adopted in the buyer's country;

Risks of increased production costs; these risks, however, may be insured if the export contract stipulates that the price be adjusted to fluctuations in raw material costs and wages; in such cases each increase in costs must be examined by the Office national du Ducroire;

Any failure on the part of the importer to carry out his obligations which is the consequence of a fault by the exporter or by any third party involved in the execution of the transaction.

44. The maximum insurance cover is:

(a) 90 per cent in the case of contracts with public buyers;

(b) 90 per cent for political risks in the case of contracts with private firms;

(c) 85 per cent for commercial risks in the case of contracts with private firms.

45. In the case of pre-delivery risks, indemnities are payable within thirty days of the date on which the amount of the loss is definitively established. If it should prove impossible to evaluate the amount of the loss within six months from the date of the event which caused the loss, the Office national du Ducroire will pay an interim indemnity calculated according to the amount assumed to be lost.

46. In the case of post-delivery risks, indemnities are payable as follows:

Six months after the payment date stipulated in the contract in the case of payment and transfer risks for transactions with public buyers;

Six months after the contractual payment date in the case of political risks for transactions with private buyers;

Six months after the buyer has made a payment in his national currency and submitted a transfer request to the competent authority in the case of transfer difficulties;

Thirty days from the date on which the exporter submits proof of the insolvency of his customer in the case of commercial risks (sales to private buyers).

TABLE 12. BELGIUM, OFFICE NATIONAL DU DUCROIRE: VOLUME OF BUSINESS (IN RESPECT OF SHORT-TERM, MEDIUM-TERM AND LONG-TERM EXPORT CREDITS)

(Millions of Belgian francs)

Year	Value of transactions insured
1955	4,031
1956	3,166
1957	3,413
1958	4,768
1959	4,735
1960	6,971
1961	8,294
1962	7,232
1963	8,792
1964	9,936
1965	11,068

47. About 4 per cent of Belgian exports are covered under the official export credit insurance scheme. Capital goods account for the bulk of transactions thus insured, representing 75 per cent of the aggregate value of transactions insured in 1964 and 67.7 per cent in 1965. In 1965, transactions of between six months and three years from dispatch of the goods represented 15.0 per cent of the aggregate value of transactions insured, while transactions of between three and five years represented 19.6 per cent and transactions with maturities exceeding five years represented 24.6 per cent.

## CANADA

### INSTITUTIONAL FRAMEWORK

48. In Canada, suppliers of capital goods finance their medium-term export credits (credits of between one and five years) with the commercial banks (chartered banks) which may refinance them with the Export Finance Corporation of Canada, Ltd. (EFC). However, at present practically all export credit transactions involving capital goods are carried out on a long-term basis through buyers' credits provided by the Export Credits Insurance Corporation (ECIC).

49. The chartered banks, which are organized under federal charter in accordance with the provisions of the Bank Act, are the Royal Bank of Canada, the Canadian Imperial Bank of Commerce, the Bank of Montreal, the Bank of Nova Scotia, the Toronto Dominion Bank, the Banque canadienne nationale, the Provincial Bank of Canada and the Mercantile Bank of Canada. In addition to about 5,600 branches in Canada, these banks have more than 200 branches or agencies in about thirty foreign countries.

#### *Export Finance Corporation*

50. The Export Finance Corporation of Canada, Ltd., which was incorporated by a special Act of Parliament in 1959, is wholly owned by the chartered banks and started operations in April 1961. Its primary purpose is to refinance medium-term suppliers' credits and "to ensure that the cost of financing medium-term paper compares favourably with costs in other countries".<sup>1</sup> The EFC is in fact a medium-term export credit rediscounting agency for the chartered banks.

51. The EFC is administered by a sixteen-member Board of Directors, composed of two representatives from each of the eight chartered banks. The President and Vice-President of the Board are elected by its members from among themselves. The EFC's day-to-day operations are handled by a General Manager, assisted by a Deputy General Manager and a Secretary-Treasurer, all of whom are appointed by the Board of Directors from outside the Board. The management, which was initially authorized by the Board of Directors to rediscount at any time from any chartered bank an amount up to the equivalent of ten times that bank's participation in the EFC's capital, is now authorized to discount a larger amount, provided that it reports periodically to the Board for its official approval.

52. The EFC's authorized capital stock consists of 10 million shares of the par value of Can \$5 each, of which 2 million have been issued and fully paid. The chartered banks' subscription to the EFC's capital stock is proportionate to the percentage of deposits in Canadian dollars held by each chartered bank in relation to the total deposits in Canadian dollars held by the eight chartered banks as a whole at the time of the EFC's

<sup>1</sup> Export Finance Corporation of Canada, Ltd., *Annual Report, Year ended 30th April 1962* (Toronto), section entitled President's report, May 31, 1962.

establishment. The bulk of the EFC's refinancing resources are derived largely from borrowing on the short-term money market in Canada and the United States, which is less expensive than the medium-term money market. Since the EFC's refinancing operations are carried out on a medium-term basis, it is continually selling its own notes to investment dealers and financial institutions, including its own shareholders, the chartered banks. The security for the EFC's notes consists of its capital resources and the rediscounted export bills. There is no limit to the EFC's borrowing capacity, and as of 30 April 1966 its outstanding debts totalled Can \$168 million.

53. From the beginning of its operations to 30 April 1966, the EFC had rediscounted bills amounting to Can \$327 million. Somewhat less than half of that sum was devoted to transactions involving capital goods and services, the balance having been used to refinance grain exports to eastern European socialist countries, which were carried out not on the traditional cash or short-term credit basis but on a medium-term credit basis, backed by export credit insurance granted under section 21 of the Export Credits Insurance Act (see section below on Export credit insurance). The following table shows the EFC's outstanding debts at the end of the fiscal years 1962 to 1966:

<i>As at 30 April:</i>	<i>Millions of Canadian dollars</i>
1962	57
1963	85
1964	128
1965	209
1966	168

TABLE 13. CANADA: EXPORT FINANCE CORPORATION REFINANCING

(Millions of Canadian dollars)

<i>Fiscal year (1 May to 30 April)</i>	<i>New refinancing</i>	<i>Cumulative refinancing, end of fiscal year</i>	<i>Outstanding at end of fiscal year</i>
1961/62	74	74	65
1962/63	45	119	93
1963/64	77	196	138
1964/65	130	326	218
1965/66	1	327	178

#### *Export Credits Insurance Corporation*

54. Under section 21A, which was added to the Export Credits Insurance Act in 1959, the Export Credits Insurance Corporation<sup>2</sup> may, when authorized by the Governor-in-Council, provide long-term export credits for sales of capital goods and related engineering and technical services. The purpose of section 21A is

<sup>2</sup> For more details on ECIC, see section below on Export credit insurance.

"to give encouragement and assistance to enterprising Canadian exporters of capital equipment who develop business possibilities abroad. Through these facilities exporters who can meet international competition in terms of price, quality and deliveries, are afforded the opportunity of competing in terms of credit as well. Section 21A financing is a useful form of capital assistance for economic development in recipient countries, but is not intended as an instrument of Canadian foreign aid. Accordingly, while the terms of Section 21A credits match international financing terms for viable projects, they are not intended to match aid-type financing facilities".<sup>3</sup>

55. The ECIC obtains funds for disbursement under section 21A from the Consolidated Revenue Fund, that is, the Canadian Treasury, up to a global ceiling established by Parliament which was increased from an original Can \$200 million to Can \$300 million in 1962 and Can \$400 million in 1964. From the inception of the programme until December 1965 the ECIC concluded thirty-two financing agreements, all covering contracts for export sales to developing countries, involving an aggregate of Can \$272.3 million in authorized credits, and total disbursements of Can \$165.8 million.

TABLE 14. CANADA: CUMULATIVE AUTHORIZATIONS AND DISBURSEMENTS UNDER LONG-TERM EXPORT FINANCING AGREEMENTS UP TO 31 DECEMBER 1965

Country	Number of financing agreements	Authorizations (Millions of Canadian dollars)	Disbursements (Millions of Canadian dollars)
Argentina	3	15.3	15.1
Brazil	3	11.0	10.7
Ceylon	1	10.8	3.7
Chile	2	22.7	22.0
China (Taiwan)	1	5.0	—
India	8	70.7	23.3
Israel	1	2.3	2.2
Liberia	1	1.6	1.5
Mexico	6	73.0	69.0
Pakistan	4	42.3	7.8
Philippines	1	13.5	10.5
United Arab Republic	1	4.1	—
<b>TOTAL</b>	<b>32</b>	<b>272.3</b>	<b>165.8</b>

56. The credits to India and Pakistan were granted within the framework of the international consortia organized by the International Bank for Reconstruction and Development. The 1963 agreement with Chile was likewise concluded within the framework of co-operation with an international development finance agency; it involved joint financing by the ECIC and the Inter-American Development Bank (IDB) and led to a decision to establish a working basis for further joint financing.

57. Under an arrangement entered into between the ECIC and the IDB in June 1965, the former agreed to earmark an initial sum of Can \$15 million for Latin America, in addition to its normal trade promotion credits, to finance on a long-term basis exports of Canadian goods and related services for use in economic development projects in Latin American countries in

<sup>3</sup> Export Credits Insurance Corporation, *What it is and how it operates* (Ottawa, October 1965), pp. 15-16.

co-operation with the IDB. Projects to be financed will be selected under the following main procedures:

Parallel financing by the IDB and the ECIC under separate loan contracts, usually with similar credit terms, for projects proposed by the IDB or by the ECIC;

Independent financing by the ECIC of projects proposed by the IDB under the ECIC's normal criteria.

58. Generally, the ECIC is ready to enter into co-operative arrangements with any national or international agency, "should advantageous opportunities arise for joint financing".<sup>4</sup> The ECIC was recently authorized to lend funds to development banks or corporations in developing countries for relending to manufacturers for the purchase of Canadian goods or services.

59. Financing agreements of the ECIC have enabled developing countries to acquire a wide range of machinery and equipment: for example, locomotives (Argentina, Brazil, India and Mexico); road-graders (Argentina); hydroelectric plant (Ceylon and India); pulp and paper mill (Chile); paper mill equipment (Pakistan); telecommunications equipment (Israel, Liberia and United Arab Republic); nuclear reactors (India and Pakistan).

## FINANCING PROCEDURES

### *Medium-term suppliers' credits*

60. The exporter's first step when seeking financing for such credits is to ascertain whether the contemplated transaction is eligible for ECIC insurance. The issuance of an ECIC policy is in fact a condition precedent to the decision of the exporter's bank as to whether to discount the time drafts drawn on the buyer or the promissory notes signed by the latter or make the exporter an advance against the export bills pledged as collateral. The financing provided is unlikely to exceed 90 per cent of the credit, which is the maximum covered under ECIC insurance policies.

61. The chartered banks may refinance their medium-term export bills with the Export Finance Corporation of Canada, Ltd., but the volume of refinancing sought has tended to fluctuate according to the conditions prevailing on the Canadian money market. More specifically, when the money market is tight, the relatively high cost at which the EFC would obtain the refinancing funds would make the refinancing too expensive for the banks. Conversely, when money market conditions are favourable, the banks turn to the EFC and may even refinance bills of less than one year. Medium-term export bills may be expressed in either Canadian or United States dollars and the interest rate will depend on the conditions prevailing in the money market in the country whose currency is employed. In mid-1966 the interest rate for bills expressed in either currency is 6 per cent.

### *Buyers' credits*

62. Commitments of long-term export financing are given by the ECIC only on the basis of an application submitted by the Canadian exporter on behalf of the

<sup>4</sup> "ECIC offers long-term export financing", by J. A. Strang, Information Department, ECIC, *Foreign Trade* (Ottawa), 5 February 1966.



buyer and accompanied by complete details of the project, including engineering studies and supporting economic and financial data. Procedures for commitments within the framework of the above-mentioned international arrangements differ from the usual long-term export financing procedures, in that funds are earmarked before the developing country concerned submits specific projects for the ECIC's consideration. Once the projects have been selected by the recipient country and approved by the ECIC, the foreign buyer undertakes commercial negotiations with the Canadian suppliers who apply for the individual credits on the buyer's behalf. No insurance is required for credits granted by the ECIC.

63. On the basis of the detailed information concerning the transaction submitted by the exporter, the ECIC prepares a dossier for consideration by the Export Finance Committee, which is composed of a representative of the ECIC acting as chairman, a representative of the Bank of Canada (the central bank) and a representative of each of the following ministerial departments: Finance, Trade and Commerce, Industry, External Affairs. A unanimous decision by the Committee is usually required for approval. Once an application has been approved, an Order-in-Council is required to authorize the financing of the transaction. A contract between the exporter and the buyer must be signed prior to the conclusion of the financing agreement, which is negotiated directly by the ECIC with the foreign buyer. The ECIC disburses the funds to the Canadian exporter on behalf of the foreign buyer, who signs promissory notes expressed in Canadian or United States dollars to the order of the ECIC. Disbursements are usually made on the basis of shipping documents and acceptance of the goods by the buyer. The ECIC will, however, agree to disburse on a progressive payment basis if this is laid down in the commercial contract.

64. Only transactions involving investment goods constituting part of a plant, or fixed assets and related services, are eligible for long-term export financing. Such financing may also be made available to a Canadian firm that is awarded a contract to supply goods and/or services for part of a project financed primarily by a supplier or contractor in another country. To qualify for long-term export financing a transaction must involve an order of at least Can \$1 million, although transactions involving smaller sums may qualify in certain circumstances, for example, when long-term financing is needed to enable a Canadian supplier to participate on equal terms in foreign development projects.

65. In order to be eligible for long-term financing, the export transaction must involve goods and services which are at least of 80 per cent Canadian origin; the remaining 20 per cent must consist of goods and services which are not available in Canada. The ECIC must be satisfied that the foreign buyer will be able to meet his repayment obligations and that the importing country will be able to meet its foreign exchange commitments. When the buyer is not the government of the importing country, a satisfactory guarantee of repayment is usually required (for example, guarantee of the government, central bank, a development bank or a reliable private bank). Where appropriate, a foreign exchange guarantee is also required.

66. The maturities of credits granted by the ECIC have, on the whole, tended to range from seven to twenty years, including when necessary grace periods on principal repayments, which are designed to allow the project to begin yielding a revenue. In the absence of a grace period, repayments of principal usually begin six months after the projects come into operation and must be made on a semi-annual or quarterly basis. There is no grace period on the repayment of interest, which begins six months after the signing of the financing agreement. Since the inception of the programme a flat interest rate of 6 per cent has been charged.

#### EXPORT CREDIT INSURANCE

67. Although, as has been seen, the ECIC grants long-term export financing which is not available from commercial sources, its main purpose is to operate the export credit insurance scheme. It is a proprietary Crown corporation (i.e., wholly Government-owned), established under the 1944 Export Credits Insurance Act, which has been amended several times. The ECIC is administered by an eight-member Board of Directors appointed by the Governor-in-Council. As of the end of 1965 the Board consisted of the Deputy Minister of Trade and Commerce, the Deputy Minister of Finance, the Chairman of the Tariff Board, the Deputy Under-Secretary of State for External Affairs, an Assistant Deputy Minister of Trade and Commerce, an official of the Department of Finance, and the President and Vice-President of the ECIC. The Board of Directors is assisted by an Advisory Council, also appointed by the Governor-in-Council, whose members represent different sectors of the economy, namely, agriculture, finance, fisheries, forest industries, light and heavy manufactures and engineering and construction services. The ECIC's day-to-day operations are handled by the staff of the ECIC, which currently numbers sixty-five.

68. The ECIC has an authorized and subscribed capital of Can \$15 million, of which Can \$5 million is fully paid up. In addition, Can \$5 million capital surplus has been paid in. The shares of the capital stock are not transferable and are held in trust for the Canadian Government. The ECIC covers both commercial and non-commercial risks on short-term and medium-term transactions for its own account; under section 14 of the Export Credits Insurance Act, the outstanding liability thereby assumed may not at any time exceed a total of ten times the aggregate of the subscribed capital and the capital surplus of the corporation: this means that at the present time the ECIC's maximum liability for its own account is Can \$200 million.

69. Under section 21 of the Export Credits Insurance Act, the ECIC insures commercial and non-commercial risks for account of the Government, on instructions from the Governor-in-Council. Such operations are carried out when the ECIC Board of Directors considers that the contemplated insurance transaction will impose upon the Corporation a liability for a term or an amount in excess of that which it normally undertakes in relation to any one contract, exporter, commodity or country, and when the Minister of Trade and Commerce considers that it is in the national interest that the proposed contract be entered into. Claims against policies issued for account of the Government

TABLE 15. CANADA: EXAMPLES OF REPAYMENT SCHEDULES

<i>Importer and country</i>	<i>Products financed</i>	<i>Date of contract</i>	<i>Amount authorized (thousands of Canadian dollars)</i>	<i>Repayment terms</i>
Ferrocarriles Argentinos (Argentina)...	Locomotives	6 November 1961	12,500	13 semi-annual payments from 11 October 1964
Companhia Vale do Rio Doce S.A. (Brazil) .....	Locomotives	27 March 1963	2,400	10 semi-annual payments from 1 December 1966
Government of Ceylon .....	Hydroelectric plant	26 April 1963	10,800	25 semi-annual payments from 1 February 1966
Industrias Forestales S.A. (Chile) .....	Pulp and paper mill	18 August 1961	13,500	25 semi-annual payments from 1 October 1964
Compania Manufacturera de Papeles y Cartones S.A. (Chile) .....	Pulp mill equipment	30 August 1963	5,700	25 semi-annual payments from 23 July 1966
President of India .....	Hydro equipment	4 December 1963	8,000	31 semi-annual payments from 1 August 1968
Cominco Binani Zinc, Ltd. (India) .....	Zinc smelter	28 May 1964	1,600	20 semi-annual payments from 1 May 1969
President of India .....	Nuclear reactor	27 April 1964	37,000	31 semi-annual payments from 1 February 1969
Republic of Liberia .....	Telecommunications network	1 February 1962	1,622	27 semi-annual payments from 1 February 1965
Fabricas de Papel Tuxtepec S.A. (Mexico) .....	Paper mill equipment	12 May 1964	2,973	17 semi-annual payments from 1 May 1966
East Pakistan Industrial Development Corporation .....	Paper mill equipment	23 November 1962	6,351	25 semi-annual payments from 1 September 1965
Philippines Long-distance Telephone Company .....	Telecommunications equipment	22 September 1964	13,500	21 semi-annual payments from 15 July 1966

are paid by the Treasury out of the Consolidated Revenue Fund. The maximum outstanding liability under section 21 may not at any time exceed Can \$600 million, so that total outstanding liabilities on insurance policies assumed by the ECIC for its own account and that of the Government may not exceed Can \$800 million.

70. The ECIC offers insurance to all persons or corporations in Canada exporting goods or providing engineering, construction, technical and similar services to clients in foreign countries on a deferred-payment basis. Insurance is also available for consumer goods and miscellaneous general commodities shipped on consignment for sale or for exhibition purposes. The goods must be exported from Canada and be wholly or substantially of Canadian origin.

71. The risks insured include:

- Insolvency of the foreign buyer;
- Failure of the buyer to pay for goods delivered to and accepted by him within six months after the due date of payment;

Non-acceptance of the goods by the buyer, where this does not result from a breach of contract by the exporter and where proceedings against the buyer would serve no useful purpose;

Blockage of funds or transfer difficulties;

War or revolution;

Cancellation or non-renewal of an export permit;

Imposition of restrictions on the export of goods not previously subject to restrictions;

Any other cause outside the control of both the exporter and the buyer arising from events occurring outside Canada and the United States.

72. The ECIC does not cover trade disputes and will not arbitrate between Canadian exporters and foreign buyers in a dispute about the quantity or quality of goods delivered. Furthermore, it does not cover risks which can be and normally are insured by commercial

insurers. The main commercial insurer is American Credit Indemnity, a company with headquarters in the United States and offices in Canada, which insures commercial risks on short-term Canadian sales to the United States and short-term United States sales to Canada.

73. The insurance policies of the ECIC vary according to whether they cover consumer goods and general commodities normally sold on credits of up to six months, capital goods sold on credits of up to five years, or services:

(a) Consumer goods and general commodities. Two types of policy are issued, both covering an exporter's entire sales for one year:

A contracts policy, which protects the exporter from the reception of the order to the payment of the bills. This type of policy is designed for exporters who manufacture goods to particular specifications or goods which are so marked or stamped as to be of no value except to the original buyer;

A shipments policy, which protects the exporter from the date of shipment.

(b) Capital goods. Two types of policy are issued for capital goods:

CC (Spec G) policies, which cover sales to foreign governments or public entities;

CC (Spec) policies, which cover sales to non-governmental buyers.

(c) Services Policies are issued to cover engineering, construction, technical or similar service contracts between Canadian firms and foreign buyers.

74. The maximum indemnity that can be paid in respect of both commercial and non-commercial risks under all types of policy is 90 per cent of the loss. Any recoveries after payment are shared between the exporter and the ECIC in the same proportions in which the loss was shared. Premium rates are confidential, being known only to the exporter and the ECIC.

75. Losses are usually paid according to the following schedule:

Insolvency: immediately after submission of proof of insolvency;

Default: six months after due date of payment;

Non-acceptance: one month after the amount of the loss has been established;

Transfer difficulties: four months after due date of payment;

All other risks: four months after the occurrence of the events which caused the loss.

76. In October 1965 the ECIC extended its insurance facilities by undertaking to provide uncondi-

tional guarantees to banks, thus enabling exporters to obtain non-recourse financing for sales of capital equipment sold on medium-term credit. Under this new bank guarantee facility, normal ECIC insurance principles relating to sales of capital goods on medium-term credit continue to apply. The insurance policy provides cover to the exporter during the production period of the goods but, once the buyer has accepted the goods, the unconditional guarantee to the bank goes into effect enabling the bank to waive recourse to the exporter. This new arrangement provides the lending bank with ECIC's 100 per cent guarantee of the deferred-payment portion. Under the plan the ECIC will pay the bank three months after due date in the event of non-payment by the foreign buyer. The ECIC will retain the right of recourse against the exporter for the recovery of any moneys it pays to the bank which are not payable under the ordinary insurance policy. For this bank guarantee the ECIC charges a nominal additional fee.

TABLE 16. CANADA: VOLUME OF EXPORTS INSURED<sup>a</sup>  
(SHORT-TERM AND MEDIUM-TERM)

(Millions of Canadian dollars)

Year	Exports under section 14	Exports under section 21	Total
1955	48.4	6.3	54.7
1956	54.8	45.9	100.7
1957	45.7	107.5	153.2
1958	42.0	7.9	49.9
1959	47.5	90.7	138.2
1960	63.5	38.2	101.7
1961	65.6	65.6	131.2
1962	96.4	49.4	145.8
1963	100.1	46.0	146.1
1964	131.2	214.9	346.1
1965	133.8	78.5	212.3

<sup>a</sup> Insured export transactions have represented between 2 and 4 per cent of all Canadian exports.

TABLE 17. CANADA: CLAIMS EXPERIENCE UP TO  
31 DECEMBER 1965

(Millions of Canadian dollars)

Type of risk	Claims paid	Recoveries	Written off	Net outstanding
Insolvency	0.5	0.1	0.2	0.2
Default	1.3	0.6	0.4	0.3
Transfer	9.6	9.5	0.1	0.0
Other	0.1	0.1	0.0	0.0
TOTAL	11.5	10.3	0.7	0.5

## CZECHOSLOVAKIA

### INSTITUTIONAL FRAMEWORK

77. In Czechoslovakia, two main types of credit—state credits and commercial export credits—are available to foreign buyers for the purchase of capital goods

in that country. In that connexion it may be noted that capital goods have, in recent years, accounted for about 50 per cent of Czechoslovakia's exports to developing countries.

TABLE 18. CZECHOSLOVAKIA: RELATIONSHIP OF CAPITAL GOODS EXPORTS TO TOTAL EXPORTS TO DEVELOPING COUNTRIES

(Millions of korunas, except as indicated)

Item	1958	1960	1961	1962	1963	1964	1965
Total exports to developing countries	1,367	1,533	1,740	1,645	1,629	1,796	1,901
Exports of machinery and equipment to developing countries	435	586	594	734	844	832	970
Exports of machinery and equipment as percentage of total exports	33	38	35	44	52	46	51

#### *State credits*

78. These credits are usually granted within the framework of bilateral economic and technical co-operation. From 1956 to 1965 Czechoslovakia granted state credits to more than forty developing countries in Asia, Africa and Latin America. The following may be cited as examples of projects carried out in developing countries with the assistance of such credits:

#### *India:*

Construction of a heavy machine tool plant and a metallurgical plant in Ranchi, a plant for the production of heavy electric machinery and equipment in Hyderabad, and a plant for the production of high-pressure boilers in Tiruchirapalli;

#### *Iran:*

Construction of a foundry and factories manufacturing machine tools, electric engines, pumps, compressors and power plants etc.;

#### *Nigeria:*

Construction of a tannery, power plant, sugar refineries and factories producing shoes, tires, ceramics and cement;

#### *Pakistan:*

Construction of sugar refineries and cement factories.

#### *Commercial export credits*

79. These credits are provided by the foreign trade organizations which are responsible for handling Czechoslovakia's imports and exports. The foreign trade organizations are autonomous legal entities which conduct their commercial activities under their own name and have at their disposal funds which they own and operate on strict commercial principles. Their claims or liabilities towards foreign partners cannot be transferred to other organizations or the State.

80. Each foreign trade organization specializes in the trade of a particular category of goods. There are nine corporations which trade in machinery and equipment. The most important among them is Technoexport, which exports complete industrial plants. Moreover, it is responsible for all project and design planning, puts the supplied equipment into operation ("turnkey operations") and, on special request, assists in training of local personnel. Technoexport, as well as other foreign trade corporations, runs on a self-supporting basis. Its capital fund amounts to some Kcs 15 million.

81. Practically all export operations of Technoexport are carried out on a credit basis. The sum of credits granted by this corporation outstanding at the end of 1965 amounted to \$70 million. In July 1966 the original Technoexport was divided into two foreign trade corporations: one of them remained as Technoexport and the other is called Skoda-export.

82. At present the foreign trade organizations which export machinery and equipment are the following:

#### *Technoexport:*

Complete plants in the engineering industries, especially machinery and equipment for the chemical industries (including the rubber industry), the paper and cellulose industry and the food industry (sugar factories, distilleries, breweries, flour mills etc.);

#### *Skoda-export:*

Power engineering and metallurgical plants, electric locomotives and trolley buses, equipment for the manufacture of machines and instruments for the foundry, metallurgical, electrical, textile, food, chemical and rubber industries etc.;

#### *Strojexport:*

Electric power distribution devices and equipment;

diesel generating sets; compressors, refrigeration equipment, pumps, hydraulic installations, water treatment and purification plants; rail traction vehicles; products of the shipbuilding industry; machinery and equipment for use in mines for extraction and ore preparation; machinery and equipment for processing of minerals, building materials and for use in civil engineering;

*Investa:*

Machinery and equipment for the textile, ready-made clothing, leather and footwear industries, and equipment for their assembly;

*Strojimport:*

Machine tools and forming machines, tools and gauges, glass-making and glass-working machines, wood-working machines and complete wood-processing plants, equipment for the manufacture of machine tools and forming machines, complete machinery installations;

*Kovo:*

Engineering products, radio and television transmitters, measuring and automation instruments and equipment, hospital equipment, office, calculating and computing machines, equipment for the manufacture of radio and television receivers etc.;

*Merkuria:*

Workshop tools and equipment, gas pressure cylinders, laundries, dry-cleaning shops, and other service equipments, etc.;

*Motokov:*

Agricultural machinery, tractors, cars, pumps, refrigerating equipment, etc.;

*Omnipol:*

Radio-chemical laboratories, equipment for radioactive waste utilization, transport aircraft, airport equipment etc.

83. The foreign trade organizations may finance the credits they grant with the Československa obchodní banka a.s. (Commercial Bank), a joint-stock company established in November 1964 in accordance with Act No. 101/1963 on legal relations in international trade. This institution, which began operations on 1 January 1965 took over the foreign trade financing functions formerly performed by the State (Central) Bank of Czechoslovakia. It has a fully paid-up capital of Kčs 500 million, represented by 5,000 shares of a nominal value of Kčs 100,000 each. The shares are held by various agencies and enterprises in industry, foreign trade, finance and insurance; the majority were purchased by the State Bank and the foreign trade organizations at a price 5 per cent above par, the 5 per cent being allocated to the Commercial Bank's reserve fund. Fifty per cent of the Bank's net profit is allocated to this reserve fund until the latter attains a level equal to that of the capital; after allocations to other funds have been made, the balance of the net profit is divided among the shareholders as a dividend. The State and the state organizations are not responsible for the Bank's liabilities; similarly, the Bank is not responsible for the commitments of the State or any of its organizations, unless it specifically guarantees such commitments.

84. The Commercial Bank is managed by a nine-member Board of Directors, a seven-member Supervisory Board and a General Manager. It has already established foreign offices in India, Indonesia and Lebanon.

85. The Bank, which is subject to state supervision exercised by the Ministry of Finance, is called upon to perform the following functions:

(a) To grant credits to the foreign trade organizations and finance credits granted by them and to advise them on most aspects of commercial credits;

(b) To handle foreign payments accounts for all types of transaction, and in particular:

To handle clearing accounts and ensure the implementation of payments and credit agreements or arrangements with other countries and inter-bank arrangements, if any;

To carry out payments in transferable roubles through the International Bank for Economic Co-operation in Moscow;

To accept and issue bank guarantees;

(c) To engage in foreign trade promotion activities;

(d) To facilitate co-operation with banks in other countries.

86. While the Commercial Bank carries out the financial operations in connexion with the implementation of the intergovernmental credit agreements, it does not stipulate the conditions of these credits since they are usually already included in the agreements. The Bank concludes a special agreement with the central or other bank in the recipient country as to the technical procedure for the implementation of the credit agreement. In this connexion both banks also exercise supervisory functions over the servicing of the credit. Usually under the intergovernmental agreements so-called mixed commissions are set up to regulate and settle major problems of its implementations, while minor technical questions are settled by the banks.

87. The Commercial Bank and any bank authorized by the other government open mutual accounts and carry all the book-keeping of the credit agreement. In some cases the partner for this activity may even be the Ministry of Finance, as it is in the case of India.

88. The main part of Czechoslovakia's exports of machinery and equipment goes to a relatively small number of developing nations, mainly Argentina, Brazil, India, Syria, Turkey, the United Arab Republic and some others. Complete plants and installations represent the major part of these exports. The rapid growth of the latter kind of export is reflected in the fact that while in the six-year period 1953-1958 one foreign trade organization, Technoexport, equipped thirty-six medium and large-sized plants in the developing countries, in 1959 it supplied complete equipment for thirty-seven enterprises in these countries.

89. Among the types of machinery and equipment supplied to developing countries by Czechoslovak exporters on commercial and intergovernmental credits were the following:

*Equipment for steam and hydro-power stations to:*  
Homs (Syria), Rio Turbio and San Lui (Argentina), Porto Alegre and Bariri (Brazil);

*Cement plants to:* Polichomri and Mazarisherif (Afghanistan), Churk and Madras (India),

Tonaza (Indonesia), Dauthkel (Pakistan), El Tahrir (UAR), San Lui (Argentina), Capanema (Brazil);

*Tire manufacturing plants to:* Calcutta (India), Djakarta (Indonesia), Pehon Pchen (Cambodia);

*Sugar mills to:* Panipat and Madras (India), Homs (Syria), Ceylon, Edfu (UAR);

*Shoe manufacturing plants to:* Kufa (Iraq), Rangoon (Burma), San Lui (Argentina), Syria, Turkey, Ceylon, UAR, Sudan;

*Textile mills to:* Iran, Turkey, Ceylon, Tunisia;

*Ceramic factories to:* Turkey, UAR, India;

*Crude oil refinery to:* Syria;

*Pumping stations and purifying plants to:* Cairo and Alexandria (UAR);

*Coal separating and preparation plants to:* Durgapur (India), Rio Turbio (Argentina).

## FINANCING PROCEDURES

### *State credits*

90. As noted above, state credits are usually provided within the framework of bilateral economic and technical co-operation agreements under which Czechoslovakia agrees to provide machinery and equipment for certain projects together with engineering services for their installation and related technical studies, while the recipient country agrees to provide labour and locally produced materials. The agreements are implemented by the foreign trade organizations.

91. Interest rates are in the neighbourhood of 2.5 to 3 per cent and maturities range from eight to ten years. The credits are usually repayable in traditional export commodities or locally produced goods, including goods manufactured with the equipment purchased with the credit.

### *Commercial export credits*

92. Foreign buyers wishing to obtain information concerning the possibility of purchasing Czechoslovak capital goods on a medium-term or long-term commercial credit basis may contact the foreign trade organizations directly or through the latter's representatives abroad, during mutual exchanges of trade delegations between Czechoslovakia and developing countries or at trade fairs.

93. Negotiations concerning the granting of medium-term and long-term commercial export credits are carried out directly between the foreign buyer and the foreign trade organization. Before taking a decision, the latter may consult the Commercial Bank (which may subsequently be asked to finance the credit) regarding the buyer's credit-worthiness, the interest rate to be charged, the guarantees to be requested, etc. The final decision concerning the terms and conditions of the credits as well as their amount is however taken by the organization itself, on the basis of commercial criteria.

94. Medium-term credits are provided for a period between one and five years and are used for financing deliveries of such capital goods as sugar, cement and ceramic plants, water-treatment plants, equipment for the food processing industry etc.

95. Long-term commercial credits have maturities of up to eight years and are used to finance deliveries of heavy machinery and equipment, separately or in complete lines of equipment or complete plants.

96. Depending on the type and complexity of equipment involved and the amount and maturity of the credit, the buyer is expected to make a down payment of between 5 to 30 per cent at the time of the signing of the contract and a similar (though not necessarily the same) payment at the time of delivery. A guarantee from a reliable bank in the buyer's country, or some similar guarantee, is required for the credit to cover the remainder. When the buyer cannot secure a guarantee for the credit, the foreign trade organization may request insurance from the State Insurance Institute of Czechoslovakia. The credits are usually repayable in semi-annual instalments, starting when the main part of the goods has been delivered or, in some cases, one year after completion of delivery. The interest rate charged varies from 4 to 6 per cent.

97. Repayment is carried out within the framework of clearing and payments agreements or in convertible currencies or by a combination of both methods. In most cases the credits are repaid in goods: either the importing country's general export commodities or the goods produced by the plant or equipment supplied on credit.

98. The Czechoslovak commercial export credits usually take the form of supplier's credits, though in a few cases the Commercial Bank has provided export credits directly to foreign buyers. It is currently studying the possibility of extending direct bank-to-bank credits to banks in the importing countries to enable the latter to finance payment by buyers for Czechoslovak exports.

## EXPORT CREDIT INSURANCE

99. In Czechoslovakia there is a long-established system of credit insurance which originated in 1927 with the creation of The Credit Insurance Company, Ltd. in Prague. In 1945, after the nationalization, the insurance business was taken over by the State Insurance Institute of Czechoslovakia (Státní Pojišťovna), which is the state organization dealing with all types of insurance business.

100. This institution has a special department which—along with other insurance operations—deals with export insurance.

101. The State Insurance Institute whose General Manager is a member of the Board of Directors of the Commercial Bank, has concluded agreements with the foreign trade organizations on the basis of which their foreign trade transactions can be insured. The law does not, however, require that the foreign trade organizations insure their foreign trade deals in all cases, i.e., export credit insurance in Czechoslovakia is not obligatory. It is up to the foreign trade organizations to decide whether it is appropriate or necessary to seek insurance for a particular transaction. On the other hand, the Insurance Institute is not obliged to provide insurance in all cases where it is requested.

102. The Institute will normally seek to cover part of its risks through reinsurance on the world market. Possible losses are covered from the funds of the Insurance Institute and by reinsurance.

103. The Insurance Institute insures credit transactions up to the amount of its underwriting capacity and possibilities of reinsurance. Its insurance conditions therefore are based on both the internal requirements and regulations and the international insurance practice.

104. The Insurance Institute works in close cooperation with major foreign insurance companies. It is a member of the International Credit Insurance Association, the International Union of Marine Insurance, the International Union of Aviation Insurers and some others. Since 1958 the Institute takes part in sessions of the *ad hoc* working group for insurance and reinsurance of the Economic Commission for Europe.

105. The Institute insures sales of goods by the Czechoslovak exporters and services connected with these sales. Usually the maximum part of the credit covered by insurance constitutes 90 per cent. The insurance policy of the Institute covers commercial risks only.

106. There is no fixed rate of premium for credit insurance. Generally, it depends upon the quality of the buyer's financial documentation, length of the credit and, where appropriate, the relevant regulations prevailing in the country, where reinsurance is to be secured.

## DENMARK

### INSTITUTIONAL FRAMEWORK

107. In Denmark export credits for the acquisition of capital goods in that country are financed by the commercial banks, the most active in the export credit financing field being the Kjøbenhavns Handelsbank, the Den Danske Landmanskbank and the Privatbanken. In September 1960, the Danmarks Nationalbank, the central bank, introduced arrangements enabling the commercial banks to convert into credit certificates the export bills they hold as counterpart of their financing of suppliers' credits of between two and five years (medium-term suppliers' credits), each involving a minimum amount of DKr 1 million. The commercial banks can hold the credit certificates as part of their required liquid reserves, sell them in the open market or use them as collateral for loans from the Nationalbank.

108. On 14 December 1962, the Nationalbank informed the Ministry of Finance that it would also convert into credit certificates instruments received by commercial banks in connexion with long-term export credits guaranteed by the Ministry of Commerce under section 9 of the Act of 19 March 1962 on Technical Co-operation with Developing Countries.<sup>1</sup>

109. As of 31 December 1965, the Danmarks Nationalbank had issued such credit certificates for an amount of DKr 84 million.

TABLE 19. DENMARK: CREDIT CERTIFICATES ISSUED BY THE DANMARKS NATIONALBANK IN CONNEXION WITH EXPORT CREDITS

As of 31 December:	Cumulative amount (millions of kroner)
1960	4
1961	16
1962	39
1963	39
1964	44
1965	84

### FINANCING PROCEDURES

#### Medium-term suppliers' credits

110. After discussing the general terms of the contract with the foreign buyer, the exporter will ascertain whether the Eksportkreditradet is willing to guarantee the credit. He then applies to his bank for financing.

<sup>1</sup> Section 9 of the Act as subsequently amended reads as follows:

"On the recommendation of the Board [Board of Technical Cooperation with Developing Countries, established within the Ministry of Foreign Affairs], the Minister for Commerce may, within an amount of Danish Kr 250 million, issue guarantees against losses on private credits extended to developing countries in connexion with the technical development of such countries. Subject to the approval of the Parliamentary Finance Committee this amount may be increased".

Interest rates vary between 7 and 8.5 per cent. Before committing itself, the bank will request the Nationalbank's prior agreement to convert the bills into credit certificates.

111. The buyer is usually required to make a down payment averaging 20 per cent of the value of the export contract, the remaining 80 per cent constituting the export credit. The exporter's bank will finance the portion of the credit guaranteed under the insurance policy (see the section below on Export credit insurance). The credit certificates issued by the Nationalbank take the form of negotiable two-year to five-year bearer certificates eligible for refinancing of up to 85 per cent of their nominal value. Certificates for one-third of the credit granted may be used as collateral for loans as soon as the certificates have been issued; the next third may be used one year later and the last third two years after issuance. The certificates are returned or their face value is repaid to the Nationalbank *pari passu* with the amortization of the export credit.

#### Long-term suppliers' credits

112. These credits consist mostly of credits granted to developing countries for periods of between seven and fifteen years within the framework of the Act of 19 March 1962. In the case of credits to developing countries covered by special guarantees pursuant to the 1962 Act, usually no down payment is required; interest rates are the same as those for medium-term suppliers' credits, but the final cost is less, since these credits are exempt from insurance premiums (a saving of one-half to one per cent per annum).

### EXPORT CREDIT INSURANCE

113. The Denmark export credit insurance scheme is operated by the Eksportkreditradet, a governmental council within the Ministry of Commerce established under Act 145 of 4 April, 1960. The Council consists of fifteen members; the President is appointed by the King, while the Vice-President is always a representative of the Ministry of Commerce. Four members represent, respectively, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Agriculture and the Ministry of Fisheries. One member represents the Danmarks Nationalbank and another the commercial banks. The seven remaining members are representatives of various trade organizations (farmers, fishermen, wholesale traders, handicraftsmen, industrialists, workers, employers).

114. According to Act 145 of 4 April 1960, as subsequently amended, the Eksportkreditradet may issue insurance up to a global ceiling of DKr 4,000 million. Security for the insurance issued is constituted by the Denmark Trade Fund, established under the same Act, whose resources, provided by the Government, amount to approximately DKr 245 million. If the



Fund should be unable to cover payment of indemnities, the State is responsible for the difference.

115. Insurance is usually granted for exports of Danish goods and services. In certain cases insurance may be obtained for export of foreign goods sold from Denmark, provided that they do not compete with goods of Danish origin.

116. The Eksportkreditradet provides coverage against commercial risks, non-commercial risks or both at the option of the insured. Coverage is available for the following risks, whether arising before or after delivery.

117. The commercial risks covered include:

The buyer's insolvency, which is considered to exist when the buyer has been declared bankrupt, has stopped payments or when the exporter has endeavoured to recover his claim by legal proceedings against the buyer which have not resulted in full payment;

Default, that is, the buyer's failure to pay for goods received within six months after the due date. However, this risk coverage is not applicable when the failure to pay arises from a dispute about the quality of the goods, unless it can be proved that the buyer's complaint is unfounded or has already been remedied. Furthermore, loss due to the buyer's refusal to accept the goods is not covered except in the case of insolvency.

118. The political risks covered include:

Transfer obstacles in the buyer's country;

General moratorium, expropriation and similar public measures in the buyer's country;

Warlike operations, civil war, rebellion or similar disturbances in the buyer's country;

Introduction of quantitative import restrictions in the buyer's country or withdrawal of import licences already granted.

119. The risk of exchange loss arising from any change in the value of the currency in which the invoice is expressed in relation to the Danish krone is not covered. However, indemnity will be paid in cases where devaluation of the buyer's currency, occurring after the buyer has paid the purchase sum in local currency into a reliable bank for transfer, causes the paid-in sum to be insufficient to cover the invoice amount in full.

120. The Eksportkreditradet usually issues only specific policies, that is, policies for individual transactions. However, a revolving policy may be issued for all short-term transactions of an exporter with a certain buyer.

121. The maximum cover is 80 per cent of the credit, but in certain cases the cover may be increased up to 90 per cent, particularly if there is a guarantee from a reliable bank. Cover for political risks usually amounts to 90 per cent of the credit.

122. The maximum duration of insurance is usually five years for transactions involving capital goods. However, longer credit terms may be covered in respect of sales of ships and when Danish exporters can prove

to the Danish authorities that they are obliged to meet competition from exporters in other countries who, thanks to the facilities made available by their governments, are in a position to offer more liberal credit terms (matching principle). Credits in excess of five years—in practice mostly between seven and fifteen years—are also eligible for insurance when they fall within the framework of the 1962 Act on Technical Co-operation with Developing Countries. An additional amount (at present Dkr 250 million) has been earmarked by the Danish Parliament for the guaranteeing of such transactions. The Board of Technical Co-operation with Developing Countries established within the Ministry of Foreign Affairs is entrusted with the task of studying the applications. These credits are insured on concessional terms: exemption from premium, higher coverage of risk (90 to 95 per cent) and waiver of the cash down payment requirement. As of 1 May 1966, guarantees issued for long-term export credits to developing countries totalled Dkr 150 million.

123. Indemnity claims must be filed with the Eksportkreditradet within three months from the date when the exporter obtains the information on which the claim is based and the exporter must prove that the conditions for payment of the indemnity have been fulfilled. Indemnities are calculated on the basis of the invoice value of the transaction, except in the case of pre-delivery losses, where the calculation is based on the production cost. Indemnities for losses due to commercial risks are payable when insolvency has been established, and six months after the due payment date in cases of default. Indemnities for losses arising from non-commercial causes are in all cases payable six months after the due payment date.

124. Under Act 145 of 4 April 1960 the Eksportkreditradet may also issue unconditional guarantees to banks for loans to exporters in connexion with export transactions. These guarantees cover non-payment regardless of cause. In considering an application for such a guarantee, it closely examines the financial situation of the applicant, including his accounts for preceding years. The loan for which a guarantee is desired must not be out of proportion to the applicant's resources.

125. Loans for which guarantees may be given fall into two categories: "manufacturing credits", which become effective when the goods are ordered, and "shipment credits", which become effective when the goods are dispatched. Guarantees can, as a rule, cover no more than 75 per cent of the value of the transaction. The foreign buyer makes all his payments directly to the bank which grants the loan. The bank will retain 75 per cent of each payment for redemption of the loan and will credit the remainder to the exporter.

126. In certain cases, the Eksportkreditradet may issue guarantees for export loans even if concrete orders do not exist: for example, to cover loans granted for the financing of stocks of goods which are constituted in order to enable an exporter to fill export orders expeditiously.

127. If a loan is not repaid, the Eksportkreditradet reimburses the bank which has provided the export financing and has recourse against the exporter.

TABLE 20. DENMARK: DISTRIBUTION OF OUTSTANDING EXPORT CREDIT GUARANTEES,<sup>a</sup>  
BY TYPE OF GOODS

(Millions of kroner)

Type of goods	As of 31 March:			
	1963	1964	1965	1966
Livestock and animal products	148.6	84.0	73.3	55.6
Animal and vegetable fats and oils	17.9	8.5	12.4	16.1
Food-stuffs	9.1	8.3	11.3	9.7
Chemicals	18.1	23.6	25.2	32.0
Hides, skins, furs and products therefrom	11.9	12.6	12.5	11.8
Lumber products, including furniture	2.9	3.6	3.3	5.5
Textiles and shoes	25.9	27.5	29.7	36.1
Non-precious metals and products therefrom	18.0	22.8	19.9	18.1
Machinery and equipment	574.3	494.8	542.6	532.3
Transport equipment	338.8	273.4	476.0	572.1
Engineering equipment	28.2	28.5	69.6	99.9
Miscellaneous	20.0	14.1	17.7	18.8
<b>TOTAL</b>	<b>1,213.7</b>	<b>1,001.7</b>	<b>1,293.5</b>	<b>1,408.0</b>

<sup>a</sup> Excluding bank guarantees.

TABLE 21. DENMARK: DISTRIBUTION OF ANNUAL INSURED EXPORT CREDITS,<sup>a</sup>  
BY TYPE OF RISK

(Millions of kroner, except as indicated)

Year	Export credits insured against			Total insured export credits	Insured export credits as percentage of total exports
	Commercial risks alone	Non-commercial risks alone	Commercial and non-commercial risks combined		
1960/61	58	51	340	449	4.7
1961/62	83	48	405	536	5.0
1962/63	101	69	744	914	7.9
1963/64	192	78	521	791	6.0
1964/65	179	54	531	764	5.2

<sup>a</sup> Excluding bank guarantees.

TABLE 22. DENMARK: DISTRIBUTION OF BANK GUARANTEES, BY TYPE OF GOODS  
(Millions of kroner)

Type of goods	As of 31 March:			
	1963	1964	1965	1966
Livestock and animal products	39.2	26.3	30.3	36.8
Animal and vegetable fats and oils	6.7	4.9	12.7	15.9
Food-stuffs	42.2	42.9	51.3	39.8
Chemicals	6.0	5.5	7.8	9.4
Hides, skins, furs and products therefrom	0.4	0.4	0.5	0.6
Lumber products, including furniture	15.2	18.8	19.7	24.5
Textiles and shoes	15.4	19.2	24.9	37.2
Non-precious metals and products therefrom	9.1	4.7	6.1	11.3
Machinery and equipment	99.4	97.4	139.6	182.7
Transport equipment	69.9	98.1	269.0	337.1
Engineering equipment	8.4	4.8	1.6	33.6
Miscellaneous	46.2	50.4	54.2	51.8
<b>TOTAL</b>	<b>358.1</b>	<b>373.4</b>	<b>617.7</b>	<b>780.7</b>

## FEDERAL REPUBLIC OF GERMANY

### INSTITUTIONAL FRAMEWORK

128. In the Federal Republic of Germany the main sources of financing for export credits for the acquisition of capital goods in that country are the Ausfuhrkredit Aktiengesellschaft (AKA) (for credits of between one and five years), the Kreditanstalt für Wiederaufbau (KfW) (for credits in excess of five years) and, to a very limited extent, the Rheinische Girozentrale und Provinzialbank (for both medium-term and long-term credits).

129. The Ausfuhrkredit Aktiengesellschaft is a private corporation established in 1952 by the "Big Three" private commercial banks (the Deutsche Bank, the Dresdner Bank and the Commerzbank), nine other private banks and eleven regional, state and local government banks for the purpose of financing medium-term suppliers' credits. It has a capital of DM 20 million, of which only 50 per cent is paid in, but its main financial resources are derived from two credit lines, "A" and "B". Credit line "A", which originally totalled DM 270 million and has been increased to DM 700 million, is made available to the AKA by the member banks, whose individual commitments range from 0.49 per cent to 32.0 per cent of the total. Credit line "B" is a rediscount ceiling granted to the AKA by the Deutsche Bundesbank, the German central bank.

This ceiling was originally fixed at DM 600 million, but as the commercial banks have shown an increasing interest in providing medium-term export credit financing and have increased their commitments under credit line "A", the Deutsche Bundesbank's role has diminished and the ceiling has now been lowered to DM 300 million. The minimum maturity of loans granted by the AKA is twelve months: the maximum maturity under credit line "A" is eight years, including three years for production of the goods, while the maximum maturity under credit line "B" is four years, including the production period.

130. The AKA is administered by a two-member Board of Management chosen by the Supervisory Board, which is in turn elected by the member banks. The Supervisory Board also appoints a special Credit Committee, to which credit applications are submitted for examination and approval. The Credit Committee also decides which credit line will be used to finance a given loan; its decision in this respect is motivated mainly by the balance remaining in each credit line, but credits granted under credit line "B" must in principle be used to finance transactions with developing countries and must also be approved by the Deutsche Bundesbank when their maturities exceed twenty-four months and when the value of the transaction exceeds DM 1 million.

TABLE 23. FEDERAL REPUBLIC OF GERMANY: AKA EXPORT CREDITS  
(Millions of Deutsche marks, except as indicated)

Year	Credit line A			Credit line B			Total, line A + line B		
	Number of transactions	Total credits	Total value of orders	Number of transactions	Total credits	Total value of orders	Number of transactions	Credits	Value of orders
1955	25	50.9	101.8	310	351.1	762.9	335	402.0	864.7
1956	75	133.1	288.9	542	356.6	965.9	617	489.7	1254.8
1957	44	90.5	197.9	289	306.1	985.0	333	396.6	1182.9
1958	30	83.9	174.1	196	206.9	468.5	226	290.8	642.6
1959	33	43.4	98.0	131	255.8	714.9	164	299.2	812.9
1960	67	200.5	420.8	110	177.1	442.4	177	377.6	863.2
1961	109	313.7	648.3	104	91.8	225.2	213	405.5	373.5
1962	103	269.3	478.4	80	93.7	246.5	183	363.0	724.9
1963	93	313.6	553.9	80	100.4	273.2	173	414.0	827.1
1964	125	241.7	440.6	112	139.1	310.2	237	380.8	750.8

TABLE 24. FEDERAL REPUBLIC OF GERMANY: GEOGRAPHICAL DISTRIBUTION OF  
AKA EXPORT CREDITS  
(Percentage of total)

Area	1958	1959	1960	1961	1962	1963	1964
Europe	36.86	40.36	37.65	40.54	34.00	20.56	22.80
Africa	9.78	13.69	23.56	15.58	9.65	11.17	16.91
Asia	30.06	28.35	25.83	18.71	17.82	20.37	18.94
North America	2.76	1.78	2.40	3.81	3.88	4.60	6.10
Central America	0.15	0.02	—	0.04	0.02	0.12	0.12
South America	20.39	15.80	10.56	21.25	34.12	42.77	34.90
Australia	—	—	—	0.07	0.51	0.41	0.23
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

131. The Kreditanstalt für Wiederaufbau was established by an Act of 5 November 1948 to finance post-war reconstruction, but as reconstruction financing needs diminished its activities broadened in scope to cover not only domestic investment but also a wide range of foreign transactions. In 1950 it was entrusted with the task of promoting Federal Republic exports by providing financing for medium-term suppliers' credits; this task was transferred to the AKA when that institution was established in 1952, but the KfW continued to participate in the export financing process by providing "parallel financing", that is, complementary financing covering the difference between the percentage of the transaction covered under the government insurance policy and the percentage of financing provided by the AKA (see the section below on Financing procedures). In recent years, owing to the fact that its funds can be lent on a long-term basis, the KfW's main activity in the export financing field has been the financing of long-term suppliers' credits and the granting of buyers' credits: it finances credit maturities exceeding the ceiling imposed by AKA regulations for up to ten years after delivery, and in the case of large projects in developing countries (minimum DM 5 million) grants direct long-term credits to the foreign buyer.

132. In 1961, the KfW's experience in foreign transactions led the Federal Government to designate

the institution as the official executive agency for the German foreign development aid programme. In this capacity the KfW acts on behalf of the Federal Government, conducts negotiations with developing countries regarding aid loans, signs the loan agreements as the German contracting party, disburses the funds and supervises the agreed use of the capital supplied.

133. The KfW administers the Government's aid programme under the guidance of the Interministerial Committee on Development Policy, which deals with basic policy issues and decides on projects of special importance to the bilateral aid programmes.

134. Transactions carried out on behalf of the Government within the framework of the German aid programme are financed out of public funds, which the KfW administers on a trust basis. For transactions carried out on its own behalf, that is, export credit financing and the provision of untied loans to foreigners on conventional terms to supplement official development aid, the KfW uses its own capital and funds borrowed on the capital market or from other sources. Its capital, 15 per cent of which is paid up, amounts to DM 1,000 million, DM 800 million being subscribed by the Federal Republic and DM 200 million by the Laender (state governments). The KfW's administrative organs are the Board of Management and the Board of Supervisors; the former, which is appointed by the latter, conducts the corporation's business.

TABLE 25. FEDERAL REPUBLIC OF GERMANY: KfW FOREIGN CREDITS  
(Millions of Deutsche marks)

Type of credit	1961	1962	1963	1964
Capital aid				
Export financing	888.6	1,264.7	1,858.4	923.5
Loans granted to foreign purchasers	182.5	637.4	411.6	670.0
Loans granted to German exporters	78.3	224.7	284.1	335.9
Non-tied financial loans	104.2	412.7	127.5	334.1
Loans for establishments and participations abroad	627.6	69.2	269.8	52.0
	8.6	12.0	6.7	9.9
TOTAL <sup>a</sup>	1,707.3	1,983.3	2,566.5	1,655.4

<sup>a</sup> The corresponding totals for KfW's domestic financing operations were as follows: 1961, 789.0; 1962, 576.5; 1963, 911.6; 1964, 930.3.

TABLE 26. FEDERAL REPUBLIC OF GERMANY: GEOGRAPHICAL DISTRIBUTION OF KfW CREDITS  
(Millions of Deutsche marks)

Type of credit commitment	1963					1964				
	Europe	Asia	Africa	America	Total	Europe	Asia	Africa	America	Total
Capital aid loans	314.8	1,210.1	333.5	—	1,858.4	119.0	440.3	319.7	44.5	923.5
Project loans	291.9	943.6	333.5	—	1,569.0	77.0	363.3	319.7	44.5	804.5
Non-project loans	22.9	266.5	—	—	289.4	42.0	77.0	—	—	119.0
Export financing	132.9	116.7	65.8	96.2	411.6	233.8	143.9	210.6	81.7	670.0
Loans to foreign purchasers	105.2	114.8	43.1	21.0	284.1	55.8	93.0	142.5	44.6	335.9
Loans to German exporters	27.7	1.9	22.7	75.2	127.5	178.0	50.9	68.1	37.1	334.1
Non-tied financial loans	50.0	—	178.0	61.8	289.8	51.0	1.0	—	—	52.0
Loans for establishments and participations abroad	3.2	2.1	1.4	—	6.7	2.6	2.7	2.8	1.8	9.9
TOTAL	500.9	1,328.9	578.7	158.0	2,566.5	406.4	587.9	533.1	128.0	1,655.4
Loans to developing countries	382.7	1,328.9	470.7	138.9	2,321.2	154.6	587.9	533.1	119.8	1,395.4
Loans to non-developing countries	118.2	—	108.0	19.1	245.3	251.8	—	—	8.2	260.0

135. Another institution which has recently entered the export credit financing field is the Rheinische Girozentrale und Provinzialbank, one of the twelve Girozentralen in the Federal Republic of Germany. It is owned by the state of North Rhine Westphalia, the Landschafts-Verband Rheinland and the Sparkassen-Verband Association of savings banks of the Rhineland. It functions mainly—as the name indicates—as a clearing office for the savings banks in the Rhineland as well as a state bank, granting credits to the municipalities and floating bond issues on their behalf. Owing to the availability of long-term private savings funds deposited with it, this institution has recently begun granting long-term loans to domestic borrowers and providing some medium-term and long-term export credit financing.

#### FINANCING PROCEDURES

##### *Medium-term suppliers' credits*

136. An insurance policy is a prerequisite for obtaining credits with maturities of twenty-four months and more (see the section below on Export credit insurance). Exporters are expected to send their credit applications to the AKA through their commercial banks. When financing is granted under AKA credit line "A", the foreign buyer is expected to make a down payment of 20 per cent of the contract value and the exporter is expected to provide financing for 20 per cent of the remaining 80 per cent (that is 16 per cent of the contract value). The AKA is unlikely to provide financing for more than 64 per cent of the contract value under credit line "A". The interest rate (in 1965 6.5 per cent) is determined by the member banks of the AKA and is in principle based on the discount rate of the Deutsche Bundesbank.

137. When financing is granted under credit line "B", the foreign buyer is expected to make a down payment of 20 per cent of the contract value and the exporter is expected to finance at least 40 per cent of the contract value, so that the financing provided by the AKA is unlikely to exceed 40 per cent of the contract value. The interest rates for credits granted under credit line "B" are strictly bound to the discount rate of the Deutsche Bundesbank, being 1.5 per cent above that rate.

138. The Rheinische Girozentrale und Provinzialbank has no uniform rules regarding the percentage of the transaction to be financed.

##### *Long-term suppliers' credits*

139. These are financed in two parts: cover for the first five years after delivery (four years in the case of credit line "B") is secured through medium-term financing from the AKA (see above); in addition the exporter after securing insurance coverage contacts his commercial bank, which submits an application to the KfW for financing to cover the remaining maturities. The financing of the later maturities may be provided for up to the percentage of the credit covered under the insurance policy, with the exporter providing 20 per cent of the financing.

##### *Buyers' credits*

140. These credits are made available to developing countries for large-scale projects costing at least DM 5

million. Disbursements to the supplier are made by the KfW one year (considered as a warranty period) after the completion of the project in the developing country, and the credit is reimbursed to the KfW by the buyer in eighteen semi-annual instalments. The financing provided by the KfW is unlikely to exceed 76.5 per cent of the cost of the project, since the exporter must make a down payment of 10 per cent and the export credit insurance institution will guarantee 85 per cent of the remaining 90 per cent. The exporter must sign a commitment with the KfW assuming responsibility for 20 per cent of the financed portion of the project. The cost of the KfW credit for the buyer usually ranges between 5.75 and 6.0 per cent, plus a commitment charge of 0.25 per cent. Financing to cover the production and warranty period may be provided by the German commercial banks or the Girozentrale, which are completely reimbursed by the KfW at the end of the warranty period.

#### EXPORT CREDIT INSURANCE

141. Export credit insurance is provided jointly by the Hermes-Kreditversicherungs AG and the Deutsche Revisions-und-Treuhand AG (Treuarbeit). The two companies act as agents of the Federal Government and funds are allocated annually in the federal budget to cover their administrative costs and possible indemnity claims. Export credit insurance against commercial risks is also provided to a very limited extent by two other private insurance companies, the Gerling Konzern Speziale Kreditversicherungs AG and the Deutsche Kreditversicherungs AG.

142. Since 1960, the statutory ceiling for government backing of the insurance cover has been stipulated annually in the federal budget; the growth of the insurance programme can be judged by the sharp rise of this ceiling since the Act on which the present export credit insurance system is based was adopted in 1949:

EXPORT CREDIT INSURANCE CEILING

Year	Millions of Deutsche marks	Year	Millions of Deutsche marks
1949	120	1954	5,000
1950	600	1955	7,500
1951	1,200	1957	9,500
1952	2,400	1960	12,000
1953	4,000	1962	14,000
		1964	16,000

143. All insurance applications must be forwarded directly to the Hermes, which together with the Treuarbeit examines them and ensures that the required documentation is complete. The applications are then submitted to the Interministerial Committee for Export Guarantees, which holds the power of decision. This Committee includes representatives of the Federal Ministry of Economic Affairs, the Federal Ministry of Finance and the Federal Ministry of Foreign Affairs; it is assisted by representatives of the banks, the export merchants and the manufacturing industries. The Committee's decisions are based not only on commercial considerations but also on the economic interests of the Federal Republic. For contracts whose value exceeds DM 1 million, the Committee's decision must be endorsed by the Ministries of Economic Affairs and Finance. Once the Committee has approved an in-

insurance application, the exporter is given a promise that the transaction in question is in principle eligible for insurance; the policy is issued when the exporter has concluded the contract according to the conditions and terms approved by the Committee. Guarantees are accorded for the export of goods of Federal Republic origin or having a high content of Federal Republic labour. Guarantees may also be accorded for construction work abroad, consignment contracts, the processing of goods and the building up of stocks abroad; guarantees are not provided for the prospection of markets abroad.

144. Three main types of policies are issued:

Single transaction (*Einzelgarantie*) policies;

Policies covering all transactions with a given foreign buyer (*Revolvierende Deckung*);

Policies covering all transactions with several buyers in one or several countries (*Mantelgarantie*).

145. Guarantees cover the risk of insolvency and political risks such as interdiction of payments, conversion and transfer delays and governmental measures likely to cause losses during the execution of an export contract. The exchange risk is not covered, except when the exporter has been compelled to accept a currency other than that stipulated in the contract or when he has obtained the Federal Government's authorization to accept a currency other than that stipulated in the contract.

146. The maximum indemnity that can be paid is 80 per cent of the loss in respect of commercial risks (insolvency, or, for public buyers only, protracted default), 85 per cent in respect of conversion and transfer risks and 90 per cent as regards other political risks. It is 85 per cent of the production cost for predelivery risks. The actual cover limits depend on the circumstances of the case and in certain conditions cover for commercial risks may be limited to 60 per cent. While this is a greater limitation than in many other systems, the Government may provide guarantees under more favourable conditions for export transactions "in which the Federal Republic of Germany has a public interest".

147. Export sales to private firms are normally insured at a rate of 0.75 per cent for "cash against documents" sales, while the rate on credit sales is 1.5

per cent for a period up to six months, plus 0.1 per cent on the outstanding balance for each additional month. For contracts with public bodies, the premium rates are graduated: one per cent for the first DM 3 million; 0.75 per cent for the next DM 2 million, and 0.5 per cent for sums in excess of DM 5 million, plus a monthly charge of 0.05 per cent on the outstanding balance for periods up to two years or 0.04 per cent per month for payment periods exceeding two years.

148. The maximum duration of export credit insurance is normally five years but insurance is available for long-term export credits—mainly buyers' credits—for the execution of projects of major importance involving the purchase of German capital equipment with a minimum value of DM 5 million, which normally needs to be amortized over a period exceeding five years. The "financial guarantee" covers not only the principal but also the interest accruing during the amortization period. The guarantee covers all risks according to the following percentages of the credit:

(a) Contracts with private buyers:

80 per cent for commercial risks;

85 per cent for conversion, transfer and moratorium risks;

(b) Contracts with public buyers:

80 per cent for non-fulfilment of contractual payments;

85 per cent for political risks.

Premiums are calculated on the same basis as for ordinary export credit insurance.

TABLE 27. FEDERAL REPUBLIC OF GERMANY: ANNUAL VALUE OF GUARANTEES ISSUED

Year	Thousands of millions of Deutsche marks
1955	3.2
1956	2.6
1957	4.5
1958	3.5
1959	4.3
1960	4.5
1961	4.9
1962	4.1
1963	4.6

## FRANCE

### INSTITUTIONAL FRAMEWORK

149. In France suppliers' credits for the acquisition of capital goods in that country are financed by the *banques de dépôt* (deposit banks) and the *banques d'affaires* (investment banks) either alone or in consortium; these banks in co-operation with the Banque française du commerce extérieur (BFCE) also grant for the same purpose buyers' credit with a minimum maturity of eight years and involving a minimum sum of F fr 25 million.

150. Medium-term suppliers' credits (credits of between two and five years) are refinanced by the Crédit national, which in turn refinances them with the Banque de France. Long-term suppliers' credits (credits of between five and generally ten years) are refinanced by the Crédit national or the Groupement interbancaire pour le commerce extérieur (GICEX); the Crédit national will, in turn, refinance with the Banque de France the portions of the credits with maturities of five years and less, keeping in its portfolio the bills with maturities exceeding five years. In the case of countries which have signed with France an *accord de coopération* (co-operation agreement) the portions of the credits whose maturities exceed five years are refinanced with the Caisse centrale de coopération économique (CCCE).

151. In the case of buyers' credits, the banks grant the portions whose maturities do not exceed five years and finance them with the Banque de France; the portions whose maturities exceed five years are granted by the Banque française du commerce extérieur which keeps the corresponding export bills in its portfolio. In this connexion, it should be noted that while the terms "buyers' credits" and "financial credits" are used interchangeably in other countries, they are used to define two different types of credit in France, where "financial credits" refers to long-term credits granted by French credit institutions to the foreign beneficiaries of French export credits to enable them to finance the down payments involved in export contracts with French suppliers and local expenditures incurred in connexion with the installation of the equipment purchased, such as the execution of civil engineering works by local contractors or the purchase of supplementary material or equipment produced by local firms. Although the "financial credits" are guaranteed by the Compagnie française d'assurance pour le commerce extérieur (COFACE), no refinancing facilities are available.

152. The French Government grants loans for purposes similar to those of the private financial credits. Such loans are granted on behalf of the Government by the Caisse centrale de coopération économique for the countries which have signed an *accord de coopération* with France and by the Crédit national for other foreign countries.

TABLE 28. FINANCIAL PROTOCOLS ASSOCIATING LONG-TERM SUPPLIERS' CREDITS AND GOVERNMENTAL LOANS SIGNED BY FRANCE WITH DEVELOPING COUNTRIES AS OF 30 SEPTEMBER 1966

Country	Date of protocol	Governmental loans (Millions of French francs)	Suppliers' credits
Mexico *	21.6.1963	150	600
Morocco	23.7.1963	40	100
Tunisia	9.8.1963	35	100
Spain	25.11.1963	150	600
Turkey	13.2.1964	41	82
Cambodia	4.7.1964	50	90
Ethiopia	4.7.1964	15	40
Greece	20.8.1964	41	82
Turkey	13.10.1964	16.6	33.4
Morocco	17.10.1964	60	120
Morocco	10.7.1965	65	130
Chile	8.2.1966	53	240
Bolivia	8.7.1966	5	9.3

\* The protocol with Mexico also included a private financial credit.

153. As noted, the French export credit system involves the *banques de dépôt*, the *banques d'affaires*, the Banque française du commerce extérieur, the Crédit national, the Banque de France, the Groupement interbancaire pour le commerce extérieur and the Caisse centrale de coopération économique.

#### *The deposit banks*

154. There are approximately 300 deposit banks in France, but the three nationalized deposit banks, namely, the Crédit lyonnais, the Société générale, and the Banque nationale de Paris, account for about two-thirds of total banking business. The deposit banks bear most of the responsibility for the financing of short-term export credits, although they may, if necessary, have recourse to the refinancing facilities made available by the Banque de France.

155. In the case of medium-term and long-term export credits, the deposit banks rely upon the refinancing facilities provided by the Crédit national and the Groupement interbancaire pour le Commerce extérieur. Given the nature of the bulk of their resources (funds received from the public repayable either on demand or on a time basis, which according to law cannot exceed two years), the deposit banks are obliged to maintain a certain liquidity coefficient (at least 30 per cent of cash, treasury bills and other accounts receivable) and cannot immobilize large amounts for long periods of time. In the medium-term and long-term export credit financing fields, the deposit banks thus act largely as intermediaries, but their role is far from negligible, since they are responsible for screening loan applications, assessing the credit-worthiness of potential suppliers and buyers and grouping and dis-



counting export bills from numerous individual exporters, thus to a certain extent simplifying the work of the *Crédit national* and the *Groupelement interbancaire pour le commerce extérieur*.

#### *The banques d'affaires*

156. There are approximately forty French *banques d'affaires*, which take the form of limited liability companies or partnerships. According to the Act of 17 May 1946, the *banques d'affaires* are defined as institutions whose principal activity is the acquisition and administration of shares in ventures which already exist or are in the process of formation. No time limit is imposed on the credits they grant to the enterprises in whose capitalization they participate. They are allowed to invest only funds derived from their own resources or from time deposits of at least two years. They can open deposit accounts only for members of their staff, for enterprises to which they have opened credit lines or in whose capitalization they participate, for individuals or legal entities whose main professional activity is that of a trader, or for shareholders of companies in whose capitalization they participate, on condition that these shareholders have deposited their securities with them. In fact, their business includes both investment banking and commercial banking and certain *banques d'affaires* have been very active in both fields in developing countries.

157. As regards investment banking, the *banques d'affaires* not only perform the normal services of an investment banker but also act as investors or entrepreneurs in their own right. Through their interests in financial institutions in developing countries, these banks have developed a network of banking institutions which facilitate their export credit financing activities. For example, the *Banque de Paris et des Pays-Bas*, which is the largest private financial institution in France, created the *Banque de Madagascar et des Comores*, which is active on many levels of the economy both in Madagascar and in the Comoros. The *Banque de Paris et des Pays-Bas* is a large stockholder in the *Banque française et italienne pour l'Amérique du Sud*, which has branches and subsidiaries in Argentina, Brazil, Chile, Colombia, Uruguay and Venezuela. It is associated with the largest commercial bank in Mexico, the *Banco Nacional de México S.A.* and its subsidiary, *Crédito Bursatil*. It has significant interests in the *Banque ottomane* whose activities include operations in Turkey and the Near East as well as in Kenya.

158. The *Banque de l'Indochine*, another large private financial institution, is a shareholder in the following banking concerns in developing countries: in Africa: the *Banque industrielle de l'Afrique du Nord*, the *Société générale de banque* in the Ivory Coast, the *Société générale de banque* in Senegal, the *Société générale de banque* in the Congo (Brazzaville) and the *Société générale de banque* in Cameroon; in the Middle East: the *Banque Etebarate Iran* and the *Sabbag Bank*; in the Far East: the *Banque française de l'Asie* and the *Banque franco-chinoise pour le commerce et l'industrie*; in Latin America: the *Banque française et italienne pour l'Amérique du Sud*, the *Crédit foncier du Brésil et de l'Amérique du Sud*, the *Caisse générale de participation foncière et industrielle* and the *Financiera Peruana*.

159. The *Banque de l'Union parisienne* is a stockholder in the following banking concerns in developing countries: the *Banque commerciale africaine*, the *Banque industrielle de l'Afrique du nord*, the *Banque hypothécaire franco-argentine*, the *Société immobilière et financière africaine*, the *Société générale de banque* in Cameroon, the *Société générale de banque* in the Congo (Brazzaville), the *Société générale de banque* in the Ivory Coast and the *Société générale de banque* in Senegal.

160. As regards export financing proper, the *banques d'affaires* are very active, particularly in connexion with transactions involving the purchase of industrial machinery and equipment or the construction and installation of complete plants abroad. They can provide direct export credit financing and may have recourse to refinancing facilities which are available at the *Banque de France*, the *Crédit national*, or the *Groupelement interbancaire pour le commerce extérieur*. Owing to the nature of their resources, they are in principle less restricted than the deposit banks in the financing of medium-term and long-term export credits and rely less heavily upon refinancing. The *banques d'affaires* play an active part in the formation of consortia for providing export credits for large-scale projects. Through their foreign affiliates and subsidiaries they also assist foreign buyers and French suppliers in negotiating export contracts and related settlement arrangements.

161. The following may be cited as examples of export credit financing activities undertaken by the *banques d'affaires*: the *Banque de Paris et des Pays-Bas* financed by means of export credits the installation of the large Paz del Rio steel manufacturing complex in Colombia and the establishment of the Chimbote steel works in Peru. This bank was also instrumental in bringing about the signature of contracts for the delivery of hydraulic turbines and a cellulose acetate factory to India and for the setting up of a cement factory in Pakistan. In Latin America, it contributed to the implementation of agreements between the French and Mexican Governments for the development of the petrochemical and sugar industries and has also aided French oil drilling companies in Brazil and Argentina.

#### *The Banque française du commerce extérieur*

162. The *Banque française du commerce extérieur* was established by a decree of 1 June 1946, pursuant to the Act of 2 December 1945, as a joint-stock company with semi-public status. Its charter has been amended on several occasions and according to the latest version, approved by a decree of 16 March 1964, the BFCE's object is to facilitate the financing of export and import transactions by means of endorsements, acceptances, rediscounting or any other form of short-term and medium-term credit. The Bank grants the portions of buyers' credits whose maturities exceed five years. It is also a member of the *Groupelement interbancaire pour le commerce extérieur*. The BFCE assists the Ministry of Finance and Economic Affairs and the Centre national du commerce extérieur in the organization and management of a foreign trade information centre. In addition, it assists the *Banque de France* in carrying out a centralized classification of risks incurred by French banks in foreign countries.



163. The BFCE's capital has been increased from an initial F fr 5 million to F fr 28 million at the present time. According to the BFCE's charter, the only institutions which may subscribe to its capital are the Banque de France, the Caisse des dépôts et consignations, the Crédit national, the Caisse nationale de crédit agricole, the Crédit lyonnais, the Société générale, the Banque nationale de Paris and the Caisse centrale de coopération économique. In order to increase its resources, the BFCE is authorized to contract loans in

either French francs or foreign currencies. It is administered by a board of fifteen members appointed for five years by decree issued upon the recommendation of the Minister of Finance and Economic Affairs and chosen in equal numbers from among (a) persons possessing wide foreign trade experience and representing the main professional associations, (b) representatives of the main trade unions and (c) persons possessing wide banking experience.

TABLE 29. FRANCE, BFCE: DISTRIBUTION OF EXPORT CREDIT OPERATIONS, BY TYPE OF GOODS

Type of goods	1963		1964		1965	
	Millions of French francs	Percentage of total	Millions of French francs	Percentage of total	Millions of French francs	Percentage of total
Transport equipment .....	2,140.5	41.5	2,051.0	35.2	2,096.3	32.0
Mechanical industry equipment .....	973.3	18.9	985.9	17.0	1,450.4	22.1
Electrical industry equipment .....	363.4	7.1	424.5	7.3	623.3	9.5
Public works .....	348.9	6.8	554.9	9.5	462.1	7.0
Metallurgical industry equipment .....	254.0	4.9	403.5	7.0	376.0	5.8
Textiles industry equipment .....	181.0	3.5	228.1	3.9	223.2	3.4
Chemicals industry equipment .....	179.5	3.5	225.6	3.9	234.8	3.6
Grains .....	145.5	2.8	244.3	4.2	256.1	4.0
Ores and metals .....	85.2	1.7	30.3	0.5	27.5	0.4
Wines and spirits .....	59.8	1.2	82.8	1.4	65.4	1.0
Precision engineering .....	48.4	0.9	116.1	2.0	119.0	1.8
Seeds and fertilizers .....	44.7	0.9	35.0	0.6	28.2	0.5
Petroleum products .....	33.8	0.6	81.8	1.4	72.7	1.1
Miscellaneous .....	301.0	5.7	368.0	6.1	511.8	7.8
<b>TOTAL</b>	<b>6,459.0</b>	<b>100.0</b>	<b>5,831.8</b>	<b>100.0</b>	<b>6,546.8</b>	<b>100.0</b>

TABLE 30. FRANCE, BFCE: DISTRIBUTION OF EXPORT CREDIT OPERATIONS, BY TYPE OF CREDIT

Type of credit	1963		1964		1965	
	Millions of French francs	Percentage of total	Millions of French francs	Percentage of total	Millions of French francs	Percentage of total
Avals (endorsements) .....	3,960.1	76.8	4,351.5	74.6	4,776.7	73.0
Discounts and advances .....	582.9	11.3	771.5	13.2	910.2	14.0
Overdrafts .....	453.5	8.8	485.0	8.3	607.3	9.2
Cautions (guarantees) .....	162.5	3.1	223.8	3.9	252.6	3.8
<b>TOTAL</b>	<b>6,459.0</b>	<b>100.0</b>	<b>5,831.8</b>	<b>100.0</b>	<b>6,546.8</b>	<b>100.0</b>

### The Crédit national

164. The establishment of the Crédit national dates back to 1919. As indicated by its original name, the Crédit national pour faciliter la réparation des dommages causés par la guerre, its object was to finance the reconstruction of war damage. It also granted mortgage loans to industrial and commercial enterprises for reconstruction and modernization purposes. Subsequent amendments to its charter now permit it to refinance medium-term and long-term export credits. Its resources consist of its own capital and reserves, plus funds raised on the capital market.

165. The Crédit national is a key institution in the French export credit system, since it is the refinancing agency for most medium-term and long-term export credits. Medium-term and long-term export refinancing

provided by the Crédit national is summarized in tables 31 and 32.

TABLE 31. FRANCE, CRÉDIT NATIONAL: REFINANCING OF MEDIUM-TERM EXPORT CREDITS  
(Millions of French francs)

Year	New commitments	Outstanding commitments as of 31 December
1959 .....	471	946
1960 .....	783	1,389
1961 .....	810	1,746
1962 .....	1,294	2,410
1963 .....	1,490	2,866
1964 .....	1,639	3,342
1965 .....	1,521	3,704

TABLE 32. FRANCE, CRÉDIT NATIONAL: REFINANCING OF LONG-TERM EXPORT CREDITS

(Millions of French francs)

Year	Commitments	Credits disbursed	Credits outstanding as of 31 December
1961	1.9	0.4	0.4
1962	40.9	24.0	24.0
1963	71.0	45.0	69.0
1964	104.0	116.0	184.0
1965	167.0	176.0	360.0

*The Groupement interbancaire pour le commerce extérieur*

166. The Groupement interbancaire pour le commerce extérieur was established in 1962 to lighten the burden on the Crédit national and encourage the banking system to refinance long-term export credits. The GICEX, which is not a legal entity, is an association of the following banking institutions: Banque française du commerce extérieur, Banque française et italienne pour l'Amérique du Sud, Banque de l'Indochine, Banque nationale de Paris, Banque de Paris et des Pays-Bas, Banque de l'Union parisienne, Compagnie algérienne et de son groupe, Crédit commercial de France, Crédit industriel et commercial et son groupe, Crédit lyonnais, Crédit du nord, Banque Louis Dreyfus, Société générale et SGAB, Société marseillaise de crédit, Union européenne industrielle et financière and Worms et Cie.

167. Each participant has agreed to provide re-financing for transactions approved by the association, up to a global ceiling represented by one per cent of its private deposits or 5 per cent of its own funds. In principle each member in turn acts as the GICEX's secretariat on an annual rotating basis.

*The Caisse centrale de coopération économique*

168. Since its reorganization in 1958, the Caisse centrale de coopération économique has assumed increasing responsibilities in the financing of development in the developing countries. It currently performs two basic functions: as an administrative instrument of the Government, it is responsible for the execution of the French bilateral aid programme; as an autonomous financial agency, it undertakes investment financing for its own account. In the export financing field, the CCCE co-operates with the Compagnie française d'assurance pour le commerce extérieur, by providing research and advisory services in connexion with insurance applications relating to transactions involving sales of capital goods to countries which have signed an *accord de coopération* (co-operation agreement) with France. The CCCE also refinances those portions of long-term suppliers' credits granted to buyers in these countries whose maturities exceed five years and, on behalf of the French Government, handles requests for the governmental loans granted those countries in association with the export credits.

FINANCING PROCEDURES

*Medium-term suppliers' credits*

169. Credits of this type have been available since 1950, when a special financing procedure was drawn up and agreed upon by the French Government, the Banque de France, the Crédit national, in co-operation with the Banque française du commerce extérieur, and the French commercial banks represented by their professional association.

170. Before making final arrangements with his customer, the supplier files an insurance application with the Compagnie française d'assurance pour le commerce extérieur and requests from his bank an agreement in principle to discount the export bills. The supplier's bank, having first made certain that the Banque française du commerce extérieur will grant its unconditional endorsement, requests a refinancing commitment from the Crédit national. For contracts with foreign private buyers, a guarantee from a reliable bank in the buyer's country is usually requested.

171. The buyer is expected to make a down payment of 20 per cent of the invoice value and the supplier is expected to finance at least 10 per cent of the credit out of his own funds or through parallel financing. Once the contract has been concluded and insured by the Compagnie française d'assurance pour le commerce extérieur, the supplier makes out renewable export bills and discounts them with his bank. The credit granted by the bank does not usually exceed the percentage of the invoice value covered by the insurance policy. After being endorsed by the Banque française du commerce extérieur, the discounted export bills are submitted for rediscounting to the Crédit national, which, in turn, rediscounts them with the Banque de France.

*Long-term suppliers' credits*

172. The financing procedure for long-term suppliers' credits was drawn up following the adoption of the *Loi de finances rectificative pour 1960* of 13 August 1960 which authorizes the Minister of Finance and Economic Affairs to grant loans to the Crédit national in order to enable that institution to refinance long-term suppliers' credits. When the Crédit national obtains funds for that purpose by borrowing on the capital market, this Act authorizes the Minister to cover the difference between the interest rate paid by the Crédit national on its borrowing operations and the preferential interest rate charged for its refinancing operations. Credits are granted only after the Compagnie française d'assurance pour le commerce extérieur has committed itself to insure them; this commitment depends on previous clearance by the Minister of Finance and Economic Affairs. The application and mobilization procedures for long-term suppliers' credits resemble those employed for medium-term suppliers' credits.

173. In the case of long-term suppliers' credits to be refinanced by the GICEX, the supplier's bank submits a refinancing application to the GICEX secretariat, which forwards details of the application to all GICEX participants. The application must be approved by two-thirds of the participants, representing two-thirds of the funds committed to GICEX. When approval has been obtained, the supplier's bank, which has dis-

counted the primary export bills, deposits them with the Banque française du commerce extérieur. The latter determines the amount of refinancing to be provided by each participant on the basis of its commitment to the GICEX's potential resources and informs each participant accordingly.

#### *Buyers' credits*

174. The financing procedure for buyers' credits was drawn up following the adoption of the *Loi de finances rectificative pour 1965* of 30 December 1965 which authorizes the Minister of Finance to grant to the Banque française du commerce extérieur loans and guarantees similar to those granted to the Crédit national under the *Loi de finances rectificative pour 1960*, thus enabling the Banque française du commerce extérieur to grant portions of buyers' credits exceeding five years.

175. In principle buyers' credits are granted only for sums of at least F fr 25 million and must involve transactions carried out within the framework of a single commercial contract or a group of contracts concluded by a single foreign buyer with French firms for the execution of a specific programme. The credit maturities involved must be of eight years and more. Buyers' credits are granted preferably for transactions with developing countries. However, franc area countries are in principle not eligible for such credits, since they are accorded long-term financing facilities by the Caisse centrale de coopération économique and the Fonds d'aide et de coopération: in view of the special situation of Algeria, Morocco and Tunisia, requests from these countries may be given special consideration.

176. The credit contract is concluded by the foreign buyer with the BFCE and one or more French banks acting on their own behalf or on behalf of a banking consortium. The opening of the credit involves two simultaneous operations: a loan from the commercial banks with a maximum maturity of five years, and a loan from the BFCE for the portion of the credit exceeding five years. Both the BFCE and the banks can insure the loans they grant with the COFACE. The loan granted by the commercial banks may be refinanced by the Crédit national which will, in turn, refinance it with the Banque de France. The interest rate for buyers' credits is approximately 5.7 per cent.

#### EXPORT CREDIT INSURANCE

177. The French export credit insurance scheme is operated by the Compagnie française d'assurance pour le commerce extérieur, a joint-stock company established at the same time as the Banque française du commerce extérieur by the decree of 1 June 1946, which began operations on 1 May 1948. The purpose of COFACE is to administer the government export credit insurance scheme on behalf of the State and to guarantee export and import transactions and in general all transactions relating to foreign trade. The COFACE has in fact a dual nature: as a private company, it insures commercial risks incurred in respect of short-term export credit transactions, and as a parastatal company, it administers a public service under government supervision, guaranteeing for account of the Government non-commercial risks for all export credit transactions and commercial risks for medium-term and long-term export credit transactions.

178. Its present capital of F fr 2.5 million is owned by a number of Government-owned or Government-controlled corporations—the Crédit national, the Caisse des dépôts et consignations, the Banque française du commerce extérieur, the three main nationalized *banques de dépôt* and twenty-one nationalized insurance companies—and a private company, the Société française d'assurance pour favoriser le crédit. According to the decree of 1 June 1946, the latter company may not hold more than 30 per cent of the COFACE's capital.

179. The COFACE is administered by a Board of Directors consisting of fifteen members, five of whom are chosen from among persons having wide foreign trade experience, five from among persons possessing wide banking and insurance experience and five being chosen at the suggestion of the most representative trade unions. There are also two *commissaires du Gouvernement* (government commissioners), who may veto any decision taken by the Board of Directors. The latter is responsible only for the internal administration of the company and the activities it carries out for its own account, which represent approximately one-fifth of its total activities.

180. Insurance transactions carried out on behalf of the Government must be approved by the Commission des garanties et du crédit au commerce extérieur, a fifteen-member interministerial committee, presided over by the Director of Foreign Economic Relations of the Ministry of Finance and Economic Affairs, whose members include representatives of the Department of Foreign Economic Relations of the Ministry of Finance and Economic Affairs, the Trésor, the Banque de France, the Crédit national, the Ministry of Foreign Affairs and the technical ministries. However, before being examined by the Commission des garanties et du crédit au commerce extérieur, long-term export credit transactions must have been cleared by the Minister of Finance, whose decisions are based on the recommendation of the "Long-term Committee".

181. The COFACE insures short-term and medium-term suppliers' and long-term export credits (suppliers' credits and buyers' credits); it also insures *crédits financiers* (financial credits) as defined in the section above on Institutional framework. In addition, it insures equipment used in the execution of works abroad against political risks, provided that the equipment is exported to the foreign country on a temporary basis and is to be returned upon completion of the work.

182. The following export transactions are eligible for insurance by the COFACE:

Sales of goods;

Provision of services: preparation of studies, technical assistance, sales of patents, lease of equipment, constitution of stocks abroad, participation in trade fairs, and the exploration of foreign markets, including advertising;

Execution of public works abroad.

183. In the case of short-term transactions, the COFACE issues global policies covering all of an exporter's sales to one foreign country or group of countries. These policies always cover the commercial risks, while non-commercial risks may be covered at the exporter's request. Special global policies may be issued for transactions with a duration of up to three years involving exports of capital goods. For medium-

term and long-term export transactions, the COFACE issues specific policies for individual transactions providing coverage against commercial and/or non-commercial risks. Special policies are issued for participation in individual trade fairs, for increases in domestic prices as compared to world prices and for market prospecting in one or more countries.

184. The risks covered—which include both pre-delivery and post-delivery risks—are as follows:

(a) Commercial risks: defined as the policy holder's inability to collect all or part of the credit owing to a definitive and duly verified inability on the part of the buyer to pay all or part of his debt. This inability is considered to exist upon termination of legal proceedings in the debtor's country which may be assimilated to a *jugement déclaratif de faillite* (judicial declaration of bankruptcy due to misfortune) or to a judgement according the debtor the right to effect a judicial settlement according to French law, or to any friendly arrangement involving all creditors. For all types of credit, the basic cause of losses arising from commercial risks is held to be the buyer's *de jure* insolvency, but for reasons related to credit mobilization, the strict application of this principle is tempered in the case of medium-term and long-term credits by the introduction of the concept of default (*carence*) which is to a certain extent substituted for that of insolvency;

(b) Political risks: defined as those resulting from war, revolution and riots in the debtor's country, a moratorium decreed by the authorities of that country or an act or decision by the government of the country to which the export is destined, and a decision by the French Government prohibiting the production or export of the goods;

(c) Catastrophe risks: defined as those resulting from hurricanes, floods, tidal waves, earthquakes or volcanic eruptions in the country in which the debtor resides;

(d) Transfer risks: defined as those caused by political events, economic difficulties or legislation in the country in which the debtor resides which prevent or delay the transfer of funds already deposited by the latter with his bank;

(e) Exchange risks: such risks may be insured only if they cannot be eliminated or covered by other means (such as forward exchange sales) and on condition that the export bills are expressed in certain specific foreign currencies. Three kinds of exchange risks are eligible for coverage: exchange loss in the case of non-payment for all types of transactions; exchange loss on repatriation of export proceeds; exchange loss on bank guarantees;

(f) Economic risks: price increase risk (covered to the extent to which the increase in French prices

exceeds the increase in world prices); risks arising from the exploration of foreign markets (non-amortization of expenditures incurred in connexion with market exploration, advertising and participation in trade fairs).

185. The percentages covered, which vary according to the nature of the risks, are shown in the following table:

<i>Risks covered</i>	<i>Risk cover</i>
Commercial:	
Insolvency	80-85 per cent
Delayed payment	
Political and catastrophe	80-90 per cent
Exchange (if export contract is expressed in foreign currency)	100 per cent
Economic:	
Price increase	100 per cent of loss due to the French prices rising faster than world prices
Exploration of foreign markets	50-60 per cent world prices

186. Premium rates are determined according to the country of destination, the nature of the goods, the length of the credit, the standing of the importer and the exporter and the type of policy. They vary from 4 to 15 per mil for policies covering the risk of default by public buyers and from 8.5 to 17 per mil for policies covering the risk of insolvency in respect of medium-term and long-term transactions; for policies covering commercial risks in respect of short-term transactions, they range from 3 to 15 per cent.

TABLE 33. FRANCE, COFACE: EXPORT CREDITS INSURED\*  
(Millions of French francs)

Year	Short-term credits		Medium-term credits, non-commercial risks
	Commercial risks	Non-commercial risks	
1959	1,400	700	1,500
1960	1,800	900	1,800
1961	2,100	1,200	2,700
1962	2,500	1,450	3,350
1963	2,800	1,750	3,500
1964	3,250	2,320	4,200
1965	3,750	2,740	6,500

\* Insured short-term export transactions represent approximately 7 to 8 per cent of all French exports while insured medium-term export transactions represent approximately 10 to 11 per cent.

## HUNGARY

### INSTITUTIONAL FRAMEWORK

187. In Hungary, two types of credits—state credits and commercial export credits—are available to foreign buyers for the purchase of capital goods. In that connexion, it may be noted that trade between Hungary and developing countries more than doubled between 1960 and 1965; machinery and equipment account for approximately 25 to 30 per cent of Hungarian exports to those countries.

#### *State credits*

188. These credits, which are financed from the budget, are usually extended within the framework of bilateral economic co-operation agreements. In 1956, Hungary had concluded such agreements with one African country and five Asian countries; by 1965 those figures had increased to fifteen and ten, respectively. During the period 1960-1965 Hungary granted to the developing countries state credits equivalent to \$96.5 million. For example, through Hungarian state credits, Ghana has constructed a pharmaceutical plant and lamp and brick factories; Guinea has imported telecommunication, transport and well-drilling equipment; Indonesia has acquired machinery and equipment for the chemical engineering and shipbuilding industries, rolling stock, buses and ships, while the United Arab Republic has purchased industrial equipment, pumping stations, cargo ships, diesel locomotives, rolling stock etc.

#### *Commercial export credits*

189. These credits are granted by the foreign trade organizations. They trade by sending their representatives abroad, by inviting prospective buyers to Budapest, by holding or participating in international fairs, and the like. Comprehensive marketing is undertaken by all the organizations. The sphere of activity of each foreign trade organization corresponds to one of the main branches of the national economy. Thus, there are separate organizations to handle the export-import trading (on the basis of the government monopoly) in heavy industry, mining, mechanical engineering, precision mechanics, fuel, agricultural products and so on. The organizations specializing in the export of machinery and equipment are the following:

##### *Chemokomplex :*

Machinery and equipment for the chemical industry;

##### *Elektroimpex :*

Telecommunication and precision equipment;

##### *Komplex :*

Power plants, glass factories, metallurgical equipment, equipment for the food industry;

##### *Metrimpex :*

Measuring instruments;

##### *Mogürt :*

Motor vehicles;

##### *Nikex :*

Heavy industrial goods, ships;

##### *Technoimpex :*

Agricultural machines, cable plants, diesel-powered trucks, diesel engines, machine tools;

##### *Transelectro :*

Electrical equipment and appliances.

190. According to newer regulations, export transactions may also be handled by a number of large industrial enterprises which have been empowered to start exporting their products directly to foreign buyers. These industrial enterprises include:

*Egyesült Izzó*, which manufactures incandescent lamps;

*Gábor Aron*, which manufactures foundry and engineering products;

*Ganz-Mávag*, which manufactures locomotives and rolling stock, and

*Pannonia*, which is the foreign trade company of the Csepel Iron and Steel Works.

191. The limits for commercial export credit financing are provided in the national plans (five-year plans and annual plans) on the basis of recommendations made by the Ministry of Finance and the Ministry of Foreign Trade. Within these over-all limits the actual provision of export credits is a question usually decided between foreign trade organizations and the National Bank. The National Bank of Hungary refinances the foreign trade organizations by providing them with necessary funds in forints to pay the supplier for the ordered goods.

192. The activities of the foreign trade organizations are co-ordinated and guided by the Ministry of Foreign Trade. The trade organizations usually submit to the Ministry their proposals as to the granting of credits for export and secure its approval for commercial credits given directly to the buyers. The Ministry is actually involved only when the proposed transaction has some unusual or specific features.

193. The following may be cited as examples of Hungarian commercial export credits to developing countries:

##### *Argentina*

Two credits equivalent to a total of \$17.5 million granted by Ganz-Mávag, for a period of five years for the purchase of diesel locomotives and rolling stock;

##### *India*

A credit equivalent to \$2.8 million with an eight-year maturity granted by Komplex for the purchase of a glass factory

A credit equivalent to \$2 million with a six-year maturity granted by Nikex for the purchase of an ore dressing plant;

*United Arab Republic*

A credit equivalent to \$6.8 million granted for the purchase of sleeping and dining cars.

FINANCING PROCEDURES

*State credits*

194. As noted above, these credits are extended within the framework of bilateral economic co-operation agreements. Such credits are granted by the Council of Ministers on the recommendation of the Economic Committee of the Government which takes into consideration the views of the Ministry of Finance and the Ministry of Foreign Trade. The agreements are implemented by the foreign trade organizations on the basis of information received from the Ministry of Foreign Trade.

195. The interest rate is usually 2.5 per cent and the credits have maturities of up to thirteen years. Credits are usually repayable in goods.

*Commercial export credits*

196. Commercial export credits are provided as a result of commercial and financial negotiations between the seller and the buyer. Their conditions are based on business considerations. Depending on the nature of the goods involved and the value of the transaction, the commercial export credits may be granted on a medium-term basis (credits of between one and five years) or on a long-term basis (credits of between five and eight and in some cases ten years).

197. Each foreign trade organization is authorized to grant export credits up to a given amount and maturity period for each transaction which vary according to each organization's line of business. When an organization is requested to grant a credit involving a larger sum or a longer maturity, it must apply to the Ministry of Foreign Trade for a licence and consult the National Bank with regard to the financing aspect of the transaction, including the financial standing and credit-worthiness of the prospective buyer. If the latter is a customer of long standing, the export credit can be granted and financed without difficulty. The National Bank usually requests that the buyer obtain a guarantee from a reliable bank in his own country. If such a guarantee is not forthcoming, the National Bank stipulates that the credit must be insured with the Allami Biztosító, the Hungarian state insurance company. If the buyer has an excellent credit rating or can obtain the requisite guarantee from a bank in his country, the credit is granted on more favourable conditions and at a lower interest rate. Usually the interest rate on medium-term and long-term commercial credits is 4-6 per cent.

198. The buyer is expected to make a down payment of up to 20 per cent of the contract value (de-

pending on the nature of the goods) at the time of the signing of the contract or on delivery of the goods.

199. The credit agreements concluded by Hungary with the developing countries constitute a part of the bilateral agreements which govern the economic relations with these countries. The execution of the credit agreements is carried out on the basis of the payment agreements existing between Hungary and the developing countries. With most of those countries Hungary has clearing agreements and this means that the repayment of its credits (both intergovernmental and commercial) is usually made with export goods of the developing countries rather than with convertible currencies. The repayment may be made either in semi-annual or annual instalments.

EXPORT CREDIT INSURANCE

200. The Hungarian export credit insurance scheme which was established in 1955 is operated by a special department of the Allami Biztosító, the insurance enterprise of the State. The Allami Biztosító, functions on a self-supporting basis through its premium income from which possible losses are also paid. It has no fixed capital sum. Allami Biztosító has wide connexions with insurance companies in other countries and is a member of international insurance organizations, including the International Union of Aviation Insurers and the International Union of Marine Insurance.

201. Export credit insurance in Hungary is not obligatory and applies only in those cases where the buyer cannot produce any banking guarantee.

202. Any type of product exported from Hungary is eligible for insurance. Services are not insurable. Only commercial risks are covered. The maximum risk cover is 90 per cent of the invoice value. There is however no pre-shipment cover and no whole turnover requirement since Allami Biztosító insures only individual shipments. The validity period of the insurance depends on the type of goods involved: six months for consumer goods, one year for consumer durables and five years for capital goods. At present, the maximum coverage for any single debtor or transaction is the equivalent of \$400,000 but there is no global or per country insurance ceiling. The insurance premium depends on the credit maturity and the buyer's country, but it varies from 0.6 per cent per year for credits of three months to 2.6 per cent per year for credits of longer maturities.

203. The Allami Biztosító covers part of its risks by concluding contracts with foreign reinsurance companies, and indeed the main purpose of the scheme is to share the risks undertaken in foreign currencies through reinsurance on the international market.

## ITALY

### INSTITUTIONAL FRAMEWORK

204. Export credits are financed within the institutional framework of the Italian general credit system, based on the 1936 Banking Act, which draws a clear distinction between short-term credits, the granting of which is entrusted to commercial banks, and medium-term and long-term credits, for which special medium-term and long-term credit institutions are responsible. While the commercial banks finance short-term suppliers' credits (credits of up to one year), the medium-term and long-term credit institutions finance medium-term suppliers' credits (credits of between one and five years) and long-term suppliers' credits (credits of between five and ten years) and grant financial credits. These last, which do not in principle exceed ten years, are granted not only to foreign governments, public entities and private firms for the purchase of Italian goods and services (buyers' credits) but also to foreign governments and central banks for "economic rehabilitation" (Act No. 635 of 5 July 1961, chapter III, articles 20 and 21), which need not necessarily involve the purchase of Italian goods and services. Most of the "economic rehabilitation" credits have so far been granted for repayment of Italian suppliers' credits extended to developing countries.

TABLE 34. ITALY: VOLUME OF EXPORT CREDIT FINANCING (SUPPLIERS' CREDITS AND FINANCIAL CREDITS) PROVIDED BY MEDIUM-TERM AND LONG-TERM CREDIT INSTITUTIONS, 1965

Industry	Export credit financing (millions of lire)	Percentage of total export credit financing
Fuel	4,386	2
Metallurgy	11,689	5
Engineering: shipping yards, vehicles, motors and miscellaneous	184,150	83
Chemical	6,129	3
Textile	3,108	1
Miscellaneous	645	...
Public works	12,722	5
<b>TOTAL</b>	<b>222,888</b>	<b>100.0</b>

205. The medium-term and long-term credit institutions refinance medium-term and long-term export credits with the Mediocredito Centrale (Mediocredito), a government medium-term and long-term refinancing agency, which also finances the financial credits granted by those institutions. The medium-term and long-term credit institutions empowered to obtain refinancing from the Mediocredito are the Istituto Mobiliare Italiano (IMI), the Ente Finanziario Interbancario (Efibanca), the Banca di Credito Finanziario (Mediobanca), the Istituto di Credito per le Imprese di Publica Utilità, the Banca Centrale di Credito Popolare (Centrobanca), the Banca per Finanziamenti a Medio Termine (Inter-

banca) and the regional medium-term credit institutions for the regions of Lombardy, Piedmont and Valle d'Aosta, Trentino-Alto Adige, Friuli, Venetia, Liguria, Emilia and Romagna, Tuscany, Umbria, the Marches and Latium. The first three and to a less extent the fourth are the most active in the medium-term and long-term export credit financing field.

#### *The Istituto Mobiliare Italiano*

206. The Istituto Mobiliare Italiano is a joint-stock corporation established in 1931 to contribute to the development of the Italian economy by providing investment credits and effecting general financial transactions. It is the largest of the institutions specializing in the granting of medium-term and long-term credits and is responsible for more than one-third of the total credits granted by all the medium-term and long-term credit institutions.

207. Its present share capital, of which 30 per cent is paid up, amounts to Lit 100,000 million, the most important shareholders being government institutions such as the Cassa Depositi e Prestiti (Loan and Deposit Fund), the Istituto Nazionale della Previdenza Sociale (National Social Security Institute) and the Istituto Nazionale delle Assicurazioni (National Insurance Institute). Shares in the IMI are also held by private companies, including security and insurance institutions, savings banks, commercial banks and holding companies. The IMI raises the bulk of the funds needed for its lending activities through the floatation of bond issues on the Italian capital market and to a very limited extent on foreign markets and by refinancing with the Mediocredito. As the IMI has pointed out,

"even though Italian industrial corporations have direct access to the financial market, long-term bank loans constitute a highly important source of financing for new expansion programs. This is due to the fact that, for a number of reasons, the special credit institutions can float bond issues at more favorable terms than industrial corporations can. The latter, therefore, often find it more economical to turn to the special credit institutions, which perform between investors and industries the same function which commercial banks carry out between savings and commercial loans".<sup>1</sup>

208. The IMI is administered by a Board of Directors composed of twenty-one members including the Chairman of the Board. Some Board members are appointed by the Minister of the Treasury and some are elected by the shareholders' meeting. The Chairman of the Board is appointed by Decree of the President of the Republic on the recommendation of the Minister of the Treasury, upon the advice of the Council of Ministers. The Executive Committee, composed of the Chairman of the Board and four Board

<sup>1</sup> Istituto Mobiliare Italiano, *For the Progress of the Italian Economy* (Rome, 1965), p. 9.



members appointed by the Board, is entrusted with the management of the institution. Day-to-day business is handled by the General Manager, who is appointed by the Board, though not necessarily from among its members, and who attends the meetings of the Board and of the Executive Committee.

209. The IMI's activities fall into two main categories:

(a) Ordinary operations, that is, medium-term and long-term credit transactions, including export credit financing transactions, which are financed out of the institution's own funds: in addition to its export credit financing activities, the IMI also engages, to a limited extent, in other foreign financing activities: thus, it has established one subsidiary company in Switzerland and another in the United States; it has invested in foreign securities and, jointly with Italian and foreign banks

and/or international financial institutions, has acquired stocks in foreign development banks and corporations;

(b) Special operations involving the administration of various special funds on behalf of the Italian Government and other government agencies.

TABLE 35. ITALY, IMI: LOANS OUTSTANDING AS OF 31 MARCH 1966

Type of credit	Amount (millions of lire)	Percentage of total
Domestic loans	1,433,700	88.9
Export credits	173,612	10.7
Suppliers' credits	133,776	
Financial credits	39,836	
Other	4,367	0.4
<b>TOTAL</b>	<b>1,611,679</b>	<b>100.0</b>

TABLE 36. ITALY, IMI: ANNUAL VOLUME OF EXPORT CREDIT FINANCING  
(Millions of lire)

Fiscal year (1 April-31 March)	Credit applications		Credit agreements		Credit outstanding as of 31 March	
	Suppliers' credits	Financial credits	Suppliers' credits	Financial credits	Suppliers' credits	Financial credits
1962/63	118,000	—	35,553	11,509	76,854	11,509
1963/64	29,483	41,605	41,545	46,375		
1964/65	46,825	7,281	41,005	7,281	106,778	37,171
1965/66	109,472	18,754	62,089	18,566	133,776	39,836

#### The Ente Finanziario Interbancario

210. The Ente Finanziario Interbancario is a joint-stock corporation which was established in 1939 under the name of Ente Finanziamenti Industriali and reorganized under its present form and name in 1949. It has a capital of Lit 10,000 million contributed by a number of Italian public and private credit institutions, Italian finance and insurance companies and foreign financial houses. The latter, which hold about 10 per cent of the shares, are S. G. Warburg & Co., Ltd. and Baring Brothers & Co., Ltd. (London), LNT North American Holdings, Ltd. and Transoceanic Development Corporation, Ltd. (Toronto) and Bayerische Vereinsbank (Munich). The largest single shareholder is the Banca Nazionale del Lavoro. The Efibanca is authorized to issue bonds to finance its lending operations but the bulk of its resources is derived from time deposits and from refinancing with the Mediocredito.

211. The Efibanca is administered by a twenty-one-member Board of Directors elected by the shareholders, the Chairman being elected by the Board from among its members. There is an Executive Committee composed of Board members, and the General Manager and Secretary are chosen by the Board, either from among its members or from outside.

212. The Efibanca's principal activities are the granting of domestic loans and the financing of export credits, but it also invests in securities and sets up underwriting syndicates for the placement of industrial shares and bonds. In addition, it is authorized to provide endorsements and guarantees for financial transactions with maturities of at least twelve months, and to acquire a minority interest in Italian and foreign corporations.

TABLE 37. ITALY, EFIBANCA: LOANS OUTSTANDING AS OF 31 DECEMBER 1965

Type of credit	Amount (millions of lire)	Percentage of total
Domestic loans	69,831	51
Export credits	66,394	49
Suppliers' credits	58,144	
Financial credits	8,250	
<b>TOTAL</b>	<b>136,225</b>	<b>100.0</b>

TABLE 38. ITALY, EFIBANCA: ANNUAL VOLUME OF EXPORT CREDIT FINANCING  
(Millions of lire)

Year	Suppliers' credits	Financial credits	Total
1962	24,659	5,417	30,076
1963	27,112	6,325	33,437
1964	28,976	—	28,976

#### The Banco di Credito Finanziario

213. The Banco di Credito Finanziario is a joint-stock corporation established in 1946. Its initial capital was subscribed by three important commercial banks (Banco di Roma, Banca Commerciale Italiana and Credito Italiano) which still possess a controlling interest in the institution (53 per cent of the shares). The other shareholders include Italian individual investors (20 per cent), various Italian corporations—banks, financial corporations, insurance companies etc. (12 per cent) and foreign banks and financial houses—Lazard Brothers of London, Lehman Brothers of New



York, Lazare Frères of Paris, the Berliner Handels Gesellschaft (13 per cent). The present capital amounts to Lit 14,000 million. The Mediobanca is authorized to issue bonds but at present derives its resources mainly from time deposits and from refinancing from the Mediocredito.

214. The Mediobanca is administered by a fifteen-member Board of Directors elected by the shareholders and a five-member committee chosen from among the Directors. The Managing Director is a member of both the Board and the Executive Committee.

215. Total credits disbursed by Mediobanca from the beginning of its activity up to 30 June 1965 amounted to Lit 695,500 million of which financing of export credits (suppliers' credits and financial credits) accounted for Lit 110,997 million (16 per cent).

216. The Mediobanca also invests in overseas trading companies, chiefly through its 87 per cent-owned subsidiary, Società Mercantile Internazionale

S.A. Milan (Intersomer) which has a capital of Lit 700 million. Intersomer has set up affiliated companies in a number of African countries: Liberia, Mozambique, Nigeria, Southern Rhodesia and Zambia. Mediobanca considers Intersomer as "an efficient instrument for the promotion of trade relations with countries which offer favourable opportunities for Italian products".

TABLE 39. ITALY, MEOBANCANCA: VOLUME OF EXPORT CREDIT FINANCING (SUPPLIERS' CREDITS AND FINANCIAL CREDITS) AS OF 30 JUNE 1965

Item	Millions of lire
Credits outstanding	59,830.8
Repayments	51,166.0
Total credits disbursed	110,996.8
Credits granted but not disbursed	41,966.7
<b>TOTAL (net of cancelled credits)</b>	<b>152,963.5</b>

TABLE 40. ITALY, MEOBANCANCA: GEOGRAPHICAL DISTRIBUTION OF EXPORT CREDIT FINANCING (SUPPLIERS' CREDITS AND FINANCIAL CREDITS)  
(Thousands of millions of lire)

Country	Credits granted from beginning of Mediobanca's operations until 30 June 1965	Status of credits as of 30 June 1965		
		Repaid	Outstanding	Not disbursed
USSR	30,000.0	—	4,629.1	25,370.9
Argentina	20,671.9	6,407.9	10,295.1	3,968.9
Turkey	13,894.9	8,562.3	2,528.2	2,804.4
India	10,568.9	1,967.4	6,999.2	1,602.3
Panama	9,888.9	—	9,888.9	—
Hungary	8,919.2	3,247.2	2,299.7	3,372.3
Indonesia	7,520.4	1,145.3	5,246.8	1,128.3
Poland	7,144.3	4,802.3	1,836.5	505.5
Romania	6,689.6	3,342.1	3,347.5	—
UAR	4,888.7	1,219.4	3,669.3	—
Spain	3,620.0	2,942.0	678.0	—
France	2,852.4	2,625.8	226.6	—
Republic of Korea	2,619.0	—	311.3	2,307.7
Greece	2,328.7	2,159.6	162.3	6.8
Brazil	2,129.4	1,697.5	431.9	—
Yugoslavia	1,925.2	983.9	833.8	107.5
Uruguay	1,880.7	442.7	1,288.5	149.5
Mexico	1,877.3	1,084.9	741.0	51.4
Liberia	1,857.7	1,576.7	281.0	—
Eastern Germany	1,760.0	685.4	1,038.6	36.0
Colombia	1,359.0	570.7	788.3	—
Chile	1,053.7	981.0	72.7	—
Sweden	884.0	884.0	—	—
Czechoslovakia	828.7	204.4	69.1	555.2
Morocco	778.3	258.7	519.6	—
Iran	774.1	774.1	—	—
Ethiopia	755.6	228.2	527.4	—
Norway	735.2	466.5	268.7	—
United Kingdom	552.3	286.2	266.1	—
Thailand	540.6	414.0	126.6	—
Libya	529.7	488.6	41.1	—
Portugal	388.7	343.8	44.9	—
Switzerland	279.7	62.1	217.6	—
Peru	171.7	159.5	12.2	—
Angola	125.2	125.2	—	—
Philippines	103.1	9.2	93.8	—
Germany (Federal Republic)	34.7	17.4	17.3	—
Finland	32.1	—	32.1	—
<b>TOTAL</b>	<b>152,963.5</b>	<b>51,166.0</b>	<b>59,830.8</b>	<b>41,966.7</b>

### The Mediocredito Centrale

217. Mediocredito Centrale is a government institution established by Act No. 949 of 25 July 1962 to serve as a rediscounting agency for medium-term credit institutions. Subsequent amendments to its statutes have expanded the scope of its activities. Its resources consist of an endowment fund provided by the Government, which now amounts to Lit 176,519 million, and of credits assigned to it by the Ministry of the Treasury.

218. Mediocredito's general policies are laid down by a fifteen-member General Council, appointed by the Ministry of the Treasury, which also appoints the President and Vice-President of the Council. The Institution's day-to-day business is administered by a nine-member Board of Directors consisting of four members of the General Council, two representatives of the Ministry of the Treasury, one representative of the Ministry of Foreign Trade, one representative of the Ministry of Industry, and the President of the General Council who acts as Chairman of the Board.

219. As regards export financing, Mediocredito finances advances made by the medium-term and long-

term credit institutions and rediscounts export bills discounted by these institutions. Mediocredito refines up to 75 per cent of the portion of the credit financed by the financing institutions (a bill now before the Italian Parliament proposes to increase this percentage to 85); if lack of funds prevents it from refinancing the full 75 per cent, it refines a smaller percentage and reimburses to the financing institutions the difference between the special interest rate of 5.90 per cent they charged to exporters and the cost for the institution of borrowing the supplementary funds on the market. In the case of ordinary suppliers' credits, the interest subsidy resources are derived from Mediocredito's net profits and in the case of financial credits or specially authorized long-term suppliers' credits from a fund contributed by the Government. Mediocredito's intervention in the export financing process, whether through direct refinancing or indirect refinancing in the form of interest subsidies, enables the medium-term and long-term credit institutions to finance export credits at a more favourable rate than that charged for comparable domestic loans, thus making it possible to reduce the cost of the export credit to the foreign buyer.

TABLE 41. ITALY, MEdiocredito: VOLUME OF REFINANCING FOR EXPORT CREDITS,<sup>a</sup> 1955-1965  
(Thousands of millions of lire)

Type of refinancing	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Refinancing of export credits (suppliers' and financial credits) . . . . .	3.2	4.4	14.8	28.4	53.7	62.7	76.9	87.2	114.9	130.8	148.7
Direct refinancing . . . . .	3.2	4.4	14.8	27.8	28.8	37.1	41.1	55.4	65.7	71.0	93.1
Indirect refinancing through payment of interest subsidies . . . . .	—	—	—	0.6	24.9	25.6	35.8	31.8	49.2	59.8	55.6

<sup>a</sup> This has in recent years exceeded the volume of Mediocredito's domestic credit refinancing (which amounted in 1965 to Lit 122,500 million).

TABLE 42. ITALY, MEdiocredito: GEOGRAPHICAL DISTRIBUTION OF EXPORT CREDIT REFINANCING, 1961-1965  
(Percentage of total)

Country	1961	1962	1963	1964	1965
Argentina . . . . .	9.7	19.5	15.9	14.2	10.9
Brazil . . . . .	12.4	11.2	12.7	11.3	5.0
Bulgaria . . . . .	0.1	—	—	0.1	0.7
Chile . . . . .	0.7	4.0	5.1	4.7	3.1
France . . . . .	3.3	1.7	0.1	0.1	1.0
Ghana . . . . .	—	—	—	—	3.0
Greece . . . . .	3.4	2.4	1.5	0.4	1.0
Hungary . . . . .	0.5	1.4	0.2	1.3	2.9
India . . . . .	8.0	4.3	3.0	0.8	1.2
Indonesia . . . . .	—	1.4	1.6	1.6	5.1
Israel . . . . .	0.2	0.1	—	1.9	2.2
Japan . . . . .	—	—	—	1.0	0.6
Mexico . . . . .	1.2	2.9	3.4	5.0	4.5
Panama . . . . .	0.1	0.1	0.1	0.1	7.4
Polar J . . . . .	3.3	2.0	3.2	3.1	3.3
Romania . . . . .	0.7	1.6	0.6	0.4	2.7
Spain . . . . .	—	0.9	0.6	1.4	1.7
Sudan . . . . .	0.2	—	2.9	3.4	2.2
Tunisia . . . . .	—	—	4.4	3.7	3.0
Turkey . . . . .	7.2	4.7	3.6	2.7	1.4
USSR . . . . .	2.4	4.9	4.4	7.2	5.0
UAR . . . . .	0.7	0.4	6.9	8.2	5.3
Uruguay . . . . .	0.1	0.2	0.1	0.5	0.5
Venezuela . . . . .	14.2	2.9	—	—	—
Yugoslavia . . . . .	26.6	28.9	25.4	22.4	20.6
Others . . . . .	4.9	4.9	5.3	4.5	5.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## FINANCING PROCEDURES

### *Medium-term and long-term suppliers' credits*

220. All suppliers' credits in excess of one year (five years in the case of transactions with buyers in the countries of the European Economic Community) must be approved by the Ministry of Foreign Trade. The buyer is usually required to make a down payment averaging 20 per cent of the value of the contract. The credits are financed by the medium-term and long-term credit institutions. A guarantee from a reliable bank in the buyer's country and an insurance policy issued by the Istituto Nazionale delle Assicurazioni (INA) and endorsed by the exporter in favour of the financing institution being prerequisites for such financing. The duration of the credits does not usually exceed five years for credits relating to exports of goods and services, four years for credits relating to the execution of works abroad and two years for credits granted in connexion with goods deposited abroad for consignment selling. These limits are exceeded only in special cases when the Ministry of the Treasury authorizes the Istituto Nazionale delle Assicurazioni to guarantee suppliers' credits for longer periods.

221. The financing, which takes the form of advances against the export bills as collateral or the discounting of those bills, is not likely to exceed the percentage of the credit guaranteed by the Istituto Nazionale delle Assicurazioni (85 per cent of the credit for exports of goods and services, 30 per cent of the value of the contract in the case of works executed abroad and 65 per cent of the value of Italian products stocked abroad for sale; the bill now before the Italian Parliament proposes that the maximum cover for exports of goods and services should be increased to 90 per cent of the credit and that similar cover should be made available for the execution of works abroad).

222. The medium-term and long-term credit institutions obtain advances from Mediocredito to refinance up to 75 per cent of the advances they have made to the exporter or rediscount with Mediocredito up to 75 per cent of the export bills they have discounted. Mediocredito charges a special interest rate of 3 per cent for such refinancing and as already noted will, if it lacks funds, grant the financing institutions an interest subsidy to make up the difference between the cost of borrowing on the market and the special interest rate of 5.90 per cent charged to the exporter. Since the medium-term and long-term credit institutions finance up to 85 per cent of the credit and Mediocredito refines 75 per cent of this financing out of government funds, such funds are used to finance up to 64 per cent of medium-term and long-term suppliers' credits.

*Long-term export credits (suppliers' credits and financial credits) granted under Act No. 635 of 5 July, 1961, chapter III, articles 20 and 21*

223. These articles deal with long-term export credits granted by Italian suppliers or the Italian medium-term and long-term credit institutions to foreign governments, public entities or private firms guaranteed by their governments for the purchase of Italian goods and services, and long-term credits (which need not necessarily be tied to the purchase of Italian goods and services) granted by these institutions to foreign governments or central banks for "economic rehabilitation".

All these credits must be authorized by the Ministry of Foreign Trade in agreement with the Ministry of the Treasury and are financed as follows:

(a) Under article 20(a), the Italian supplier receives from the foreign buyer promissory notes expressed in Italian lire or foreign currencies for the amount of the credit (usually 50 per cent of the invoice value). These notes are guaranteed by the Istituto Nazionale delle Assicurazioni up to 85 per cent of their nominal value and then financed by the medium-term and long-term credit institutions, which buy the notes or make advances against them, generally up to the insured percentage. The credits are refinanced by Mediocredito according to the procedure described above;

(b) Under article 20(b), the foreign buyer issues promissory notes to the order of the Italian exporter or, at the latter's request, to the order of the financing institutions. These notes are guaranteed by the Istituto Nazionale delle Assicurazioni up to 85 per cent of their nominal value. The financing institution receives these instruments and in exchange gives the exporter special securities called *titoli rappresentativi*, expressed in Italian lire or foreign currencies representing possession of the promissory notes. The exporter may use the *titoli rappresentativi* to obtain advances from the financing institution which issued them or from any other medium-term and long-term credit institution. The *titoli rappresentativi* may be refinanced with Mediocredito according to the procedure described above;

(c) Under article 20(c), the medium-term and long-term credit institutions grant credits to the foreign buyer; the latter issues promissory notes to the order of the institution, which may be guaranteed by the Istituto Nazionale delle Assicurazioni up to 100 per cent of their nominal value. The institution pays the exporter with bonds which, unlike the *titoli rappresentativi*, are issued within the limitations set forth in article 2410 of the Italian Civil Code<sup>2</sup> and represent an irrevocable commitment on the part of the institution. The bonds may be repurchased by the financing institution which will refinance them with Mediocredito;

(d) Under article 21, the medium-term and long-term credit institutions grant credits to foreign governments or central banks for "economic rehabilitation", receiving in exchange promissory notes which may be guaranteed by the Istituto Nazionale delle Assicurazioni up to 100 per cent of their nominal value and financed with Mediocredito.

224. The interest rate charged by the financing institutions for all credits granted under articles 20 and 21 is the same as that charged for medium-term suppliers' credits, that is, 5.90 per cent.

### EXPORT CREDIT INSURANCE

225. The Italian export credit insurance scheme is administered by the Istituto Nazionale delle Assicurazioni, an autonomous government institution established in 1912 to engage in life insurance operations. The official scheme has not so far provided coverage for short-term suppliers' credits and covers only non-commercial risks in the case of medium-term and long-term

<sup>2</sup> "A corporation may issue registered or bearer bonds for an amount not exceeding its paid-up capital stock shown in the last approved balance sheet".

suppliers' credits and financial credits. Short-term suppliers' credits may be insured against commercial risks with the Societa Italiana Assicurazione Crediti when granted to certain countries.

226. The global amount of guarantees which may be provided is laid down annually in the law approving the expenditure budget of the Ministry of the Treasury. It should be noted however that this ceiling applies only to guarantees issued during the year in question; any balance remaining uncommitted at the end of the year is carried over and added to the official ceiling for the following year. The annual guarantee ceiling has gradually been increased from Lit 30,000 million for the financial year 1953/54 to Lit 150,000 million for 1960/61 and Lit 300,000 million for 1963/64. The official annual ceiling has remained at that level in subsequent years, but as a result of the carrying over of uncommitted balances the *de facto* ceiling was Lit 450,000 million for the calendar year 1965 and Lit 532,000 million for the calendar year 1966.

227. The INA is authorized to insure on behalf of the Government the capital and interest of credits granted by Italian enterprises in connexion with the export of goods and services, the execution of projects abroad (including planning and projecting) and the sale of Italian products stocked abroad. Transactions carried out by the INA on behalf of the Government are supervised by a committee composed of a representative of the Ministry of Foreign Affairs, a representative of the Ministry of the Budget, two representatives of the Ministry of the Treasury (one from the Ragioneria Generale dello Stato (General Accounting Office) and the other from the Directorate General of the Treasury), two representatives of the Ministry of Industry and Commerce (one from the Directorate General of Industrial Production and the other from the Inspectorate of Private Insurance Enterprises), three representatives of the Ministry of Foreign Trade (one from the Directorate General for Commercial Agreements, one from the Directorate General for Foreign Exchange and the third from the Directorate General of Trade Development), a representative of the Ministry of Agriculture and Forests, a representative of the Ministry of Labour and Social Insurance, a representative of the Corte dei Conti (Court of Accounts), a representative of the Italian Foreign Exchange Office, a representative of the National Institute for Foreign Trade, a representative of the Italian Union of Chambers of Commerce, Industry and Agriculture, a representative of the private insurance companies and a representative of the INA.

228. The members of the Committee, including the Chairman and the Vice-Chairman, are appointed by decrees of the Minister of Foreign Trade in agreement with the Minister of the Treasury and the Minister of Industry and Commerce. Secretariat services for the Committee are carried out by the National Institute for Foreign Trade. The Committee is entrusted with the task of determining the insurance terms, approving the risks to be insured and verifying the validity of claims. Committee decisions are taken by a simple majority of members, provided that this majority includes the Chairman or Vice-Chairman, a representative of the Ministry of Foreign Affairs, a representative of the Ministry of the Treasury, a representative of the Ministry of Industry and Commerce and a representative of the Ministry of Foreign Trade. The Committee's decisions are trans-

mitted to the Ministry of the Treasury and become executory twelve days after their date if the Ministry has not rejected them.

229. Only specific policies are issued covering risks to which Italian firms are exposed by reason of:

War (whether declared or not), revolution, rebellion and riots;

Catastrophe (earthquake, tidal wave, volcanic eruption, flood, hurricane etc.);

General moratorium decreed by the government of the buyer's country;

Suspension or cancellation of the order, prior to delivery, resulting from any of the above-mentioned causes or from regulations introduced by the government of the buyer's country or by the Italian Government;

Delay of at least six months in transferring to the Italian supplier sums already deposited by the foreign buyer with his bank;

Increases in production cost prior to delivery caused by circumstances of a general nature not imputable to the supplier, when the sale contract does not provide for price adjustments or an escalation clause in those cases.

230. Ordinary commercial risks are not covered; however, the risk of default is covered when it is that of a foreign government or a foreign public agency which has guaranteed the purchase or the payments.

231. In general, the insurance coverage does not exceed 85 per cent of the credit. In the case of financial credits the maximum cover may be increased to 100 per cent. In the case of stocks of Italian products held abroad for sale, the insurance coverage does not exceed 65 per cent of their value. In connexion with the execution of projects abroad by Italian contractors, the costs incurred in connexion with studies and planning, equipment and machinery assembled at the site and the actual execution of the first stage of the project may be insured up to 30 per cent of the total amount of the contract; a similar limitation applies to insurance covering the complete execution of such projects. However, when the project is to be executed for a foreign government or government agency, the insurance coverage may be increased to 65 per cent of the amount of the contract. As regards the risk of increased production costs, the insurance is limited to price changes in excess of 5 per cent of the value of the order up to a maximum of 10 per cent.

232. The duration of insurance is usually limited to five years from the time of dispatch or delivery of the goods or performance of the services, four years from the beginning of work on the project and two years from the dispatch or sale of products stocked abroad. These limits may be exceeded in special cases upon authorization of the Ministry of the Treasury. With regard to the risk of increased production costs, the duration of insurance cannot exceed the period elapsing between the date on which execution of the order began and the date upon which production was completed. Insurance in excess of five years is made available for long-term suppliers' credits granted under the matching principle and for long-term suppliers' credits and financial credits granted with government approval by Italian enterprises under article 20 of Act No. 635 of 5 July 1961 and under article 21 for "financial loans intended

for economic rehabilitation" granted with government approval by the specialized credit institutions to foreign governments or central banks.

233. Premium rates are determined within maximum and minimum limits established each year by decree of the Minister of the Treasury in agreement with the Minister of the Budget, the Minister of Industry and Commerce and the Minister of Foreign Trade. At the end of September 1966 these upper and lower limits were 1.25 per cent and 0.10 per cent, respectively. In the case of financial credits premium rates are lower.

234. The statutory delay after which loss is recognized varies according to the risk involved. In the case of losses due to war, revolution, rebellion, catastrophe and moratorium, the delay is six months reckoned from the maturity of the credit. For losses due to suspension or cancellation of orders, the delay is six months reckoned from the date of suspension or cancellation. As regards foreign exchange transfer difficulties, the

delay is six months reckoned from the date on which the buyer deposited the sum with his bank. When the loss results from non-payment by a foreign government, a foreign public entity or a foreign private entity guaranteed by its government or by a public entity the delay is six months reckoned from the maturity of the credit. In the case of production cost variations, the loss is recognized upon the completion and delivery of the goods. In the case of financial credits, indemnities are payable with thirty days of the recognition of the loss.

235. As of 31 March 1966 outstanding guarantees for suppliers' credits (medium-term and long-term) issued by the INA totalled Lit 592,000 million for suppliers' credits (medium-term and long-term) and Lit 218 000 million for financial credits.

236. The Societa Italiana Assicurazione Crediti insures transactions of up to twelve months at premium rates fluctuating between 0.3 and 1.5 per cent. Claims are payable within two months in the case of insolvency and six months in the case of protracted default.

## JAPAN

### INSTITUTIONAL FRAMEWORK

237. In Japan, export credits for the acquisition of capital goods are financed through "concerted financing" by the commercial banks and the Export-Import Bank of Japan.

238. There are about one hundred commercial banks, including fifteen banks which are branches of foreign banks. The Japanese banks are classified in two categories, the large "City Banks" and the locally oriented "Country Banks". The most important role is played by the thirteen "City Banks" (Bank of Tokyo, Mitsui, Hokkaido Takushoku, Mitsubishi, Sumitomo, Fuji, Sanwa, Dai-Ichi, Daiwa, Kobe, Tokai, Nippon Kangyo and Industrial Bank of Japan). Pursuant to the Foreign Exchange and Foreign Trade Act, only the commercial banks authorized by the Minister of Finance and known as "Authorized Foreign Exchange Banks" can carry out foreign exchange transactions. There are about seventy authorized banks, which are divided into two classes, A and B. Class A banks, which include most of the "City Banks" and the branches of foreign banks, are permitted to conclude correspondent arrangements with non-resident banks and can finance foreign trade. Class B banks are permitted only to act as agents: they may purchase and hold foreign exchange as agents for their clients, but may not sell it to other than class A banks.

TABLE 43. JAPAN: OUTSTANDING EXPORT CREDIT FINANCING PROVIDED BY 12 "A GROUP" AND 16 "B GROUP" EXCHANGE BANKS AS PART OF JOINT FINANCING WITH THE EXPORT-IMPORT BANK OF JAPAN

<i>As of:</i>	<i>Millions of yen</i>
31 October 1965	90,400
31 December 1965	93,100
31 March 1966	97,100

239. The main burden of medium-term and long-term export credit financing is carried by the Export-Import Bank of Japan. This bank was established as the Export Bank of Japan in December 1950 but assumed its present name on 1 April 1952 when the scope of its activity was expanded to cover import financing. The Bank is a public corporation whose capital, now Y 175,800 million, is entirely owned by the Government. According to the Act under which it was established, the Bank's purpose is "to supplement or encourage the financing of exports, imports and overseas investments by ordinary financial institutions, with the view of facilitating, through financial aid, trade and other economic interchange between Japan and foreign countries".

240. The Bank is administered by a President, a Vice-President and six Directors, and is inspected by two Auditors. The President, the Vice-President and the Auditors are appointed by the Prime Minister, and

the Directors are appointed by the President of the Bank. The Bank is under the general supervision of the Ministry of Finance and its annual budget and accounts must be submitted to the Parliament for approval.

241. The Bank can obtain additional resources only by borrowing from the Government of Japan or by borrowing foreign currencies from foreign banks and other financial institutions. At the end of the fiscal year 1964/65, outstanding borrowing from the Government totalled Y 291,400 million. The Bank's maximum liability limit is three times the total of its capital and reserve fund. The maximum amount of loans and guarantees that it may have outstanding at any time must not exceed the total of its capital and reserve fund plus its maximum liability limit.

242. The Bank grants most of its loans in the form of financing for export credits granted by Japanese firms. However, it is also authorized to make investment loans to Japanese firms desiring to:

Purchase equipment for establishing overseas ventures;

Make capital contributions to, acquire shares of, or lease equipment to foreign corporations;

Invest in Japanese corporations established for the purpose of implementing investment projects abroad;

Lend funds to foreign partners for the purpose of contributing to joint Japanese-foreign ventures.

243. Lastly, in addition to making some import loans to Japanese firms, the Bank is authorized to make loans to foreign governments and public agencies:

To promote imports from Japan which individual foreign firms would be unable to handle;

To enable them to contribute capital to, or acquire stocks in, joint ventures with Japanese firms;

To enable them to finance the installation or expansion of plants needed for their economic development.

244. According to the Export-Import Bank of Japan Act, the Bank should not "compete with commercial banks and other financial institutions in financing exports, imports and foreign investments". Consequently, it does not, as a rule, lend funds for less than six months or for transactions for which private financing is available, and generally provides financing in co-operation with private financial institutions.

### FINANCING PROCEDURES

245. As noted in the foregoing section, export credits for the acquisition of Japanese capital goods are financed jointly by the commercial banks and the Export-Import Bank of Japan. The latter finances up to 70 per cent of the value of the contract minus down payment and profits if the credit is of between six

TABLE 44. EXPORT-IMPORT BANK OF JAPAN: DISTRIBUTION OF CREDITS,  
BY TYPE OF TRANSACTION  
(Millions of yen)

Transaction	1959/60	1960/61	1961/62	1962/63	1963/64
Exports	75,300	91,100	98,600	139,500	184,300
Vessels	39,500	42,200	50,400	78,400	115,600
Vehicles and rolling stock	6,700	9,200	15,800	6,600	7,800
Electrical machinery	5,000	7,600	6,700	3,000	7,600
Telecommunication machinery	600	300	2,500	1,400	400
Textile machinery	4,800	6,400	5,000	9,000	10,500
Steel products	2,700	3,900	2,300	4,000	4,000
Other industrial machinery	15,900	21,500	15,600	19,600	21,500
Consumer durables	—	—	300	1,600	800
Yen loans <sup>a</sup>	(9,700)	(6,000)	(6,300)	16,000	16,200
Technical services	—	—	—	100	1,000
Imports	400	1,300	1,400	900	200
Investments	8,700	11,200	8,600	7,800	12,500
<b>TOTAL</b>	<b>84,500</b>	<b>103,600</b>	<b>108,600</b>	<b>148,400</b>	<b>197,900</b>
Credits outstanding at the end of year	140,400	198,600	261,000	342,600	443,500

<sup>a</sup> Yen loans to foreign countries to finance imports from Japan. Sums in parentheses for 1959/60-1961/62 are already included in other subitems.

months and one year, and 80 per cent if the credit exceeds one year.

246. The exporter discusses with his commercial bank the terms and conditions he intends to offer to the buyer, in order to ensure that they will be acceptable to the Export-Import Bank and the Export Insurance Section of the Ministry of International Trade and Industry (MITI). The buyer is asked to make a down payment of about 20 per cent of the value of the contract and to obtain a repayment guarantee for the remainder from a reliable bank in his own country. The commercial bank forwards to the Export-Import Bank the draft financial contract between the exporter and his customer, requesting a promise of financing. The exporter will simultaneously seek an insurance commitment from MITI. When preliminary approval has been obtained from both the Export-Import Bank and MITI (a process which usually takes about two weeks), the exporter will finalize his negotiations with his bank and the buyer.

247. Transactions which are eligible for financing by the Export-Import Bank include those involving equipment and parts and accessories thereof, other goods manufactured or produced in Japan and technical services supplied by Japan. Maximum maturities of credits for which financing is requested should not in principle exceed five years, but in recent years this

limit has proved to be fairly flexible. The interest rate charged by the Export-Import Bank varies from 4 to 7 per cent, depending on the purpose and maturity of the credit and the collateral offered. Commercial banks usually charge rates of between 8.5 and 9 per cent on the portion of the credit which they finance.

#### EXPORT CREDIT INSURANCE

248. The Japanese export credit insurance scheme is operated by the Export Insurance Section of the Ministry of International Trade and Industry. The latter is advised on all important matters relating to export credit insurance by the Export Insurance Council, which is composed of the Minister of International Trade and Industry and eleven other members appointed by the Minister from among the personnel of government agencies dealing with foreign trade, finance and insurance and from among experts in these fields.

249. All insurance premiums are credited to and all losses are debited from the Export Insurance Special Account established and financed by the Treasury under the Export Insurance Special Account Act, which came into effect on 31 March 1950. This Act authorizes the Account to make temporary borrowings and to issue finance bills up to a ceiling specified by the Parliament, which also determines annually the over-all insurance ceilings.

TABLE 45. JAPAN: LIABILITY CEILINGS FOR EXPORT INSURANCE  
(Millions of yen)

Type of insurance	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
General export	110,000	140,000	260,000	300,000	300,000	450,000	450,000	700,000	1,000,000	1,200,000
Export proceeds	37,500	37,500	42,000	72,000	82,000	160,000	220,000	300,000	450,000	550,000
Export bill	8,000	30,000	30,000	50,000	60,000	90,000	90,000	100,000	200,000	330,000
Export finance	8,000	5,000	5,000	4,500	4,000	4,000	4,000	4,000	5,000	5,000
Consignment	700	300	300	200	200	200	200	500	2,000	2,000
Advertisement	300	300	300	200	200	200	200	200	2,000	2,000
Investment principal		6,000	3,000	3,000	3,000	3,500	3,500	3,500	7,000	11,500
Investment profit	5,000	700	200	200	200	200	200	200	1,000	1,000



250. As can be seen from table 45, there are eight types of export insurance: general export insurance, export proceeds insurance, export bill insurance, export finance insurance, consignment sale insurance, overseas advertising insurance, overseas investment profits insurance and overseas investment principal insurance.

251. The type of insurance falling within the scope of this study are the first six, and by far the most important of these is general export insurance, which usually accounts for between 60 and 75 per cent of all contracts insured.

(a) *General export insurance.* This type of insurance, which can be obtained for exports of equipment produced, processed or purchased in Japan and exports of other goods designated by MITI, covers the following risks as from the date of the contract:

- (i) Restriction or prohibition of exchange transactions in the buyer's country;
- (ii) Restriction or prohibition of imports in the buyer's country;
- (iii) Suspension of exchange transactions owing to war, revolution or civil war in the buyer's country;
- (iv) Prevention of delivery of the goods by war, revolution or civil war in the buyer's country;
- (v) Suspension of transportation to the destination, owing to circumstances occurring outside Japan;
- (vi) Any other circumstances occurring outside Japan which are beyond the control of the parties to the export contract;
- (vii) Restriction or prohibition of exports under the Japanese Foreign Exchange and Foreign Trade Act;
- (viii) In the case of contracts with foreign governments or public entities, cancellation of the export contract by the buyer or cancellation by the Japanese exporter for valid reasons not imputable to him;
- (ix) Bankruptcy of the buyer.

This type of insurance may be obtained by individual exporters or by exporters' associations which exist in the different branches of industry. In the latter case, all export contracts concluded by the members of the association concerned are covered. The exporters' associations now covered by such policies are those for cotton yarns and fabrics, synthetic yarns and fabrics, wool products, textile manufactures, foot-wear, railway vehicles and parts, machinery and plants, electric wire and vessels. In general, specific policies are issued, which are operative five days after the date of the insurance contract. However, a global insurance policy may be issued for specified types of goods. The maximum risk cover is 60 per cent in the case of commercial risks and 90 per cent in the case of non-commercial risks. The cost of the insurance ranges from 0.7 to 6.7 per cent, depending on the risks involved in the transaction, the reliability of the buyer and the guarantees provided by him.

(b) *Export proceeds insurance.* This type of insurance, which is available for credit transactions involving equipment, vehicles, ships and other goods designated by MITI and technical services, covers the

following risks from the date of shipment or delivery of the goods or from the beginning of the services:

- (i) Restriction or prohibition of exchange transactions in the buyer's country;
- (ii) War, revolution or civil war in the buyer's country;
- (iii) Any other circumstances occurring outside Japan which are beyond the control of the parties to the contract;
- (iv) Bankruptcy of the buyer;
- (v) Default for six months on the part of the buyer (excluding default for reasons imputable to the exporter or supplier).

For this type of insurance only specific policies are issued. The maximum risk cover is 90 per cent for all risks.

(c) *Export bill insurance.* While the exporter or supplier is the beneficiary of general export insurance and export proceeds insurance, the beneficiary of export bill insurance is an authorized foreign exchange bank, which is insured against non-payment of documentary export bills drawn for the collection of export proceeds that it has purchased. The policy is a global one: the foreign exchange bank concludes in advance an insurance contract with the Government for each fiscal or half fiscal year. Within five days of the actual financing or negotiation of a bill, the bank notifies the Government that the insurance contract is to be applied to that particular operation. The maximum risk cover is 80 per cent. The authorized foreign exchange bank which has been indemnified is expected to make every effort to exercise its rights in respect of the bills and the goods concerned and to transfer to MITI any proceeds it may recover up to the amount of the indemnity received.

(d) *Export finance insurance.* The beneficiary of this type of insurance is a bank (excluding the Bank of Japan but including the Central Bank for Agriculture and Forestry and the Central Bank for Commercial and Industrial Co-operatives). The bank can obtain insurance for loans made against bills or notes relating to exports or for export bills or notes it has discounted covering losses arising from the exporter's or producer's inability to export the whole or part of the goods intended for export or his inability to collect the whole or part of the export proceeds. The maximum risk cover is 80 per cent. The policy is a global one: the bank concludes in advance an insurance contract with the Government for each fiscal year or half fiscal year. Within five days of the actual financing or negotiation of the bill or note the bank notifies the Government that an insurance contract is to be applied to that particular operation.

(e) *Consignment sale insurance.* This type of insurance covers losses arising from the exporter's failure to collect proceeds of sales effected within the framework of consignment sale contracts. The maximum risk cover is 80 per cent.

(f) *Overseas advertisement insurance.* This type of insurance covers the exporter against losses resulting from non-amortization of expenditure incurred in connexion with advertising abroad. The maximum risk cover is 80 per cent.



TABLE 46. JAPAN, MITI: EXPORT INSURANCE OPERATIONS  
(Millions of yen)

Type of insurance	1960/61	1961/62	1962/63	1963/64
<b>A. GENERAL EXPORT INSURANCE</b>				
Guarantees issued .....	269,683	270,293	465,140	493,616
Premiums received .....	501	377	546	596
Claims paid .....	37	88	77	63
<i>Individual policies</i>				
Guarantees issued .....	7,668	11,053	13,595	14,144
Premiums received .....	28	42	52	54
Claims paid .....	23	11	12	15
<i>Comprehensive policies</i>				
<b>Cotton manufacturers' association:</b>				
Guarantees issued .....	44,093	42,976	43,252	41,429
Premiums received .....	40	33	30	29
Claims paid .....	5	10	10	12
<b>Synthetic fibres manufacturers' association:</b>				
Guarantees issued .....	33,893	39,003	43,707	52,364
Premiums received .....	30	29	29	36
Claims paid .....	9	59	52	35
<b>Wool manufacturers' association:</b>				
Guarantees issued .....	8,001	12,973	11,777	18,920
Premiums received .....	7	10	10	13
Claims paid .....	1	8	3	4
<b>Textile manufacturers' association:</b>				
Guarantees issued .....	—	—	28,952	55,811
Premiums received .....	—	—	19	38
Claims paid .....	—	—	—	—
<b>Foot-wear manufacturers' association:</b>				
Guarantees issued .....	—	1,529	3,121	2,613
Premiums received .....	—	1	2	1
Claims paid .....	—	—	—	—
<b>Vehicle manufacturers' association:</b>				
Guarantees issued .....	24,283	9,946	15,336	21,835
Premiums received .....	43	13	15	11
Claims paid .....	—	—	—	—
<b>Machinery manufacturers' association:</b>				
Guarantees issued .....	80,591	58,115	76,320	104,157
Premiums received .....	227	99	85	133
Claims paid .....	—	—	—	—
<b>Shipbuilders' association:</b>				
Guarantees issued .....	71,153	94,698	229,079	196,959
Premiums received .....	126	150	304	281
Claims paid .....	—	—	—	—
<b>B. EXPORT PROCEEDS INSURANCE</b>				
Guarantees issued .....	99,273	115,026	91,943	197,373
Premiums received .....	987	1,089	586	727
Claims paid .....	76	92	521	400
<b>C. EXPORT BILL INSURANCE</b>				
Guarantees issued .....	42,623	50,854	62,782	88,787
Premiums received .....	329	400	514	776
Claims paid .....	501	1,020	1,028	964
<b>D. EXPORT FINANCE INSURANCE</b>				
Guarantees issued .....	2,448	2,171	1,623	1,867
Premiums received .....	9	9	7	7
Claims paid .....	1	48	31	—
<b>E. CONSIGNMENT INSURANCE</b>				
Guarantees issued .....	30	75	35	127
Premiums received .....	1	1	1	3
Claims paid .....	—	1	—	—

TABLE 46. JAPAN, MITI: EXPORT INSURANCE OPERATIONS  
(Millions of yen)

Type of insurance	1960/61	1961/62	1962/63	1963/64
<b>F. ADVERTISEMENT INSURANCE</b>				
Guarantees issued .....	8	10	1	1
Premiums received .....	—	—	—	—
Claims paid .....	1	3	1	—
<b>G. INVESTMENT PRINCIPAL INSURANCE</b>				
Guarantees issued .....	1,092	577	953	1,908
Premiums received .....	36	30	26	36
Claims paid .....	—	—	—	—
<b>H. INVESTMENT PROFITS INSURANCE</b>				
Guarantees issued .....	—	—	—	4
Premiums received .....	—	—	—	—
Claims paid .....	—	—	—	—
<b>TOTAL</b>				
Guarantees issued .....	415,155	439,004	622,476	791,965
Premiums received .....	1,867	1,907	1,679	2,144
Claims paid .....	617	1,252	1,640	1,432

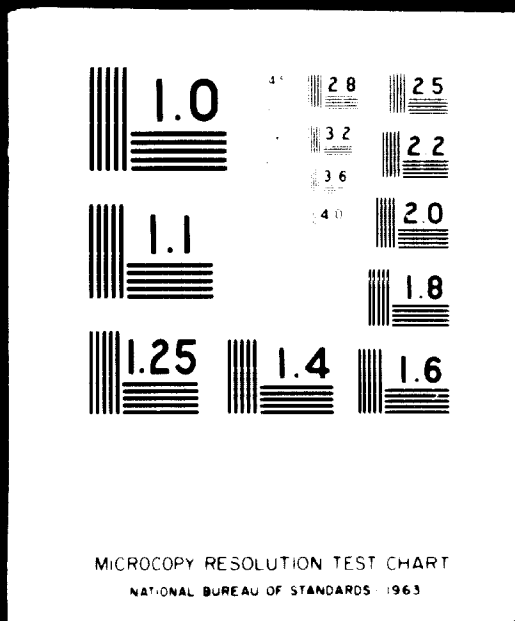


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## NETHERLANDS

### INSTITUTIONAL FRAMEWORK

252. In the Netherlands, commercial banks can, in principle, finance export credits granted for the acquisition of capital goods in that country. In practice, however, such credits are granted or financed by specialized export credit institutions, the N.V. Export-Financiering-Maatschappij (EFM), the N.V. Nationale Bank voor Middellang Crediet and the N.V. Maatschappij voor Krediet op Vaste Termijn. Medium-term and long-term suppliers' credits granted in respect of sales of ships are financed mainly by ships mortgage banks, the most important of which are the N.V. Rotterdamsche Scheepshypotheekbank, the N.V. Eerste Nederlandsche Scheepsverband Maatschappij and the Nederlandsche Scheepshypotheekbank N.V.

253. The N.V. Export-Financiering-Maatschappij is the most important export credit financing institution. It was founded in 1951 as a private company on the initiative of the Nationale Investeringsbank N.V. usually referred to as the *Herstelbank*. The latter, which is a Government-controlled institution (Fl 151 million out of its share capital of Fl 300 million being contributed by the State), holds 60 per cent of the EFM stock. The remaining 40 per cent is held by Netherlands commercial banks. The EFM's resources consist mainly of loans raised on the capital market and to a limited extent of deposits made by participating banks. These resources may, in case of need, be supplemented by rediscounting facilities provided by the Nederlandsche Bank N.V.—the Netherlands central bank—for export bills which are due to mature within one year.

254. The N.V. Nationale Bank voor Middellang Crediet and the N.V. Maatschappij voor Krediet op Vaste Termijn, which specialize in medium-term and long-term credits respectively, are owned by commercial banks and obtain most of their resources by floating bond issues and contracting long-term bank loans, with maturities of up to ten years.

TABLE 47. NETHERLANDS: BUYERS' CREDITS COMMITTED OR DISBURSED UNDER INTERNATIONAL CONSORTIA AND CONSULTATIVE GROUPS AS OF 31 DECEMBER 1965

(Millions of guilders)

Consortium or consultative group	Credits
Consortium for India	56
Consortium for Pakistan	32
Consultative Group for Nigeria	20
Consultative Group for Colombia	10
Consultative Group for Tunisia	10
Consultative Group for the Sudan	15

### FINANCING PROCEDURES

#### Medium-term and long-term suppliers' credits

255. Before concluding an export contract, the sup-

plier will normally undertake more or less simultaneous negotiations with the prospective buyer (regarding the terms and conditions of the contract), with the financing institution (regarding the financing of the contemplated credit) and with the Nederlandsche Credietverzekering Maatschappij N.V. (NCM) (regarding the insurance of the credit). The buyer is expected to make a down payment averaging 20 per cent of the value of the export contract, the remaining 80 per cent constituting the export credit. The financing institution usually finances the portion of the credit guaranteed under the insurance policy, that is a maximum of 90 per cent, corresponding to 72 per cent of the value of the order contract; the supplier is thus required to finance at least 10 per cent of the credit out of his own funds or through parallel financing on the security of his own name or other collateral. The financing institution usually provides the financing in the form of advances against the export bills as collateral and to a limited extent through the discounting of these bills.

#### Buyers' credits

256. Although such credits are granted directly by the financing institutions to buyers in order to enable them to effect their purchases entirely on a cash basis, the negotiations between the buyer and the financing institution on the one hand and the Nederlandsche Credietverzekering Maatschappij N.V. on the other are in most cases conducted on the initiative and with the active help of the supplier. The buyer signs promissory notes to the order of the financing institution which are insured by the Nederlandsche Credietverzekering Maatschappij N.V. on the same conditions as the export bills issued in connexion with suppliers' credits. With these exceptions, the procedure for buyers' credits is virtually the same as that for medium-term and long-term suppliers' credits.

### EXPORT CREDIT INSURANCE

257. The Netherlands export credit insurance scheme is operated by the Nederlandsche Credietverzekering Maatschappij N.V., a private insurance company which is also active in the field of domestic credit insurance. The NCM was established in 1925 under the auspices of the Amsterdamsche Bank N.V., a private commercial bank, with the collaboration of United Kingdom, German and Swiss interests. At present, the participating companies include eight Netherlands banks, eighteen leading Netherlands insurance companies, a United Kingdom credit insurance company, a Swiss credit insurance company and a Swiss re-insurance company.

258. As regards export credit insurance, which now represents more than two-thirds of the company's turnover, an agreement was concluded in February 1932 between the NCM and the Netherlands Government, under which the NCM agreed to insure export credit

transactions against all risks, while the Government committed itself to reinsure those risks falling outside the scope of private insurance. Under a decree issued in October 1946, government reinsurance facilities were broadened with a view to "promoting international trade and the exchange of services with foreign countries". The State Committee for Export-Import Guarantees, composed of representatives of the Government, the Nederlandsche Bank and the private sector, advises the Minister of Finance on general export credit insurance problems, while the Executive Committee for Export and Import Guarantees, including representatives of the Nederlandsche Bank, decides or advises the Minister on the cover for specific operations. There is no ceiling to the global amount of guarantees which may be reinsured with the Government.

259. The beneficiary of the export credit insurance is the Dutch exporter in the case of suppliers' credits or the credit institution in the case of buyers' credits. Direct guarantees to banks may also be issued in respect of medium-term suppliers' credits. The duration of insurance for credits relating to exports of capital goods is usually five years, but provided that the Government agrees to reinsure the transaction, insurance may be granted for long-term export credits (suppliers' credits and buyers' credits) granted in connexion with sales of ships; transactions on the basis of the matching principle; transactions undertaken within the framework of consortia or consultative groups under the auspices of an international organization; transactions relating to industrial projects of major importance to both the Netherlands industry and the economy of the importing country.

260. All categories of goods and services may be guaranteed, including the preparation of studies, the construction of works abroad, the holding of stocks abroad, the provision of advisory or consultative services and sales or lease of patents.

261. The NCM provides coverage against both commercial and non-commercial risks. Non-commercial risks are reinsured with the Government which will, in principle, also reinsure commercial risks at the option of the NCM. In practice, however, the NCM insures the commercial risks for its own account and reinsures them with its commercial reinsurers, having recourse to government reinsurance for commercial risks only in the case of transactions with developing countries involving maturities in excess of two years. Insurance is available for both pre-delivery and post-delivery risks. The NCM does not specify the risks covered, but does state that there are certain risks for which it cannot assume responsibility, such as, marine risks and other hazards resulting in material damage to the goods (these

risks are normally insurable through marine insurance companies); risks arising from causes within the control of the exporter; risks arising from disputes as to delivery and the quality of the exported goods; foreign exchange risks and, unless explicitly included, risks arising from increased costs.

262. The NCM issues two main types of policy:

(a) The *speciale polis* (specific policy), which covers commercial and/or non-commercial risks for individual short-term, medium-term or long-term transactions;

(b) The *omzet polis* (whole-turnover policy), which covers commercial and/or non-commercial risks for all of an exporter's short-term transactions with a given country or an agreed group of countries: policies of this type are valid for one year, but are renewable.

263. The maximum cover is in general the same for both commercial and non-commercial risks and is normally 75 per cent of the credit. However, if the exporter's margin of profit is small, the percentage may be increased to 90 per cent. The coverage for credits granted in connexion with exports of capital goods is usually 90 per cent for developed countries and 85 per cent for developing countries.

264. Premium rates for capital goods transactions are basically determined according to the credit rating and general economic situation of the country of destination, the terms of payment and the buyer's financial standing. The rates for commercial risks are fixed by the NCM, while those for non-commercial risks are fixed on the basis of guide-lines established in consultation with the Government.

265. The value of all export transactions (short-term, medium-term and long-term) insured by the NCM amounted to F1 1,569 million in 1965 as against F1 1,284 million in 1964, 1,094 million in 1963, 1,115 million in 1962, 971 million in 1961, 753 million in 1960, 572 million in 1959 and 452 million in 1958. Thus the value of insured export business more than tripled from 1958 to 1965. Of the exports insured in 1965, 30 per cent was in respect of capital goods as against 18 per cent in 1964, 24 per cent in 1963 and 31 per cent in 1962.

266. Indemnities are payable six months after the occurrence of the loss in the case of developed countries and nine months after the loss in the case of developing countries. Net proceeds obtained by the Government from reinsurance of export and import transactions from the end of the Second World War to the end of 1964 amounted to F1 65 million or roughly 2.5 per cent of total outstanding commitments of F1 2,726 million.

TABLE 48. NETHERLANDS: DISTRIBUTION OF OUTSTANDING COMMITMENTS REINSURED WITH THE GOVERNMENT, BY TYPE OF POLICY  
(Millions of guilders)

Type of policy	1961	1962	1963	1964	1965
Definite policies in respect of capital goods transactions .....	831	960	1,062	1,233	1,611
Preliminary policies and promises of cover in respect of capital goods transactions .....	853	619	862	977	560

TABLE 48. NETHERLANDS: DISTRIBUTION OF OUTSTANDING COMMITMENTS REINSURED WITH THE GOVERNMENT, BY TYPE OF POLICY (continued)

(Millions of guilders)

Type of policy	1961	1962	1963	1964	1965
Whole turnover policies in respect of consumer goods and raw materials.....	227	277	315	354	391
Specific policies in respect of consumer goods and raw materials.....	154	110	116	108	116
Specific policies in respect of import transactions.....	21	22	47	54	40
<b>TOTAL</b>	<b>2,086</b>	<b>1,988</b>	<b>2,402</b>	<b>2,726</b>	<b>2,718</b>

TABLE 49. NETHERLANDS: GEOGRAPHICAL DISTRIBUTION OF INSURED EXPORTS (Percentage)

Area	1959	1961	1963	1965
Africa.....	3	9	9	14
Latin America.....	15	20	17	10
Asia.....	12	9	15	26
Europe.....	66	55	55	44
Others.....	4	7	4	6



## NORWAY

### INSTITUTIONAL FRAMEWORK

267. In Norway, medium-term suppliers' credits (credits of between one and five years) and long-term suppliers' credits (credits of between five and thirteen years) granted in connexion with purchases of capital goods from that country are financed by the Aksjeselskapet Forretningsbankenes Finanslerings-og Eksportkreditt-institutt (AFFE), a private institution established for that purpose in March 1962 by forty-four of Norway's commercial banks.

268. Although the primary purpose of the AFFE is to provide export credit financing, its activities are not limited to that field, since its statutes also stipulate that it shall "extend intermediate and long-term loans to manufacturing, trade and handicraft".

269. The AFFE's capital originally amounted to Nkr 10 million, but was increased to Nkr 20 million in 1964. To augment its resources the AFFE may raise loans on the market, but total obligations at any one time may not exceed an amount equivalent to ten times its capital. These obligations are guaranteed by the shareholding banks, which have committed themselves to issue pro-rate guarantees for the AFFE's current obligations in proportion to their participation percentage in the share capital.

270. The AFFE is administered by a Board which appoints the business manager to handle the institution's day-to-day business and lay down rules for its guidance, examines and approves loan applications and fixes the terms of such loans and determines how the institution's available funds should be invested.

271. The Board consists of six members elected by the General Assembly of the shareholders for two-year periods from among the managing directors of the shareholding banks. In addition, the General Assembly elects deputies for Board members on a yearly basis. The Board elects a chairman and deputy chairman each year from among its members.

272. Outstanding export credit financing provided by the AFFE amounted to Nkr 75 million as of 31 December 1964 and Nkr 120 million as of 31 December 1965.

### FINANCING PROCEDURES

273. Applications for medium-term and long-term suppliers' credits are made by the exporter either directly or through a commercial bank which is an AFFE shareholder. The loans granted by the AFFE must be secured by:

A guarantee from a Norwegian bank or a major foreign bank, from a Norwegian insurance company, the Garanti-Instituttet for Eksportkreditt (GIE) (Export Credit Guarantee Institute), the government of the importing country or a public institution in that country whose guarantee can

be considered equal to that of the government, or

Mortgages or bank deposits, government bonds and bonds guaranteed by the government, other bonds for up to 80 per cent of the buying price quoted by a Norwegian stock exchange (provided the Insurance Council has approved such bonds for investment of life insurance companies insurance funds), life insurance policies up to their repurchase value, real property (including industrial inventories) up to half the official valuation, or

A combination of both the above-mentioned categories of security.

### EXPORT CREDIT INSURANCE

274. Under a parliamentary decision of 28 May 1960, the Export Credit Commission, which had been established in 1929, was reorganized and its name changed to the Export Credit Guarantee Institute (Garanti-Instituttet for Eksportkreditt). The GIE is a government agency under the Ministry of Commerce which is administered by a Board of seven members representing the Ministry of Commerce, the Ministry of Foreign Affairs, the Ministry of Industries, the export trades, the commercial banks and the GIE. Its daily business is handled by a managing director.

275. The GIE is authorized to issue insurance up to a maximum liability ceiling which originally amounted to Nkr 150 million. This ceiling was raised to Nkr 300 million in 1960, to Nkr 600 million in 1962 and to Nkr 1,000 million in 1964. Under a parliamentary decision of 15 June 1963, the GIE is also authorized to issue insurance policies on special terms in connexion with transactions which can contribute to significant economic growth in developing countries, up to a global ceiling which, in 1965 was raised from Nkr 150 million to Nkr 300 million. Under these special terms the five-year maturity limit may be exceeded and the charging of premiums suspended.

276. Insurance is usually granted in connexion with the export of goods. It may also cover risks related to the constitution of stocks abroad, the performance of services abroad (for example, engineering services) and export drives (for example, advertising costs). The GIE issues three types of policy:

(a) Specific policies for individual sales of capital goods or short-term sales to private buyers;

(b) Specific policies for individual sales of capital goods or short-term sales to public buyers;

(c) Whole-turnover policies, which cover the entire range of an exporter's short-term transactions during a period of twelve months with a given buyer, or buyers in a given country or with all buyers in an agreed group of countries.

277. Insurance is available for commercial risks and non-commercial risks combined and in special cases for non-commercial risks only. Both pre-delivery and post-delivery risks may be insured.

278. The following risks are covered in the case of sales to private buyers:

The risk of the buyer becoming insolvent or not paying for goods received within a certain time from the due date;

The risk of new trade or foreign exchange restrictions being introduced in the buyer's country;

The risk of a general interruption of trade or payments between the buyer's country and Norway.

279. In the case of contracts with foreign governments, state institutions or public monopolies, the following formulation is substituted for the first of the above items: the risk of the buyer failing to fulfil his obligation to pay according to the contract, when the cause of such failure to pay is not due to any default on the part of the supplier.

280. Catastrophe risks are not specifically covered but are in fact covered by commercial risk insurance when a national catastrophe leads to the insolvency of the buyer. No coverage is available for risks occurring in connexion with fluctuations in exchange rates and all policies therefore contain a provision stating that if the amount of the sale is indicated in a foreign currency, compensation will be paid according to the rate of exchange prevailing at the time of shipment (or at the contract date) or at the lower official rate of exchange which may be applicable when compensation is paid.

281. The duration of risk coverage for capital goods is usually five years, but with the approval of the Ministry of Commerce, may exceed this limit for sales under the "matching principle" (i.e., when foreign competitors offer larger credits), for sales of ships, sales of great importance to Norwegian industries and sales to developing countries of complete plants or similar heavy equipment or services up to the aforementioned global ceiling authorized by Parliament for such transactions.

282. The maximum indemnity that can be paid is 75 per cent of the loss in the case of insolvency of a private buyer and 85 per cent of the loss in all other

cases. These figures may be increased to 85 and 90 per cent respectively when "this is justified in the interest of the national economy". For losses occurring in connexion with an export drive, the coverage may be up to 50 per cent.

283. Premiums are determined according to the nature of the buyer (private firm, foreign government, state institution or public company), the importing country, the duration of the credit and according to whether special security has been provided for payment.

284. The Garanti-Instituttet for Eksportkredit may give guarantees to a bank or other financing institution in order to assist an exporter to obtain credits needed to carry out his export business. These guarantees do not cover the risks incurred by the exporter, who remains entirely responsible for repayment of the loan. Accordingly, the GIE has full right of recourse against the exporter.

285. A bank guarantee can be given for the constitution of stocks for export purposes, the production and delivery of goods and services, the execution of construction work abroad and sales promotion and other export promotion activities in foreign countries. The guarantee takes the form of a certificate issued to the bank concerned, whereby the GIE, within certain stipulated limits, agrees to pay a proportion—usually 50 to 75 per cent—of any loss which the bank may sustain in connexion with a particular credit granted to the exporter.

TABLE 50. NORWAY, GIE: VOLUME OF BUSINESS DURING 1965  
(Millions of kroner)

Type of guarantee	New guarantees <sup>a</sup>	Guarantees outstanding as of 31 December <sup>b</sup>
Ordinary and bank guarantees	410.6	596.1
Guarantees on special terms for transactions with developing countries	20.7	74.7
TOTAL	431.3	670.8

<sup>a</sup> Excluding guarantees authorized but not yet issued.  
<sup>b</sup> Including guarantees authorized but not yet issued.

## POLAND

### INSTITUTIONAL FRAMEWORK

286. In Poland, exports of machinery and equipment on a deferred-payment basis are carried out through two types of credits, state credits and commercial export credits.

287. As tables 51 and 52 show, capital goods and especially complete plants have in recent years assumed an increasing importance in Polish exports to developing countries.

TABLE 51. POLAND: EXPORTS OF CAPITAL GOODS TO DEVELOPING COUNTRIES, 1961-1965  
(Index, 1961 = 100)

Exports	1962	1963	1964	1965
Total exports to developing countries	112.2	124.0	155.7	166.0
Capital goods	114.1	137.2	175.5	188.5
Complete plants	65.6	416.7	639.1	548.8

TABLE 52. POLAND: RELATIONSHIP OF CAPITAL GOODS EXPORTS TO TOTAL EXPORTS TO DEVELOPING COUNTRIES, 1961-1965

Item	1961	1962	1963	1964	1965
Capital goods exports to developing countries as percentage of total exports to those countries	29.1	29.7	32.2	32.9	33.1
Exports of complete plants to developing countries as percentage of capital goods exports to those countries	17.3	40.2	52.5	62.9	50.7

### State credits

288. These credits, which usually provide terms in excess of five years, are granted within the framework of bilateral economic co-operation agreements concluded with developing countries under Poland's "aid through trade" policy. They are financed directly from the budget. Between 1960 and 1966 Poland signed such agreements, providing for aggregate credits exceeding the equivalent of \$275 million, with twelve developing countries including Ceylon, India, Iran, Mali, Morocco, Pakistan, Tunisia and the United Arab Republic. The following may be cited as examples of projects carried out under these agreements:

#### Ghana

Construction of a cane-sugar factory, a distillery, shipyards for building fishing craft, a steel foundry and charcoal factories;

#### India

Construction of an optical glass plant, a power station, two boiler houses, a steel foundry, a motor-cycle factory, an electric engine factory and a machine tool factory;

#### Mali

Construction of brick works and glass works.

### Commercial export credits

289. These credits are granted to foreign buyers by the foreign trade organizations on the basis of specific negotiations between them. In addition the foreign trade organizations implement the bilateral economic co-operation agreements by supplying the necessary machinery and equipment and performing related services. Commercial export credits may also be granted directly to foreign buyers by a number of industrial enterprises which are the exclusive producers or suppliers of certain goods and are authorized by the Ministry of Foreign Trade to engage in foreign trade activities for their own account.

290. The foreign trade organizations have gradually increased in number, and the scope of their activities has progressively expanded, particularly as regards capital goods. They are autonomous legal entities which have their own resources and budget, operate on commercial principles and carry out transactions in their own names and for their own accounts. They make their own decisions concerning their trade and credit activities but operate under the general supervision of the Ministry of Foreign Trade which, while not directly intervening in their transactions, ensures that the latter conform to both the organizations' individual trade plans and the over-all state foreign trade plan.

291. Each foreign trade organization buys and sells particular types of goods. Among those dealing with exports of machinery and equipment, the most important is Cekop, which exports complete industrial plants and performs related services, including initial technical and economic surveys, factory designs, feasibility reports, supervision of factory construction and plant assembly and training of local personnel in both the importing country and Poland. From its establishment in 1954 till 1965, Cekop exported more than 1,000 plants to forty-three countries and signed orders for an amount equivalent to approximately \$750 million.

292. Cekop works with virtually the whole of Polish heavy industry through general suppliers, which place orders with the various industrial enterprises as sub-contractors. While Cekop is responsible for the commercial and financial aspects of contracts it concludes, the technical aspects are handled by the general suppliers who prepare designs and specifications, provide engineers and technicians and supervise the execution of deliveries by Polish industrial enterprises. They also

participate in the negotiation of contracts which are signed by Cekop. The latter now has more than fifty general suppliers, each of whom specializes in a particular branch of industry (for example, sugar factories, power stations etc.)

293. About 60 per cent of Cekop's transactions are carried out with the socialist countries, while developing countries account for most of the remainder. Virtually all sales to the latter countries are carried out on a credit basis either through state credits or commercial export credits.

294. The next most important organization in the capital goods field is Metalexport which deals mainly with machine tools, metal-working machinery, textile machinery, paper-making machinery, pumps, compressors etc.

295. Other foreign trade organizations dealing with capital goods include:

*Centromor* :

Ships and marine equipment;

*Centrozap* :

Complete plants and machinery for the mining, iron, steel and casting industries;

*Elektrim* :

Power equipment;

*Kolmex* :

Rolling-stock and railway equipment;

*Metromex* :

Automation equipment, measuring and control apparatus;

*Motoimport* :

Automobiles, lorries, trailers, airplanes, helicopters etc.;

*Polimex* :

Construction equipment and equipment for the chemical and food industries;

*Varimex* :

Equipment for hotels, catering enterprises, laundries and hospitals, metal and wood-working machinery etc.

296. The Economic Committee of the Council of Ministers regulates relations between the foreign trade organizations and domestic industrial firms. For example, it is pursuant to a decision of the Economic Committee that industrial enterprises are gradually taking over from the foreign trade organizations the servicing of exported industrial machinery and equipment, transport equipment and durable consumer goods and assuming responsibility for supplying foreign buyers direct with technical documentation, spare parts and sub-assemblies. Many Polish industrial enterprises have obtained foreign currency credits for the purchase of new equipment and materials needed for the expansion of their export production. As regards deliveries of complete plants, it has been decided that general suppliers originally attached only to one organization, Cekop, should also be attached to other organizations. The new system provides for the joint signature of order contracts by the organizations and the general suppliers as well as the execution of contracts by the latter within fixed amounts of Polish and foreign cur-

rencies. The general suppliers must also provide systematic technical servicing for the exported plants. The Economic Committee of the Council of Ministers recently decided to establish a "risk fund" to improve relations between the organizations and domestic industrial enterprises. The fund's purpose is to cover losses occurring when the organizations order from the firms goods which, owing to unforeseen circumstances, they are subsequently unable to sell on foreign markets.

297. As already stated, some industrial enterprises are authorized by the Ministry of Foreign Trade to engage in foreign trade activities for their own account and to grant export credits direct to buyers. These enterprises include the Bielsko factory, which manufactures textile machinery; the Racibórz factory, which manufactures machine tools; the H. Cegielski works in Poznań which manufactures power machinery and equipment, and Unitech, which manufactures navigation and radio equipment.

298. Two banks—the Narodowy Bank Polski (the Central Bank of Poland) and the Bank Handlowy w Warszawie (the Commercial Bank of Warsaw)—are involved in Poland's foreign trade transactions, but the respective roles of these two institutions have changed considerably in recent years. Until 1963, banking operations relating to foreign trade were carried out by both banks, but the role of the Bank Handlowy w Warszawie was rather limited since all credit operations were channelled through the Narodowy Bank Polski. On 1 January 1964 the final settlement of foreign trade transactions was taken over by the Bank Handlowy w Warszawie, which since July 1966 has also been entrusted with the domestic financing of export credits granted by the foreign trade organizations; in addition it will now handle all accounts for state credits granted under intergovernmental agreements, although they are financed direct from the budget.

299. The Narodowy Bank Polski still maintains relations with foreign banks particularly as regards settlements which do not involve foreign trade, and represents Poland in the International Bank for Economic Co-operation in Moscow.

300. The activities of both banks are supervised by the Ministry of Finance, which is the highest organ in the Polish financial system. The Vice-Minister of Finance is *ex officio* President of the Narodowy Bank Polski. The Ministry of Finance exercises close control over state credits, since they are financed from the budget, but in the case of commercial export credits it controls only general credit policy, the global quota for such credits and their distribution.

## FINANCING PROCEDURES

### *State credits*

301. Under the bilateral economic co-operation agreements it concludes with developing countries, Poland offers long-term credits for the purchase of Polish industrial machinery and equipment and related services. The developing countries in turn undertake to finance all expenditures in local currencies for the projects involved.

302. In most cases, the maturity of state credits is eight years, although it may be extended to ten years. The annual rate of interest is 2.5 to 3 per cent. Credits are generally repayable through deliveries of traditional

export commodities and of domestic industrial goods including goods produced with the equipment purchased with the credit, although this may sometimes be combined with part payment in convertible currencies.

*Commercial export credits*

303. Negotiations concerning these credits are conducted directly between the foreign trade organizations (or the authorized industrial enterprises) and the prospective buyers. The organizations may be contacted by correspondence, through their foreign distributors, Polish consulates or foreign trade missions or at trade fairs, and the like.

304. Commercial credits are normally granted for exports of goods although in some cases they may also cover services. The buyer is expected to make a down payment of 10-20 per cent at the time of the signing of the contract and another payment in the same range, though not necessarily in the same amount, on delivery. Unless the foreign buyer is particularly well established and well known, he is expected to obtain a guarantee for the remainder from his government or a reliable credit institution in his country. In the absence of such guarantee, the foreign trade organization must obtain authorization from the Ministry of Foreign Trade before proceeding with the credit transaction. The credits, as noted, may be financed with the Bank Handlowy w Warszawie which will give credits in zlotys to the organizations against the foreign claims or will purchase the export credit instruments upon delivery of the goods. If the Bank feels that the guarantee is not adequate, it may grant the foreign trade organization,

or the industrial enterprise, a credit on the basis of its own security at a higher rate of interest. The purchase of the foreign claims by the Bank does not free the organization from the responsibility of controlling the servicing of the credit and the fulfilment of the control.

305. The foreign trade organizations are authorized to grant export credits for a maximum of five years (six years in the case of complete plants). Credits involving longer maturities or special conditions must be authorized by the Ministry of Foreign Trade; before granting such an authorization, the Ministry consults the Narodowy Bank Polski. Otherwise, export credits are granted without any special authorization and are merely registered with the Ministry of Foreign Trade for information purposes.

306. The interest rate on export credits is usually 6 per cent per year; in some cases, subject to the approval of the Ministry of Foreign Trade, the rate may be lower but it is never less than 4 per cent. Repayments are made in goods, in convertible currency or in a combination of the two.

307. Export credits are usually granted to developed and developing countries on virtually the same terms and conditions, but some differences nevertheless exist. Contracts with developing countries may include more services, feasibility studies, training of local personnel, services after the completion of the project and so on. In the case of developing countries that have attained a certain degree of industrialization, the Polish specifications may include some locally manufactured equipment.

## ROMANIA

### INSTITUTIONAL FRAMEWORK

308. In Romania, exports of capital goods on a deferred-payment basis are carried out through two types of credits, state credits and commercial export credits. In this connexion, it should be noted that in 1938 exports of machinery and equipment represented only 0.7 per cent of total Romanian exports; this percentage rose to 4.2 in 1950 and 18.2 in 1964, as can be seen in table 53.

TABLE 53. ROMANIA: CAPITAL GOODS EXPORTS, 1950-1964

Year	Millions of lei	Percentage of total exports
1950	53.1	4.2
1960	716.2	16.6
1964	1,094.4	18.2

#### State credits

309. State credits are financed from the budget and are usually granted within the framework of bilateral economic co-operation agreements. The following may be cited as examples of projects carried out in developing countries on the basis of such state credits:

##### Burma

Reopening of abandoned oil wells;

##### Cuba

Construction of building materials factories;

##### Ghana

Discovery of a large oilfield in the Volta region;

##### India

Construction of an oil refinery (annual capacity, 750,000 tons) and a sulphur dioxide plant at the Barauni oil refinery.

#### Commercial export credits

310. These credits are granted to foreign buyers direct by the foreign trade organizations, which are also responsible for implementing the above-mentioned bilateral economic co-operation agreements through deliveries of machinery and equipment and performance of related services. The foreign trade organizations are autonomous economic and legal entities which operate according to their own rules, have their own resources and budgets and conduct their trading activities on a self-supporting basis. They are free to select their customers but operate under the general guidance and supervision of the Ministry of Foreign Trade, which co-ordinates their activities and ensures that their transactions are carried out in accordance with their individual trade plans and the over-all state foreign trade plan. The Ministry of Foreign Trade defines the main outlines of Romania's foreign trade policy and

supervises the attainment of the import and export targets set in the over-all state foreign trade plan.

311. Each foreign trade organization specializes in importing and exporting particular types of goods. Three organizations deal with machinery and equipment, the most important being Industrialexport which exports complete plants and equipment for the oil, chemical, mining, metal-working, power, iron and steel, shipbuilding and refrigerating industries. Industrialexport, in co-operation with the appropriate Romanian industrial enterprises, also provides technical assistance in connexion with the installation and operation of the machinery and equipment supplied. It has, for example, provided technical assistance to Burma, Brazil, Ghana, India, Indonesia and Iran in connexion with the exploration of oil resources and the development of petroleum industries.

TABLE 54. ROMANIA. INDUSTRIAL EXPORT: EXPORTS OF MAJOR CATEGORIES OF CAPITAL GOODS, 1958-1964

Category of goods	(Millions of lei)		
	1958	1961	1964
Oilfield equipment	59.4	164.5	287.2
Refinery equipment	—	59.2	79.1
Equipment for the chemical industry	—	40.1	86.5
Ships	48.8	52.3	82.3

312. The other organizations specializing in capital goods are: Masinexport which deals with transport equipment, pumps, cranes, construction equipment etc., and Auto-Tractor, established in April 1966, which sells automobiles, tractors and agricultural machinery.

313. The Ministry of Finance, as the main organ in all monetary questions, makes general regulations as regards the granting of export credits and provides financing in lei.

314. The National Bank of Romania (the central bank) performs all banking functions relating to foreign trade. Thus, the Bank advises the organizations during the negotiation of export credits, checks the security offered by foreign buyers and guarantees that the advance payments made by foreign buyers will be refunded in case of non-delivery of the goods by the organization concerned. The National Bank also holds accounts relating to the bilateral economic co-operation agreements and makes related arrangements with banks in the recipient countries, collects export proceeds and establishes corresponding accounts in lei in the name of the foreign trade organizations concerned.

### FINANCING PROCEDURES

#### State credits

315. As noted above, these credits are usually granted within the framework of bilateral economic co-operation agreements. State credits are negotiated

through diplomatic channels and are concluded by the Romanian Government after consultation with the Ministry of Foreign Trade and the Ministry of Finance, whose representatives participate in the negotiations together with representatives of the National Bank and the foreign trade organizations concerned.

316. Interest rates are usually in the neighbourhood of 2.5 to 3 per cent. Repayment starts after delivery of the goods or, in the case of complete plants, after completion of the project, so that in the latter case, repayment may start three to four years after disbursement of the credit. Repayment is usually effected through deliveries of traditional export commodities of the recipient country or of domestically produced industrial goods including goods produced by the plant purchased with the credit. For example, Romania has accepted repayment by the United Arab Republic in the form of deliveries of phosphate produced by a chemical fertilizer plant built in that country with Romanian financial assistance.

#### *Commercial export credits*

317. Negotiations relating to the granting of commercial export credits are conducted between the foreign trade organizations and prospective buyers, with representatives of the prospective Romanian manufacturers present to discuss the technical problems involved. The organizations may be contacted by correspondence, through Romanian consulates and foreign trade missions, at trade fairs or through the Chamber of Commerce of Romania. The latter has 840 members representing the foreign trade organizations, industrial enterprises, unions of co-operatives and some central institutions such as the National Bank of Romania; its activities include market research, advertising of Romanian goods abroad, the organization of Romanian exhibitions in foreign countries and the establishment of contacts between Romanian exporters and potential foreign buyers.

318. Before granting export credits on a medium-term basis (credits of between one and five years) or on a long-term basis (credits of between five and eight or in some cases ten years), the foreign trade organizations must obtain authorization from the Ministry of Foreign Trade. If the proposed conditions of the contract are not exceptional, or if the buyer is a well-established company and a customer of long standing, the authorization is granted almost automatically. Before granting its authorization, the Ministry of Foreign Trade consults the National Bank with regard to the payment modalities of the contract. The rate of interest varies with such factors as the size of the transaction, the nature of the goods, the importing country and buyer.

319. The contracts usually provide for a down payment of 5 to 10 per cent of the contract value at the time of the signing of the contract and a similar payment upon delivery of the goods. The exact percentage depends upon the maturity of the credit, the type of equipment involved, the delivery period, the buyer's country and financial standing etc. The down payment may be made in the form of goods in the case of transactions with developing countries which are carried out on the basis of clearing agreements.

320. The foreign buyer is expected to obtain a guarantee from a first-class bank in his own country which may take the form of a letter of guarantee or an endorsement of drafts drawn on and accepted by the buyer. If the sum involved is relatively small, or if the buyer is well known to the Romanian foreign trade organization, this guarantee may be dispensed with, but such cases are the exception rather than the rule. The National Bank, which holds all export credit instruments, supervises the fulfilment of export contracts by both sides and informs the foreign trade organizations of payments received from buyers.

321. Export credits granted to developing countries are usually repaid in traditional commodities and other goods within the framework of clearing agreements.



## SWEDEN

### INSTITUTIONAL FRAMEWORK

322. In Sweden, commercial banks may in principle finance export credits for the acquisition of capital goods in that country irrespective of maturity. In practice, however, they finance only suppliers' credits of up to five years, long-term suppliers' credits of between five and ten years being financed by the AB Svensk Exportkredit.

323. The latter institution, established in 1962, has a share capital of SKr 100 million subscribed one-half by the Government and one-half by twelve commercial banks (Göteborgs Bank, Skandinaviska Banken, Skaraborgs Enskilda Bank, Skanska Banken, Smalands Bank, Stockholms Enskilda Bank, Sundsvalls Enskilda Bank, Svenska Handelsbanken, Sveriges Kreditbank, Uplands Enskilda Bank, Wermlands Enskilda Bank, Ostergötlands Enskilda Bank). The institution may, within certain limits, raise on the capital market funds needed for its lending activities.

324. The AB Svensk Exportkredit is administered by a Board of Directors consisting of nine members and nine deputy members who are appointed annually. Four members of the Board represent the Government and five the banks. The Government appoints one of the Board members to serve as Chairman, while the Vice-Chairman is elected by the commercial banks' representatives on the Board. The day-to-day business of the AB Svensk Exportkredit is handled by a managing director, appointed by the Board. Outstanding credits granted by the institution amounted to SKr 202.8 million as of 31 December 1965.

### FINANCING PROCEDURES

#### *Medium-term suppliers' credits*

325. Before concluding an export contract, the supplier will normally undertake more or less simultaneous negotiations with the prospective buyer (regarding the terms and conditions of the contract), with his bank (regarding the insurance of the contemplated export credit) and with the Exportkreditnämnden (EKN) (regarding the insurance of the contemplated export credit). The buyer is usually required to make a down payment averaging 20 per cent of the value of the export contract, the remainder, which constitutes the export credit, to be paid in half-yearly instalments. The financing, which is not likely to exceed the percentage covered under the insurance policy, is provided in the form of advances against promissory notes signed by the buyer or of drafts drawn on and accepted by the buyer as collateral or through the discounting of these bills. The interest rate is in the neighbourhood of 8 per cent.

#### *Long-term suppliers' credits*

326. The financing made available by the AB Svensk Exportkredit is provided against satisfactory

collateral on the basis of an application made by the exporter to the institution direct, or through his bank. Guarantees issued by the Exportkreditnämnden are usually considered acceptable as collateral, but the AB Svensk Exportkredit is in no way bound to grant loans for the sum or for the period of time specified in the Exportkreditnämnden policy, and may request additional guarantees. The financing provided by the AB Svensk Exportkredit is generally repayable in instalments according to an agreed schedule, which varies according to circumstances. Interest rates have so far varied between 5.75 per cent and 8 per cent per annum.

### EXPORT CREDIT INSURANCE

327. The Swedish export credit insurance scheme is operated by the Exportkreditnämnden, a government agency attached to the Ministry of Commerce and established under Royal Ordinance 271 of 28 May 1959. The members of the Board are appointed by the King in Council.

328. The Swedish Parliament has authorized the Government to issue guarantees up to a global ceiling of SKr 3,000 million, of which SKr 800 million have been specially earmarked for the insurance of export credits to developing countries on more liberal terms than the normal ones.

329. Insurance is granted to enterprises operating in Sweden to cover risks incurred in connexion with the export of goods or services or the constitution of stocks abroad. In exceptional cases, insurance may be granted for the export or stockage abroad of goods which are not of Swedish origin. Insurance may also be granted to credit institutions domiciled in Sweden for direct loans to foreign purchasers.

330. In general, the EKN issues specific policies for individual transactions. In addition, global policies may be issued to cover on a revolving basis all short-term transactions with one or more buyers or with one or more countries. Coverage is available for both pre-delivery and post-delivery risks.

331. Commercial risks cover losses arising from:

- The buyer's insolvency;
- The buyer's failure to pay within six months of due date;
- The buyer's failure to perform his duties under the contract.

332. Political risks cover losses caused by:

- An unexpected decision in the buyer's country regarding import or currency transfer licences or any other similar measures;
- The introduction of a general moratorium in the buyer's country or any other unexpected event involving considerable disturbance in general economic conditions, such as revolution, war, rebellion etc.;



Any unexpected event connected with the transport of goods from the exporter to the buyer for which neither can be held responsible.

333. The duration of the insurance is usually limited to five years, but this ceiling may be exceeded for sales under the "matching principle" (to make their credit terms competitive with those offered by foreign competitors), sales of ships, or sales of complete plants or services to developing countries within the above-mentioned SKr 800 million ceiling. In the last case, the exporter must prove that the transaction is connected with a project falling within the framework of a development programme to be carried out by the importing country and is approved by the government of that country; the transaction to be insured must also be covered by a payment guarantee from the government of the developing country or a reliable credit institution in that country.

334. In the case of sales to private buyers, the maximum risk cover is 70 per cent of the credit in respect of commercial risks and 85 per cent of the credit in respect of non-commercial risks. In the case of sales to public entities the risk cover is normally 85 per cent.

335. Premium rates are determined according to the conditions prevailing in the country of destination, the buyer's financial standing, the duration of the credit etc.

336. Outstanding liabilities (commitments and actual liabilities) totalled SKr 1,968 million at the end of 1964 and SKr 1,639 million at the end of 1965.

Outstanding liabilities under special guarantees for exports to developing countries amounted to SKr 349 million at the end of 1964 and SKr 173 million at the end of 1965.

TABLE 55. SWEDEN: OUTSTANDING SPECIAL GUARANTEES FOR EXPORTS TO DEVELOPING COUNTRIES AS OF 30 JUNE 1965  
(Millions of kronor)

Country	Outstanding commitments	Outstanding effective guarantees	Total
Ceylon	9	—	9
India	72	5	77
Nigeria	21	30	51
Salvador	—	4	4
Thailand	38	—	38
Tunisia	5	35	40
TOTAL	145	74	219

TABLE 56. SWEDEN: CLAIMS EXPERIENCE  
(Thousands of kronor)

Item	1962	1963	1964	1965
Premiums	4,143	4,362	4,692	6,181
Claims paid	136	377	964	1,089
Commercial risks	136	242	659	509
Political risks	—	135	305	580
Recoveries	41	173	440	934
Commercial risks	29	11	25	174
Political risks	12	162	415	760

## SWITZERLAND

### INSTITUTIONAL FRAMEWORK

337. In Switzerland, export credits for the acquisition of capital goods in that country are financed by the commercial banks, the most active in the export credit financing field being the *Crédit suisse*, the *Société de banque suisse*, the *Union de banques suisse* and the *Banque populaire suisse*. Medium-term suppliers' credits are financed as part of their normal business, while long-term suppliers' credits are financed only in exceptional cases, mainly on the basis of the "matching principle" (i.e., to maintain competitiveness with credit terms offered by foreign exporters).

338. The commercial banks also provide a certain amount of long-term export financing in the form of buyers' credits within the framework of bilateral agreements between the Swiss Government and governments of developing countries, concerning *l'ouverture de crédits de transfert pour les opérations de paiement relatives à certaines livraisons* (the opening of transfer credits in connexion with specific orders). These agreements apply only to deliveries of complete plants and capital goods of Swiss origin of paramount importance for the economic development of the developing country concerned, which by their very nature necessitate long repayment periods. The Swiss Government and that of the developing country agree to grant all the authorizations necessary for the realization of any transaction carried out within the framework of the agreement, and in addition the government of the developing country agrees to exempt the Swiss supplier from all fiscal charges on the principal and interest of the credit.

339. Agreements concerning the opening of transfer credits have been concluded with the Governments of Chile, India and Pakistan. The credits are granted by a consortium of Swiss banks direct to the government or central bank of the developing country, which then places the funds at the disposal of the importer concerned, which may be a public or a private enterprise. The consortium is given a guarantee by the Swiss Government under the Swiss export credit insurance programme. The Swiss consortium is usually composed of the *Crédit suisse*, the *Société de banque suisse* and the *Union de banques suisse* and may sometimes include the *Banque populaire suisse*. When the consortium is composed of the first three only, each contributes an equal share of the funds; when all four banks participate, the first three contribute 30 per cent each and the *Banque populaire suisse* contributes 10 per cent. A special agreement has been concluded with the Government of Nigeria; in this case, however, the credit was not financed by a consortium of banks but was financed entirely by the Swiss supplier.

### FINANCING PROCEDURES

#### *Medium-term and long-term suppliers' credits*

340. In general, the foreign buyer is required to

make a down payment, usually varying between 20 and 40 per cent of the invoice value before or upon delivery, the balance being repaid in equal semi-annual instalments. A government insurance policy is usually considered a prerequisite for the financing of such credits. In the case of transactions with private buyers, the guarantee of the central bank or another reliable bank in the buyer's country usually constitutes an additional prerequisite. The financing provided by the credit institution may, in certain cases involving exporters with excellent financial standing, exceed the percentage of the credit guaranteed under the export credit insurance scheme.

#### *Buyers' credits*

341. The agreement between the Swiss Government and that of the developing country establishes a ceiling for the "transfer credits". All orders financed out of these credits must be approved by the competent authorities in Switzerland and the developing country. The government of the developing country is directly responsible for the reimbursement of the credit and commits itself to pay the interest and principal to the lending banks in Swiss francs. The funds made available by the banks cover only 90 per cent of the invoice value; the foreign buyer makes a down payment of 10 per cent to the Swiss supplier from his own funds before delivery and utilizes the bank credits to pay the remaining 90 per cent upon delivery of the goods. The bank credits used to pay for specific orders are reimbursed in equal semi-annual instalments over a ten-year period. It may be possible, however, as in the agreement with India, to arrange for an initial three-year grace period, the credits then being reimbursed in fourteen equal and semi-annual instalments over the last seven years.

### EXPORT CREDIT INSURANCE

342. Export credit insurance in Switzerland is provided principally by the *Bureau pour la garantie contre les risques à l'exportation*, and to a very limited extent by the *Eidgenössische Versicherungs Aktiengesellschaft* and a Swiss subsidiary of the *Gerling Konzern* of Cologne.

343. The *Bureau pour la garantie contre les risques à l'exportation* receives its orders from and is responsible to the Federal Government, but is administered by a private trade association, the *Société suisse des fabricants de machines*. Guarantees issued by the *Bureau* must be approved by the *Commission des garanties*, composed of six members, three representing the Swiss Government (*Division du commerce*, *Division des finances* and *Bureau des arts et métiers*) and three representing industry and commerce (*machine-manufacturing industry*, *chemical industry* and the *Organisation des chambres de commerce suisse*). The Chairman of the *Commission* is always a government

representative and his vote is decisive when the votes are equally divided.

344. No ceiling is imposed on the global amount of guarantees which may be issued by the Bureau on behalf of the Federal Government. Trade associations play an active role in the export credit insurance process. Individual exporters file their insurance applications with their trade association, which checks them and forwards them to the Bureau. The trade associations also implement the decisions of the Commission des garanties. In the case of the machine manufacturing industry, however, applications are sent directly to the Bureau, which also implements the Commission's decisions relating to this industry. This procedure derives from the fact that the Swiss export credit insurance scheme was originally established during the nineteen thirties at the request of the Société suisse des fabricants de machines, which was entrusted with the task of issuing guarantees on behalf of and under the authority of the Swiss Government, and still administers the scheme.

345. All insurance fees are paid to the Federal Government, which reimburses 80 per cent of the operating expenses of the Bureau to the Société suisse des fabricants de machines. The Société is responsible for the remaining 20 per cent which covers the handling of applications relating to the machine-manufacturing industry.

346. Guarantees are granted for exports of Swiss products, although exceptions are occasionally made for complementary equipment which cannot be obtained in Switzerland. Guarantees may also be granted for transactions involving the rental of Swiss equipment, the assembling of equipment, engineering services or the transfer for a fixed sum of patents or technical processes. The guarantees cover short-term and medium-term suppliers' credits, long-term suppliers' credits (granted mainly under the matching principle) and buyers' credits granted within the framework of bilateral agreements between the Swiss Government and developing countries. Guarantees may cover individual transactions or—particularly in the short-term field—all of an exporter's transactions with a specific country.

347. Guarantees do not cover commercial risks, which are in principle covered by the Eidgenössische Versicherungs Aktiengesellschaft and the Swiss subsidiary of the Gerlin Konzern of Cologne. In fact, however, these two private companies are essentially con-

cerned with insuring exports to developed countries. In the case of exports to developing countries the Swiss banks therefore usually seek to obtain the guarantee of the government or central bank in the developing country concerned. Under such a guarantee the transaction is considered as one with a public buyer and the risk of default is thus covered as a political risk.

348. Guarantees cover pre-delivery and post-delivery risks caused by such events or circumstances as:

- Transfer difficulties or moratoria;
- Insolvency or refusal to pay on the part of states, communes or other public entities or private entities acting on behalf of a government;
- Insolvency or refusal to pay on the part of states, communes or other public entities or central banks guaranteeing a credit;
- Special measures taken by foreign states, or political events abroad which prevent debtors from fulfilling their obligations, lead to the confiscation or deterioration of goods belonging to the exporter or prevent their re-exportation.

349. The maximum indemnity that can be paid is 85 per cent of the loss plus the interest on the credits. Insurance premiums are fixed by decrees and are determined according to the amount of the credit and the duration of the guarantee. Indemnities are payable within sixty days after the exporter or the insured party has furnished satisfactory proof that despite all reasonable efforts he has been unable to obtain payment of the bills six months following their maturity date.

350. The Bureau pour la garantie contre les risques à l'exportation insures between 7 and 10 per cent of Swiss exports and approximately 20 per cent of the total exports of the machine-manufacturing industry.

TABLE 57. SWITZERLAND: GUARANTEES ISSUED, 1959-1965

Year	Millions of francs
1959	782
1960	883
1961	1,163
1962	1,248
1963	1,460
1964	1,375
1965	1,491

TABLE 58. SWITZERLAND: GEOGRAPHICAL DISTRIBUTION OF GUARANTEES ISSUED, 1959-1965  
(Percentage of total)

Area	1959	1960	1961	1962	1963	1964	1965
Africa	8.5	6.6	9.9	8.6	11.2	11.9	11.4
America (North, Central and South)	25.0	27.6	32.5	35.1	32.4	27.1	25.3
Asia	17.5	19.2	16.5	21.6	23.8	25.7	25.9
Europe	47.3	45.2	39.6	33.0	30.4	33.2	35.3
Oceania (Australia)	1.7	1.4	1.5	1.7	2.2	2.1	2.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

## UNION OF SOVIET SOCIALIST REPUBLICS

### INSTITUTIONAL FRAMEWORK

351. In the USSR two types of credits are available to foreign buyers for the acquisition of capital goods: state credits and commercial export credits. Complete plants and collateral services are mostly financed through state credits while individual sales of equipment and machinery are generally financed through commercial export credits. The total value of Soviet exports of capital goods rose from just over \$5 million in 1955 to over \$124 million in 1960, \$357 million in 1963 and \$1,611 million in 1964. In 1955, 0.8 per cent of those exports went to developing countries, but that percentage rose to 25 in 1963 and 28.1 in 1965. In recent years, machinery and equipment have comprised about half of total USSR exports to the developing countries.

#### *State credits*

352. Most capital goods transactions with developing countries are carried out through state credits, which are granted from funds earmarked for that purpose in the state budget, under special bilateral governmental credit agreements or within the framework of bilateral economic and technical co-operation agreements. These agreements are negotiated and signed on behalf of the USSR Government by representatives of the Foreign Economic Relations Committee of the Council of Ministers, a special governmental committee established in 1957, whose main purpose is the expansion of economic relations between the USSR on the one hand and the other socialist countries and the developing countries on the other. The Committee administers and supervises the implementation of the agreements and *inter alia* ensures that plant and equipment deliveries, project surveys and other technical assistance activities are carried out in accordance with the terms of the contracts. Although the Committee is concerned primarily with the implementation of inter-governmental agreements, it is also empowered to make financial facilities available on a commercial basis, and has in fact done so to an increasing extent in recent years.

353. Total USSR state credits to developing countries exceeded 3,500 million roubles as of July 1965 and were distributed among the main sectors as follows:

	<i>Percentage</i>
Industry and geological prospecting .....	71
Agriculture (including irrigation) .....	7
Transport and communications .....	9
Education, culture, public health and sports .....	4
Other branches .....	9

354. In the period 1955-1965, the number of developing countries with which the USSR had economic co-operation agreements in effect rose from two to twenty-nine. From 1960 to the end of 1965 the number of projects being carried out in developing countries

with the assistance of USSR state credits rose from just over 100 to almost 600. They included more than twenty ferrous and non-ferrous metallurgical plants, forty-three machine-manufacturing and metal-working plants, sixteen chemical works and oil refineries, about thirty power stations, and sixty light industrial and food industry enterprises etc. At the end of 1965, enterprises financed in developing countries with USSR assistance had the following annual potential production capacities:

Steel output	60 million tons
Iron ore extraction	43 million tons
Coal extraction	2.7 million tons
Oil refining	8.5 million tons
Power equipment production	3.2 million tons
Machine production	160,000 tons

355. As examples of major projects financed under the state credits the following may be cited:

#### *Algeria*

Prospection for copper, lead and zinc; construction of the Annaba steel plant (annual capacity, 300,000-350,000 tons)

#### *Ceylon*

Construction of an iron and steel works with an annual capacity of 35,000 tons, a tire plant with an annual production of 360,000 tires, a 60,000-Kw hydroelectric power station on the Kelani Kanga River, a large flour mill with a grain storage elevator

#### *Ethiopia*

Construction of an oil refinery and a caustic soda plant; assistance in mineral prospecting, and a feasibility study for an iron and steel mill

#### *Guinea*

Construction of a cement plant, a sawmill, a leather and foot-wear factory, a fruit and vegetable canning plant, a cold-storage installation, oil storage depots, asphalt and concrete roads; provision of machinery and equipment for the mechanization of the port of Conakry

#### *India*

Construction of the Bhilai steel works (original annual capacity, 1 million tons) and expansion of the plant to increase its annual capacity to 2.5 million tons, construction of the Bokaro steel works (original annual capacity, 1.5-2 million tons, subsequently to be enlarged to 4 million tons), construction of the Ranchi heavy machine building plant, which will produce 80,000 tons of heavy equipment annually, a coal mining machinery plant with an annual capacity of 45,000 tons of equipment, a hydraulic and steam turbine and generator plant in the Hardwar area, two oil refineries, a precision instruments plant, a synthetic drug plant at Andhra Pradesh, a phytochemical plant in Kerala State, a surgical-instruments plant near Madras, an ophthalmic glass factory in Durgapur, and other projects

#### *Iraq*

Construction of a metallurgical plant, a cotton mill, factories producing nitrate fertilizers, sulphur and sulphuric acid, antibiotics and pharmaceutical products, agricultural machinery, electric lamps and glass

#### *Mali*

Prospection for oil, gold, diamonds and raw materials for cement; construction of a cement plant

#### *Nepal*

Construction of a sugar refinery and a cigarette factory

#### *Sudan*

Construction of a milk factory, two canneries and an onion-drying plant

#### *United Arab Republic*

Construction of the Aswan Dam, metallurgical plants, machine-manufacturing plants, oil and chemical plants, shipyards, a machine tool factory, an oil refinery with an annual capacity of 1 million tons, a welding electrodes plant and a plant for the production of antibiotic and other drugs

### *Commercial export credits*

356. Commercial export credits are granted to foreign buyers by the all-Union foreign trade organizations through which the Government exercises its foreign trade monopoly.

357. The all-Union foreign trade organizations resulted from the reorganization of the export-import stock companies in 1930. Their legal status is defined by the articles of association of each organization, which is an autonomous body with the status of a legal entity. The organizations have their own resources, operate on their own budgets, are responsible only for contracts made by themselves and only with their own assets. They perform all types of commercial transactions including credit operations. When selling goods, they act as the owners of these goods with the right to transfer them into the ownership of the buyer.

358. The all-Union foreign trade organizations operate under the guidance and general supervision of the Ministry of Foreign Trade, which does not intervene directly in the negotiation and conclusion of their contracts but confines itself to ensuring that they conform to each organization's trade plan and to the overall state foreign trade plan. In preparing their trade plans, which are drawn up on a short-term basis, the all-Union foreign trade organizations take into consideration such factors as existing and contemplated bilateral trade or credit agreements, national production, consumption and investment levels and the balance of payments prospects with particular currency areas.

359. The Ministry of Foreign Trade supervises all foreign trade activities, draws up plans for export and import and takes measures for developing foreign trade relations between the USSR and foreign countries. Representatives of the Ministry are established in the various republics of the Union, in economic regions and in large seaports. They are kept informed of orders placed by the foreign trade organizations with manufacturers in their areas and are responsible for ensuring that these orders are properly filled, for controlling the quality of the goods and for supervising their packaging and transportation. The all-Union foreign trade organizations in turn have representatives in foreign countries whose duties include, *inter alia*, customer liaison, market prospection and the negotiation and signing of contracts.

360. Each all-Union foreign trade organization specializes in particular types of goods and is responsible for USSR exports and imports of such goods. The orga-

nizations dealing with exports of machinery and equipment are the following:

#### *Aviaexport:*

Airplanes, helicopters, gliders, aircraft engines, airfield and aviation equipment;

#### *Avtoexport:*

Passenger cars, trucks, buses, trailers, motor cycles etc.;

#### *Energomashexport:*

Electric and power equipment;

#### *Mashinoexport:*

Equipment for the oil, mining and building industries etc.;

#### *Mashpriborintorg:*

Industrial instruments and appliances, radio and television equipment, measuring instruments etc.;

#### *Stankoimport:*

Metal-working and wood-working tools, pressing equipment etc.;

#### *Sudoimport:*

Ships and marine equipment;

#### *Techmashexport:*

Equipment for light industry and the food industry, compressors and pumps, polygraphic equipment etc.;

#### *Tractoroexport:*

Tractors, agricultural and road-building equipment and instruments for repairing them;

#### *Zaptchastexport:*

Spare parts for tractors, automobiles and agricultural machinery and equipment exported by other trade organizations.

361. There are six special all-Union foreign trade organizations which are primarily responsible for the supply of goods and the performance of services under the intergovernmental agreements and which work in close co-operation with the Foreign Economic Relations Committee of the USSR Council of Ministers. Each of these organizations specializes in particular types of plant and equipment, as follows:

#### *Neftechimpomexport:*

Oil producing and refining, petrochemical and chemical industries;

#### *Prommashexport:*

Engineering industry, automobiles, machine tools, agricultural machinery etc.;

#### *Selkhozpromexport:*

Fodder factories, grain elevators and mills, soil improvement equipment, dams, pumping stations etc.;

#### *Technoexport:*

Cement, brick and glass plants, plants and equipment for light industries and the pharmaceutical industry and airport equipment and installations;

#### *Technopromexport:*

Hydroelectric and thermal power plants, chemical wood-working and wood-processing plants, atomic research centres and laboratories;

#### *Tjzhpromexport:*

Complete plants and equipment for ferrous and non-ferrous metallurgy and the mining industry.

These organizations not only supply equipment and machinery but also assist in conducting surveys and studies (including research and prospecting), and super-

wise construction work, the assembly of equipment and the initiation of the actual operations of the plant and equipment supplied.

362. The all-Union foreign trade organizations may refinance the export credits they grant with the Vneshtorgbank, the foreign trade bank of the USSR. The Vneshtorgbank is a joint-stock company whose capital stock of 300 million roubles is divided into 6,000 shares of 50,000 roubles each and is fully paid up. Its shareholders are the Gosbank (Central Bank of the USSR) and a number of foreign trade organizations including Mashinoexport, Technoexport, Tjzhpromexport. At least 50 per cent of the bank's profits are allocated to its reserve and special funds, with the remainder going to the state budget. The bank's administrative organs are the General Meeting of shareholders, the Council, the Board and the Auditing Committee.

363. Until January 1961 the Vneshtorgbank dealt only with payments and accounts of a non-commercial character; since then it has been entrusted also with the commercial operations in the foreign trade field previously handled by the Gosbank. Thus the Vneshtorgbank now handles all the USSR international accounts, both commercial and non-commercial. It collects payments, negotiates foreign trade instruments, issues letters of credit and makes remittances in connexion with export and import transactions. It also deals in foreign exchange and performs a large range of other banking transactions.

364. According to its statutes, the Vneshtorgbank keeps accounts of credits granted by the Soviet Union to foreign states and of those received from abroad, and also effects settlements under these credits. For example, after the signing of a credit or economic co-operation agreement, special credit accounts for credit settlements are opened at the Vneshtorgbank and the central bank of the recipient country. These accounts show the sum of the credits utilized and the sums received in repayment and interest. A separate account is opened for each credit.

365. The Vneshtorgbank makes arrangements with foreign banks regarding ways and means of settlements and keeping accounts under trade, payments, credit and other agreements to which the USSR is a party.

366. The Vneshtorgbank now has over 1,000 correspondents in ninety countries and has established close relations with banks in developing countries such as Afghanistan, Algeria, Burma, India, Pakistan and the United Arab Republic. According to the Chairman of the Board, the Vneshtorgbank intends to expand its contacts with banks in developing countries and will give special attention to improving the financing of exports of Soviet machinery and equipment.<sup>1</sup>

## FINANCING PROCEDURES

### *State credits*

367. As noted above, negotiations related to state credits are conducted by the governments of the developing countries and the Foreign Economic Relations Committee of the USSR Council of Ministers acting on behalf of the USSR Government. Under these agreements, the USSR promises to provide the necessary machinery and equipment for the proposed projects

together with engineering services for their installation. In many cases the agreements also provide for the training of local engineers, technicians and skilled workers, either in the recipient country or in the USSR. The recipient country commits itself to provide labour and locally produced materials and in general to pay for all local currency expenditures.

368. Projects to be financed are chosen on the basis of their expected contribution to the acceleration of the growth rate of the economy and the lessening of dependence on imports of capital goods. However, the final decision regarding projects to be financed rests with the government of the recipient country.

369. State credits usually extend over a period of up to twelve years and the rate of interest is usually 2.4 to 3 per cent per year. The credits are usually repayable in equal yearly instalments and usually the first payment is to be made after the installations have taken place. The developing countries repay the credits through deliveries of traditional export commodities and of industrial goods produced domestically including goods produced with the equipment bought with the credits. In 1964 goods received by the USSR in repayment of credits granted to developing countries amounted to more than \$133 million, which represented more than one-fifth of the USSR total imports from those countries.

### *Commercial export credits*

370. Negotiations concerning the granting of export credits are carried out between the all-Union foreign trade organizations and the buyer. The organizations may be contacted by correspondence or through the USSR Chamber of Commerce, USSR consulates and foreign trade missions and the foreign distributors of the organizations. When signing a contract with a foreign buyer, the organizations conclude corresponding contracts with domestic suppliers for the needed equipment. The domestic suppliers fulfil the orders and present the requisite documents to the organizations which thereupon pay them the full amount of the value of the machinery and equipment. There is no export credit insurance system in the USSR.

371. Usually the order contract requires the buyer to make a down payment of 10-20 per cent of the value of the goods either in one instalment before or upon delivery or in two instalments (5-10 per cent upon or immediately after the signing of the contract and 5-10 per cent upon delivery). The down payment serves to cover possible losses of the all-Union foreign trade organizations in case of non-acceptance of the goods by the importer; on the other hand, the contract may contain a guarantee by the Vneshtorgbank to the buyer securing return of his down payment in case of non-fulfilment of all the contract conditions by the organizations. The buyer is expected to obtain a guarantee from his government; if the government does not bear the financial responsibility, the drafts must bear the *aval* (endorsement) or guarantee of a first-class bank in the buyer's country.

372. The conditions of payment stipulated in the individual contracts correspond strictly to the trade agreements of the USSR with the given country and also to the technical arrangements in force between the Central Bank or the Vneshtorgbank and the central

<sup>1</sup> See *Moscow News*, 25 June 1966.

bank of this country. Trade agreements (sometimes called agreements on mutual delivery of goods) list categories and quantities of goods to be delivered by the contracting parties to each other, and also specify the terms and the procedure for effecting settlements. Payment arrangements between the USSR and developing countries are usually effected through bilateral clearing.

373. Commercial export credits are in many cases repayable through deliveries of goods or in local currencies. For example, the protocol with Brazil of 9 August 1966 concerning deliveries of capital goods during the 1966-1969 period for an amount equivalent to \$100 million provides that the funds paid to the all-Union foreign trade organizations will be used to purchase Brazilian products, 25 per cent of which will consist of manufactures and semi-manufactures; a protocol with India provides for the repayment in Indian rupees of commercial credits equivalent to \$250 million to be granted in connexion with deliveries of machinery and equipment during the 1966-1970 period. Sometimes the credit is to be repaid partly in convertible currencies. For example, the protocol with Mauritania concerning deliveries of machinery and equipment up to an amount equivalent to \$3.3 million provides that 40 per cent of the credit will be repaid in local currency—which will be used to purchase Mauritanian goods; the protocol of 7 April 1965 with Pakistan concerning deliveries of capital goods during the 1965-1967 period up to an amount equivalent to \$32 million specifies that 54 per cent of repayments is to be spent on local goods; the protocol of 28 October 1965 with Sierra Leone concerning deliveries of machinery and equipment during the 1966-1970 period up to an amount equivalent to \$28 million provides that 40 per cent of repayments is to be spent on domestic goods.

374. Trade agreements with foreign countries as well as individual contracts between the organizations and foreign buyers frequently provide against exchange risks by means of clauses basing the prices of the goods sold on a foreign currency or on the price of gold.

375. The credit instruments are represented by drafts drawn on the buyer payable to the order of the Vneshtorgbank.

The buyer receives the drafts for acceptance with the shipping documents from the Vneshtorgbank through local banks. The all-Union foreign trade organizations borrow from the Vneshtorgbank the necessary amounts in roubles in order to make full payment in cash to the domestic supplier for the specific goods involved. The Vneshtorgbank is authorized to check on the correct use of these borrowed funds which are reimbursable over a given period. Payments by the buyer are credited to the organizations which are correspondingly relieved of their debts to the bank. The time schedule of the internal credits corresponds to that of the payments due from the foreign buyer. The credits available from the Vneshtorgbank are subject to the over-all ceilings laid down in the state plan for these purposes in a given year. The bank renders only technical banking services and assumes no obligations towards the foreign buyer regarding the goods sold.

376. Most commercial credits are granted for periods of up to five years, although in some cases they are provided for seven to eight years or even more. Thus the above-mentioned protocols with Brazil, India, Mauritania, Pakistan and Sierra Leone provide for commercial credits with maturities of seven, eight and ten years. An agreement with Morocco concerning the granting of commercial credits equivalent to \$10 million stipulates that repayment will be effected over a period of eight years within the framework of the USSR-Moroccan clearing account. An eight-year maturity is also provided for in the protocol with the United Arab Republic concerning the granting to that country of credits equivalent to \$66 million for purchases of machinery and equipment during the 1965-1968 period; repayment of these credits is to be effected within the framework of the USSR-UAR clearing account.

377. The rate of interest on commercial export credits depends upon the recipient country, market conditions, size of the contract, complexity of machinery and equipment to be exported, maturity of the credit and certain other factors. It is usually about 4 per cent per year.



## UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

### INSTITUTIONAL FRAMEWORK

378. In the United Kingdom the financing of export credits for the acquisition of capital goods in that country is carried out as part of regular banking business. The dominant role is played by the London clearing banks, the five Scottish banks, the three Northern Ireland banks and the merchant banks.

379. The London clearing banks, often referred to as joint-stock banks, include—in addition to the so-called "Big Five" (Barclays, Midland, Lloyds, Westminster and National Provincial)—Williams Deacon's Bank, District Bank, Glyn, Mills and Company, Martins Bank, Coutts and Company and National Bank. The London clearing banks, together with the five Scottish banks (British Linen Bank, National Commercial Bank of Scotland, Clydesdale Bank, Royal Bank of Scotland and Bank of Scotland) and the three Northern Ireland banks (Belfast Banking Company, Ulster Bank and Northern Bank), provide the bulk of medium-term export credit financing as well as most short-term export credit financing.

380. The merchant banks are either old-established partnerships or private companies which have long been active in the field of acceptance financing and have, because of this, become known as "acceptance houses". They are very active in organizing bank consortia (composed of the clearing banks mentioned above) to finance exports for medium-scale and large-scale projects in developing countries. Those merchant banks which are members of the Accepting Houses Committee are:

Baring Brothers and Company, Limited  
Brown, Shipley and Company, Limited  
Antony Gibbs and Sons, Limited  
Arbuthnot Latham and Company, Limited  
Hill, Samuel and Company, Limited  
Wm. Brandt's Sons and Company, Limited  
Samuel Montagu and Company, Limited  
Guinness, Mahon and Company, Limited  
Hambros Bank, Limited  
Charterhouse Japhet, Limited  
Morgan Grenfell and Company, Limited  
Lazard Brothers and Company, Limited  
Kleinwort, Benson, Limited  
N. M. Rothschild and Sons  
J. Henry Schroder, Wagg and Company, Limited  
S. G. Warburg and Company, Limited.

381. In the medium-term export financing field, a limited role is played by a number of organizations established in recent years to meet the needs of exporters who find it difficult to finance their credits with their banks. These organizations, like the "confirming houses" in the short-term export financing field, give the credit to the foreign buyer. Among the largest are the Export Refinance Corporation, the British Overseas Engineering and Credit Company, London Bridge Finance, all linked to merchant banks, United Domi-

nions Trust's International Financial Services, and Barclay's Export Finance Company.

382. In 1963, the United Kingdom Government carried out an inquiry into the structure of trade credit extended to or received from other countries. According to the results of the inquiry, more than one-third of exports are sold on credit; most of these sales are on short-term credit of up to six months and involve maturities averaging three months. Export sales involving credits with maturities exceeding six months account for less than 10 per cent of total exports. United Kingdom companies were not always able to indicate whether the credits extended to their branches or subsidiaries abroad were short-term or medium-term and long-term credits, but an analysis by length of credits has been made for outstanding credits granted to unrelated firms (*see table 59*).

TABLE 59. UNITED KINGDOM: EXPORT CREDITS GRANTED TO UNRELATED FIRMS OUTSTANDING AT END OF 1963  
(Millions of pounds)

Item	Total	Short-term	Medium-term and long-term	Other
Credit extended by United Kingdom business . . . . .	486	307	162	17
Bills discounted or assigned . . . . .	130	37	93	—

SOURCE: United Kingdom Board of Trade, "Structure of international trade credit", *Board of Trade Journal* (London), 7 May 1965, p. 994.

383. About 40 per cent of the credits outstanding from unrelated firms had been granted on a medium-term or long-term basis. The medium-term and long-term credits granted to eastern European countries and the USSR were several times as large as the short-term credits accorded to those countries. Latin America was the only other area where medium-term and long-term credits outstanding were greater than short-term credits. The amount of medium-term and long-term credit advanced to North America was relatively small. Leaving aside the eastern European countries and the USSR, about 80 per cent of the remaining medium-term and long-term credits went to developing countries. For long-term contracts in excess of £100,000, repayments were scheduled over a period extending from 1964 to 1973.

#### *Suppliers' credits up to two years*

384. Under a scheme introduced in 1966 the London clearing banks and the Scottish and Northern Ireland banks have agreed to provide finance at Bank rate against eligible export instruments which have been unconditionally guaranteed by the Export Credits



TABLE 60. NET CREDIT EXTENDED: AMOUNTS DUE TO THE UNITED KINGDOM AT END-1963  
(Millions of pounds, except as indicated)

Area or country	Net credit outstanding at end-1963					
	United Kingdom exports in 1963	All overseas businesses			Due from overseas branches, subsidiaries, associates and parents	Due from other overseas concerns
		Total amount due from overseas businesses	Percentage of world total	Change in amount due during 1963		
North America .....	516.2	78.1	11	- 1.3	46.3	31.8
United States of America ..	343.7	53.7	8	- 0.3	30.8	23.0
Canada .....	172.6	24.4	4	- 0.9	15.6	8.8
Latin America .....	142.2	58.8	9	+ 3.9	10.4	48.4
Western Europe .....	1,520.3	177.2	26	+ 46.8	53.9	123.3
EFTA .....	501.0	62.6	9	+ 18.7	15.5	47.1
EEC .....	826.3	82.6	12	+ 20.7	36.6	46.9
Other western European countries .....	193.0	31.9	5	+ 7.5	1.7	30.2
Eastern Europe and USSR ..	123.0	45.6	7	+ 7.5	—	45.6
Other non-sterling area ....	326.0	60.5	9	+ 12.9	13.5	46.9
Overseas sterling area .....	1,453.4	218.9	32	+ 6.7	141.8	77.1
South Africa .....	197.7	32.1	5	+ 2.9	20.8	11.2
Australia .....	237.1	54.2	8	+ 3.3	42.4	11.9
New Zealand .....	115.2	10.3		+ 1.4	4.6	5.7
Ireland .....	149.0	10.7		+ 3.2	5.0	5.7
India .....	136.6	22.5	3	+ 3.2	9.8	12.7
Pakistan .....	42.0	3.1		- 0.1	1.7	1.4
British West Indies .....	72.3	8.3		+ 1.5	2.8	5.5
West Africa <sup>a</sup> .....	116.9	35.6	5	- 13.4	33.0	2.5
East Africa <sup>b</sup> .....	45.7	8.3		+ 1.1	6.1	2.2
Central Africa <sup>c</sup> .....	40.6	7.9		+ 0.6	4.8	3.1
Other overseas sterling area countries .....	300.3	26.0	4	+ 2.9	10.8	15.2
Other countries .....		44.1	6	+ 5.6	5.5	38.6
<i>All areas</i>						
Total of returns received ..		683.2	100	+ 81.9	271.5	411.7
Total, including allowance for non-response .....	4,081.2	895		+106	309	586
Less developed countries .....	1,315.2	397		+ 33	107	290
Developed countries .....	2,643.0	427		+ 64	202	225
Eastern Europe and USSR .....	123.0	71		+ 9	—	71

SOURCE: As for table 59, p. 993.  
<sup>a</sup> Gambia, Ghana, Nigeria, Sierra Leone.

<sup>b</sup> Kenya, Tanzania, Uganda.  
<sup>c</sup> Malawi, Southern Rhodesia, Zambia.

TABLE 61. UNITED KINGDOM: LONG-TERM CONTRACTS IN EXCESS OF £100,000  
(Millions of pounds)

Item	All contracts		Financial guarantee cases		Others <sup>a</sup>	
	Total	Estimated overseas credit extended at 31 December 1963	Total	Estimated overseas credit extended at 31 December 1963	Total	Estimated overseas credit extended at 31 December 1963
Total value of contracts signed on or before 31 December 1963 .....	376.3		80.5		295.8	
Down payments .....	22.5		4.0		18.5	
Other payment received up to 31 December 1963 .....	110.8		0.7		110.1	
Amounts to be repaid after 31 December 1963 .....	243.2	98.5	75.8	10.7	167.4	87.8

TABLE 61. UNITED KINGDOM: LONG-TERM CONTRACTS IN EXCESS OF £100,000 (continued)

(Millions of pounds)

Item	All contracts		Financial guarantee cases		Others*	
	Total	Estimated overseas credit extended at 31 December 1963	Total	Estimated overseas credit extended at 31 December 1963	Total	Estimated overseas credit extended at 31 December 1963
Instalments payable in:						
1964.....	54.0	36.0	2.6	0.6	51.4	35.4
1965.....	35.4	20.3	5.1	0.7	30.3	19.6
1966.....	30.8	17.0	5.2	1.2	25.6	15.8
1967.....	28.2	10.4	6.2	1.2	22.9	9.2
1968.....	23.1	6.0	8.6	1.3	14.5	4.7
1969.....	17.4	2.8	7.9	1.1	9.5	1.7
1970.....	14.4	1.9	7.3	0.9	7.1	1.0
1971.....	11.9	1.3	6.5	1.0	5.4	0.3
1972.....	7.6	1.2	6.5	1.0	0.1	0.2
1973.....	6.4	0.9	5.9	0.9	0.5	—
After 1973.....	13.9	0.8	13.9	0.8	—	—

SOURCE: As for table 59, p. 995.

\* Summary of returns from 117 countries.

Guarantee Department (ECGD). To be eligible, instruments must be either trade bills drawn on a foreign buyer, or promissory notes issued by him, and must have a tenure of between thirty days and two years. The interest rate will be the current Bank rate, with a minimum of 4.5 per cent, but it will vary as Bank rate varies, and will not be fixed for the whole term for which finance is provided, as it is in the case of longer-term export finance.

#### Suppliers' and buyers' credits over two years

385. For contracts of two years and upwards, the banks have agreed to provide export finance at a fixed rate, at present 5.5 per cent, where the credit is covered either by ECGD bank guarantees or by ECGD financial guarantees. The latter are designed for major projects involving payment over more than five years and enable the ECGD to cover direct loans made by credit institutions to the foreign buyer, thus enabling the supplier to be paid on a cash basis.

386. The Bank of England stands ready to refinance insured export credit of two years or more. The amount refinanced is either 30 per cent of the loan outstanding or repayments due to be made by the buyer in the next eighteen months, whichever is the greater. The commercial banks may count what is thus refinanced as liquid when calculating their liquidity ratios, and for this reason have so far not needed to make use of the refinance facility. The Bank also stands ready under a separate scheme to refinance the whole of the outstanding balance of an insured export credit five years or more after its origin, but the banks are not entitled to regard the additional amounts refinanced under this scheme as liquid assets.

#### EXPORT CREDIT INSURANCE

387. In the United Kingdom two institutions provide export credit insurance. By far the greatest part is provided by the Export Credits Guarantee Department (ECGD), but a private firm, the Trade Indemnity Company, Limited, also provides cover for commercial risks only.

388. The ECGD is a government department directly responsible to the President of the Board of Trade. The Department's statutory authority was established by the seven Export Guarantees Acts (1949-1964), which enable the Department to issue guarantees and accept the resulting liabilities. Business up to a maximum liability of £1,500 million may be transacted under section 1 of the main Act, whose purpose is to encourage overseas trade. Under this section, guarantees must have the consent of the Treasury and are considered by the Advisory Council. This Council, which meets monthly, consists mainly of experienced bankers and businessmen and its recommendations are followed by the ECGD. The ECGD plans to transact business under section 1 on a self-supporting basis over a period of years.

389. Under section 2 of the main Export Guarantees Act, cover up to a total of £1,300 million can be given with the consent of the Treasury when it is "in the national interest" to help trade or give economic aid. The Advisory Council need not be consulted with regard to these guarantees.

390. The majority of economic assistance loans given by the United Kingdom to Commonwealth and other countries for the purchase of United Kingdom goods have been administered by the ECGD under sections 2 and 3 of the Export Guarantees Act. These loans and their administration have not, however, been a major part of the Department's activities. Towards the end of 1964 a new ministry, the Ministry of Overseas Development, was formed, having responsibility for the whole of the United Kingdom's aid programme. The ECGD's responsibility for administering United Kingdom tied aid has now passed to that Ministry.

391. The two main types of insurance given are classified as "comprehensive" and "specific".

#### Comprehensive insurance

392. Under this type of cover the Department requires a large spread of risks and a high turnover, covering the relatively safe business as well as the less

safe. Comprehensive policies were originally issued to cover consumer goods business on a short-term basis (credits of up to six months). Since 1959, however, all business on repayment terms of up to five years can be insured under the comprehensive policy provided it is of a recurring nature and covers a wide range of buyers and markets.

393. The ECGD believes that this insistence on a wide range of business enables it to insure a wider range of risks, guarantee a higher proportion of the total business and in the long term to reduce premiums. The exporter either undertakes to insure all of his export business during the next one or three years, or his export business in specified markets only, during the next year. These specified markets must comply with the Department's stipulation of a spread of risks. The rates for this selected cover of markets are slightly higher than those for the full cover.

394. The risks covered fall into the following categories:

(a) Commercial risks, such as insolvency of the buyer or his failure to pay;

(b) The buyer's refusal to accept goods which have been exported to him;

(c) Political risks, which include import licence restrictions, war, revolution and certain other risks;

(d) Additional handling, transport or insurance charges arising from interruption or diversion of the voyage;

(e) Any other cause of loss occurring outside the United Kingdom and beyond the control of the exporter or buyer.

395. The percentage of loss covered varies according to the category of risk. Under the first category, the Department covers 90 per cent of the loss. Under the second, the exporter bears the initial 20 per cent of the total price and the Department 90 per cent of the next 80 per cent. This means that the Department has a maximum liability of 72 per cent of the contract value. Under the third, fourth and fifth categories, the Department's liability is 90 per cent if the cause arises before shipment and 95 per cent if after shipment. These figures represent the new arrangements made available in May 1965.

396. In some cases where there are high economic or political risks, the ECGD has found it necessary to reduce the percentage cover, to 75 or 80 per cent of the total.

397. On the other hand, in recent years the Department has in some cases extended its cover during the later years of a contract to 100 per cent. This system was developed to help firms with accumulated frozen assets to cover the uninsured parts of contracts. This is a direct result of the financial institutions' unwillingness to finance exports to a greater degree than is backed by the ECGD. The 100 per cent cover facility was introduced in February 1962 for selected contracts which had already run for two years after delivery and acceptance of the goods; in 1965 this period was reduced to one year. The contract must involve at least three years' credit to the buyer and some payment must

have been made in the first year. The contract must of course be trouble-free, and be likely to remain so. The extra cover, when given, is supplied at no extra charge. This facility is provided by an endorsement to an extended-terms approval issued in respect of a particular contract under the comprehensive policy, or by means of an endorsement to a specific policy.

#### *Specific insurance*

398. Under the specific policies the exporter insures individual export transactions in capital goods or large projects which are unsuitable for comprehensive cover. These policies are available either from the date of the contract or the date of shipment. The standard cover is 90 per cent; no cover is provided for the contingency of the buyer refusing to accept the goods.

399. The comprehensive and specific policies form the basis of the cover given by the ECGD. In addition, however, special facilities are available for larger projects. Where the terms of lending to an exporter by a bank extend up to five years or more, which is often the case with large projects, subsequent finance may be difficult to obtain. In such cases the ECGD may provide a guarantee to the bank (at additional cost), undertaking unconditionally to pay the bank should the buyer fail to repay the money due. Prior to January 1965, the ECGD provided direct guarantees to banks for large capital goods orders amounting to £100,000 or more and involving at least three years' credit. In future any contract for exports of any manufactures for which two years' credit or longer is approved by the ECGD will be eligible for these guarantees. The guarantee comes into operation only after acceptance of the goods by the buyer and covers 100 per cent of the credit.

400. A direct guarantee is issued to supplement the cover given to the exporter, and the exporter's normal policy is amended to exclude losses covered by the bank guarantee. A separate recourse arrangement is made between the ECGD and the exporter, under which the ECGD retains a right of recourse against the exporter for any payments made to the bank, where it can be shown that the Department would not have been liable under the terms of the normal insurance cover or where the amount covered under the normal policy was less than the 100 per cent payable under the bank guarantee. The bank's recourse in a case of non-payment of promissory notes or bills of exchange is to the ECGD not to the exporter, who thus gets his finance from the bank on a non-recourse basis.

401. Alternatively, the ECGD may give financial guarantees on loans made by commercial banks or other financial institutions direct to the foreign buyer. This facility, introduced in April 1961, is a departure from the ECGD's normal business of guaranteeing suppliers' credits and is administered through its Financial Guarantee Division. Financial guarantees are available for projects such as power stations, steel mills, railway projects etc., normally costing at least £2 million, excluding local expenditure, or £1 million in the case of ships. The nature of the assets created in all cases must be such that their useful life extends substantially beyond the period of the loan. Normally the buyer is

expected to pay from his own resources direct to the supplier at least 20 per cent of the contract price; the remaining 80 per cent is paid to the supplier out of the loan made to the buyer, the loan being guaranteed 100 per cent (capital and interest) by the ECGD. In arranging a financial guarantee, the supplier initiates preliminary discussions with the ECGD and the bankers as soon as he starts negotiations with a buyer on a project for which a financial guarantee is required. In the United Kingdom, it is the supplier who makes the arrangements for the ECGD financial guarantee and pays the premium. No approach by the buyer will be entertained by the Department, and he must be introduced by the supplier to the financial institution arranging the financing. No mention should be made to the buyer of the proposed financial guarantee.

402. Financial guarantees are available only for especially worth-while business which satisfies certain conditions, among which are:

(a) The existence of good commercial grounds for gaining the contract, that is, that it might eventually assist the United Kingdom balance of payments; or, maintain a position in an established market; or, stimulate an industry short of orders;

(b) The credit-worthiness of the buyer must be satisfactory to the ECGD and the economic and political risks in the overseas market must be at a level acceptable to the ECGD.

TABLE 62. UNITED KINGDOM: TOTAL BUSINESS DECLARED,<sup>a</sup> 1949/50-1965/66

(Millions of pounds)

Fiscal year	Commercial business (section 1)	National interest business (section 2)	Total
1949/50	259	1	260
1950/51	317	20	337
1951/52	441	37	478
1952/53	388	17	405
1953/54	380	17	397
1954/55	381	30	411
1955/56	395	31	426
1956/57	450	42	492
1957/58	483	27	510
1958/59	549	21	570
1959/60	671	23	694
1960/61	721	22	743
1961/62	806	39	845
1962/63	924	52	976
1963/64	1,093	68 <sup>b</sup>	1,161
1964/65	1,243	71 <sup>b</sup>	1,314
1965/66	1,412	69	1,481

<sup>a</sup> Including exports made under all guarantees, together with raw materials shipped for processing overseas, services rendered or work completed under services and constructional works guarantees and goods shipped from one country to another under external trade guarantees. Excluding advances made under economic assistance loans.

<sup>b</sup> Including £32 million advanced under financial guarantees.

TABLE 63. UNITED KINGDOM: REVENUE ACCOUNTS, COMMERCIAL AND NATIONAL INTEREST INSURANCE, 1961/62-1965/66  
(Millions of pounds)

Item	Commercial insurance (section 1)					National interest insurance (section 2)				
	1961/62	1962/63	1963/64	1964/65	1965/66	1961/62	1962/63	1963/64	1964/65	1965/66
<b>Income</b>										
Premium	9.2	7.1	7.3	7.0	6.8	1.7	1.6	2.3	5.7	1.9
Recoveries	2.1	1.9	3.0	4.7	5.7	0.1	—	—	0.5	0.7
Interest	2.3	2.2	2.8	2.8	3.2	0.3	0.4	0.6	0.6	0.8
<b>TOTAL, income</b>	<b>13.6</b>	<b>11.2</b>	<b>13.1</b>	<b>14.5</b>	<b>15.7</b>	<b>2.1</b>	<b>2.0</b>	<b>2.9</b>	<b>6.8</b>	<b>3.4</b>
<b>Expenditure</b>										
Claims payments	4.1	4.6	5.2	4.0	7.4	0.1	0.1	0.3	0.6	1.2
Administration and services	1.6	1.7	1.9	2.3	2.5	0.2	0.2	0.3	0.3	0.2
<b>TOTAL, expenditure</b>	<b>5.7</b>	<b>6.3</b>	<b>7.1</b>	<b>6.3</b>	<b>9.9</b>	<b>0.3</b>	<b>0.3</b>	<b>0.6</b>	<b>0.9</b>	<b>1.4</b>
Balance for year	7.9	4.9	6.0	8.2	5.8	1.8	1.7	2.3	5.9	2.0
Balance at beginning of year	27.9	35.8	40.7	46.6	54.8	4.3	6.1	7.8	10.2	16.1
Balance at end of year	35.8	40.7	46.7	54.8	60.6	6.1	7.8	10.1	16.1	18.1

TABLE 64. UNITED KINGDOM: MAXIMUM LIABILITY UNDER COMMERCIAL AND NATIONAL INTEREST INSURANCE, 1950-1966  
(Millions of pounds)

As at 31 March:	Commercial insurance (section 1)		National interest insurance (section 2) <sup>a</sup>	
	Short-term and extended-term	Medium-term	Short-term and extended-term	Medium-term and long-term
1950	152.9	47.7	1.0	0.1
1951	225.7	49.9	16.0	9.7
1952	269.1	57.9	24.7	9.6
1953	250.1	59.7	14.6	6.5
1954	232.0	57.7	20.9	7.2
1955	240.7	57.4	31.3	19.2
1956	244.5	72.2	25.9	27.7
1957	263.4	99.3	20.8	24.5
1958	272.0	180.8	18.2	22.2
1959	310.9	178.1	26.2	23.4
1960	333.4	208.3	23.1	23.0
1961	388.5	251.2	27.9	39.6
1962	469.7	269.7	56.8	51.5
1963	542.5	274.3	68.3	100.5 <sup>b</sup>
1964	652.4	277.9	79.4	113.8 <sup>b</sup>
1965	773.9	289.2	72.1	249.3 <sup>b</sup>
1966	931.4	290.9	54.3	366.8

<sup>a</sup> Excluding liabilities under economic assistance loans.  
<sup>b</sup> Including financial guarantees.

TABLE 65. UNITED KINGDOM EXPORTS: COVERAGE BY ECGD, 1949/50-1965/66  
(Millions of pounds, except as indicated)

Year	Total exports	Exports insured by ECGD	
		Value <sup>a</sup>	Percentage of total
1949/50	1,901	218	11.5
1950/51	2,335	288	12.3
1951/52	2,866	400	13.9
1952/53	2,575	355	13.8
1953/54	2,733	344	12.6
1954/55	2,847	367	12.9
1955/56	2,067	388	12.7
1956/57	3,377	465	13.8
1957/58	3,445	482	14.0
1958/59	3,317	530	16.0
1959/60	3,595	660	18.3
1960/61	3,701	703	19.0
1961/62	3,835	805	21.0
1962/63	4,018	924	23.0
1963/64	4,315	1,081	25.1
1964/65	4,452	1,202	27.0
1965/66	5,051	1,355	26.8

<sup>a</sup> Excluding business declared under external trade, processing, services, constructional works and bank guarantees, which does not represent direct exports from the United Kingdom. Advances made under economic assistance loans are also excluded.

TABLE 66. UNITED KINGDOM: BUSINESS DECLARED UNDER SECTION 1 (COMMERCIAL INSURANCE), <sup>a</sup> 1949/50-1965/66  
(Millions of pounds)

Year	Short-term	Extended-term (engineering)	Medium-term (heavy engineering and large-scale capital projects)
1949/50	222	—	37
1950/51	283	—	34
1951/52	397	—	44
1952/53	337	—	51
1953/54	326	—	54
1954/55	335	—	46
1955/56	353	2	40
1956/57	388	7	55
1957/58	411	12	60
1958/59	423	16	110
1959/60	533	31	107
1960/61	580	33	108
1961/62	664	57	85
1962/63	735	92	97
1963/64	904	112	77
1964/65	1,032	127	84
1965/66	1,171	143	98

<sup>a</sup> Including exports made under all guarantees, together with raw materials shipped for processing overseas, services rendered or work completed under services and constructional works guarantees and goods shipped from one country to another under external trade guarantees.

TABLE 67. UNITED KINGDOM: BUSINESS DECLARED UNDER SECTION 2 (NATIONAL INTEREST INSURANCE), <sup>a</sup> 1949/50-1965/66  
(Millions of pounds)

Year	Short-term	Extended-term (engineering products)	Medium-term and long-term (heavy engineering and large-scale capital projects)
1949/50	1	—	—
1950/51	10	—	10
1951/52	20	—	17
1952/53	12	—	5
1953/54	12	—	5
1954/55	24	—	6
1955/56	22	— <sup>b</sup>	9
1956/57	14	— <sup>b</sup>	28
1957/58	18	— <sup>b</sup>	9
1958/59	15	1	5
1959/60	16	5	2
1960/61	13	3	6
1961/62	11	4	24
1962/63	22	10	20
1963/64	29	6	33 <sup>b</sup>
1964/65	17	10	44 <sup>b</sup>
1965/66	7	7	55

<sup>a</sup> Including exports made under all guarantees, together with raw materials shipped for processing overseas, services rendered or work completed under services and constructional works guarantees and goods shipped from one country to another under external trade guarantees. Excluding advances made under economic assistance loans.

<sup>b</sup> Including financial guarantees.

TABLE 68. UNITED KINGDOM: EXPERIENCE UNDER SECTION 1  
(COMMERCIAL INSURANCE), 1949/50-1965/66

(Millions of pounds)

Year	Premium income	Claims paid	Recoveries <sup>a</sup>	Cumulative <sup>b</sup>
1949/50	1.7	0.8	0.4	7.8
1950/51	2.4	2.4	1.1	8.7
1951/52	3.1	0.6	2.0	13.0
1952/53	2.8	14.4	0.2	1.4
1953/54	2.5	11.4	4.8	-3.5
1954/55	2.9	4.6	5.4	-0.6
1955/56	3.6	2.3	4.7	4.8
1956/57	3.7	5.4	5.4	8.1
1957/58	5.0	4.7	4.8	13.0
1958/59	6.1	7.0	3.5	15.5
1959/60	6.6	5.1	3.7	20.5
1960/61	7.4	4.0	4.0	27.9
1961/62	9.2	4.1	2.1	35.8
1962/63	7.1	4.6	1.9	40.7
1963/64	7.3	5.2	3.0	46.7
1964/65	7.0	4.0	4.7	54.8
1965/66	6.8	7.4	5.2	60.2

<sup>a</sup> May relate to claims payments made in previous years.

<sup>b</sup> These figures take account of administrative expenses interest on recoveries and interest on cumulative balances and include a cumulative balance of £6.5 million brought forward at 1 April 1949.

TABLE 69. UNITED KINGDOM: EXPERIENCE UNDER SECTION 2  
(NATIONAL INTEREST INSURANCE), 1949/50-1965/66

(Millions of pounds)

Year	Premium income	Claims paid	Recoveries <sup>a</sup>	Cumulative balance <sup>b</sup>
1949/50	—	—	—	—
1950/51	0.3	—	—	0.2
1951/52	0.5	—	—	0.6
1952/53	0.3	0.1	—	0.8
1953/54	0.3	1.1	—	-0.1
1954/55	0.7	0.3	—	0.1
1955/56	0.8	0.1	—	0.9
1956/57	0.8	0.4	—	1.2
1957/58	0.5	0.2	0.7	2.3
1958/59	0.5	0.5	0.4	2.8
1959/60	0.7	0.4	0.2	3.3
1960/61	1.1	2.9	2.6	4.6
1961/62	1.7	0.1	0.1	6.1
1962/63	1.6	0.1	—	7.8
1963/64	2.3	0.3	—	10.1
1964/65	5.7	0.6	0.5	16.1
1965/66	2.9	1.2	0.7	19.1

<sup>a</sup> May relate to claims payments made in previous years.

<sup>b</sup> These figures take account of administrative expenses, interest on recoveries and interest on cumulative balances.

## UNITED STATES OF AMERICA

### INSTITUTIONAL FRAMEWORK

403. In the United States, suppliers of capital goods finance their medium-term export credits (credits of between one and five years) with the commercial banks, and to a limited extent by a number of commercial financing companies and factoring firms. The commercial banks generally carry out their export financing activities through separate international departments or, in a few cases, through subsidiaries set up under the Edge Act of 24 December 1919 to perform investment or banking functions abroad which the parent banks are prohibited by law from performing, or do not choose to perform. If they are unable to obtain financing from the commercial banks or other private sources, suppliers may, in exceptional cases, finance their medium-term export credits with the Export-Import Bank of Washington (Eximbank). Since September 1966, Eximbank has introduced a "discounting programme" under which it stands ready to grant commercial banks (a) "one-year current export loans" up to one-half of their outstanding medium-term export loans and (b) "net increase loans" up to one-half of the increase in their total export credit financing, including short-term lending.

404. As regards long-term export credits, in some cases suppliers can obtain financing from the commercial banks for periods of up to twelve years, but in practice the bulk of long-term export transactions carried out on a credit basis is financed through the long-term project and equipment loans granted by the Export-Import Bank of Washington and the aid credits provided by the Agency for International Development (AID).

405. The Export-Import Bank of Washington is the most important source of financing for United States exports and the key institution in the United States export financing system. It is a government agency established by the Executive Order of 2 February 1934, under the authority of the National Industrial Recovery Act. The 1945 Export-Import Bank Act, as amended, stipulates that the

"objects and purposes of the bank shall be to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof".

406. Eximbank's present scope of activities and form of organization date from this latter Act, under which it became an independent federal government agency, administered by a five-man Board of Directors, appointed by the President of the United States with the approval of the Senate. The Board of Directors appoints a nine-member Advisory Committee representing the main sectors of the national economy, namely, production, commerce, finance, agriculture and labour, which is required to meet at least once a year to advise on

the Bank's programme. The financial policies of Eximbank, like those of the Agency for International Development, are co-ordinated by the National Advisory Council on International Monetary and Financial Problems.

407. Eximbank has a capital of \$1,000 million, entirely subscribed by the United States Government. It obtains additional resources by borrowing from the Treasury, within a current over-all borrowing ceiling of \$6,000 million. Additional resources are available in the form of undistributed income accumulated as a reserve available for contingencies.

408. Eximbank may free resources for additional loans by selling (a) participation certificates in individual credits, with recourse against the Bank, or (b) participation certificates in portions of specific loans on a non-recourse basis. This programme of sales of portfolio loans was introduced during the 1961/62 fiscal year, with the object of encouraging participation by commercial banks in Eximbank loans. Participation certificates were offered to institutions active in Eximbank's export assistance programme, and buyers were in turn permitted to offer subparticipation to their correspondents. Sales of participation certificates guaranteed by Eximbank amounted to \$300 million during the 1961/62 fiscal year, \$250 million during the 1962/63 fiscal year, \$372.5 million during the 1963/64 fiscal year and \$486.4 million during the 1964/65 fiscal year. Eximbank was also able to sell, on a non-recourse basis, participation certificates in portions of specific loans to an amount of \$39.8 million during the 1961/62 fiscal year, \$112.7 million during the 1962/63 fiscal year, \$98.1 million during the 1963/64 fiscal year and \$128.3 million during the 1964/65 fiscal year. These sales were mostly made to foreign financial institutions.

409. Eximbank's authorized lending authority was relatively modest (\$200 million) until September 1940, when it was raised to \$700 million. Under the 1945 Export-Import Bank Act it was increased to \$3,500 million. Subsequent increases occurred periodically up to 1958, when the lending authority was raised from \$5,000 to \$7,000 million. According to Public Law 88-101, which amended the 1945 Export-Import Bank Act and extended the life of the Bank for a further five years from 30 June, 1963 to 30 June, 1968, the loans, insurance and guarantees that the Bank may have outstanding at any time should not exceed \$9,000 million; up to \$2,000 million of guarantees and insurance may be charged against this lending authority at 25 per cent of the contractual liability assumed. The unused lending authority at 30 June 1965 amounted to \$3,298.5 million.

410. Four major forms of assistance are available from Eximbank:

(a) Project and equipment credits, for financing the purchase of United States equipment, goods and related

services for projects undertaken by foreign governments or public or private enterprises abroad;

(b) Emergency foreign trade credits, designed to help countries faced with temporary balance of payments difficulties to maintain their flow of imports from the United States;

(c) Short-term and medium-term export credit insurance, provided by Eximbank on a partnership basis with the Foreign Credit Insurance Association (FCIA);

(d) Guarantees to commercial banks or credit institutions on medium-term export credits, and in exceptional cases direct financing to exporters who are unable to secure financing from private sources.

411. From the beginning of its operations through 30 June 1965, the Bank's net total authorizations for loans, guarantees and insurance totalled \$14,900 million and disbursements \$10,200 million.

TABLE 70. EXPORT-IMPORT BANK OF WASHINGTON AUTHORIZATIONS  
(Millions of dollars)

Item	Fiscal year (ending 30 June)								
	1957	1958	1959	1960	1961	1962	1963	1964	1965
Project and equipment loans	438.1	436.8	494.9	286.0	706.4	555.0	525.0	570.2	435.2
Exporter credits	56.1	68.8	39.2	115.5	145.0	34.5	39.9	30.9	—
Commodity credits	74.3	187.0	66.4	70.0	63.5	3.5	79.8	177.2	76.3
Exporter credit insurance (FCIA)	—	—	—	—	—	330.7	569.3	744.5	721.5
Guarantees of exporter and commodity credits	—	—	—	17.2	153.3	423.2	219.1	216.8	282.9
Emergency foreign trade credits	500.0	165.5	289.8	35.0	327.2	500.0	35.0	—	340.0
Consignment insurance	31.6	41.8	29.1	9.3	18.9	14.3	5.8	2.9	3.1

## FINANCING PROCEDURES

### Medium-term suppliers' credits

412. Most medium-term export credit financing is provided under export credit insurance and bank guarantee programmes; the remainder, which has represented a steadily increasing proportion, is provided independently of these programmes.

413. United States suppliers in need of financing for medium-term export credit transactions are offered four possibilities.

(a) They can obtain an export credit insurance policy from the Foreign Credit Insurance Association and then seek financing from commercial banks or private firms. The foreign buyer is usually required to make an initial cash payment of 20 per cent to the exporter on or before delivery, the remaining balance of the contract value, known as the "financed portion", being payable in monthly, quarterly or semi-annual instalments. The cash payment may be reduced to 10 per cent, depending on the credit rating of the buyer's country. The credit institution will normally provide financing without recourse up to the percentage covered by the insurance policy, that is, generally 90 per cent of the financed portion, the exporter assuming responsibility for the remainder. However, the credit institution may decline to finance without recourse and will, in that case, ask the exporter to sign a side agreement or to secure an additional guarantee, for example the guarantee of the government of the buyer's country or a reliable bank in the buyer's country. In the case of transactions involving foreign governments or public enterprises, a guarantee from the central bank of the country concerned may be requested. The promissory notes signed by the buyer or the drafts drawn on him must be in English, expressed in United States dollars, and be payable at a bank in the United States.

(b) United States suppliers can seek financing from commercial banks or private financial firms, which will be given guarantees by Eximbank. Under the Eximbank guarantee programme, the credit institution is obliged to provide non-recourse financing and to assume the commercial credit risks for the early maturities. The buyer is required to make an initial cash payment of at least 10 to 20 per cent to the exporter on or before delivery. The credit institution provides the financing, usually by purchasing a 90 per cent interest in the financed portion of the sale, the exporter assuming responsibility for the remaining 10 per cent. These credits are often granted on an advanced commitment basis: a firm commitment of assistance from his bank may be sought by the exporter while he is negotiating with a foreign customer, or when he is obliged to specify the credit terms in his bid to a foreign customer for a sales contract.

(c) United States suppliers may in certain cases obtain financing, with or without recourse, from commercial banks or private financial firms, without being obliged to procure a FCIA insurance policy or an Eximbank guarantee. Such credits can only be obtained by exporters with high credit ratings for transactions destined to countries where currency and political risks are considered to be negligible. Conditions—such as the down payment by the buyer, the contingent liability to be assumed by the exporter, guarantees by foreign banks or acceptable third parties etc.—are agreed upon by the exporter and the credit institution on a case-by-case basis.

(d) When two credit institutions have refused to finance an export transaction under the Eximbank guarantee programme, or have declined to finance it even with FCIA insurance, Eximbank may be willing to finance the export transaction on the same terms and conditions as those used under the ordinary guarantee and insurance programmes. However, very few



applications for direct assistance are now submitted to Eximbank.

#### *Long-term suppliers' credits*

414. When a supplier can prove that he is facing competition from a foreign supplier as regards the length of the credits to be offered, commercial banks may offer him credits with maturities of up to twelve years, which will be guaranteed under the "matching principle" by Eximbank within the framework of its bank guarantee programme.

#### EXPORT CREDIT INSURANCE

##### *FCIA export credit insurance*

415. The United States credit insurance scheme is operated by the Foreign Credit Insurance Association, in collaboration with Eximbank. The FCIA is an unincorporated association of approximately sixty-five stock and mutual insurance companies; it started functioning in February 1962. The FCIA insures commercial risks for its own account and non-commercial risks for account of the Government through Eximbank, which also provides reinsurance for liabilities above certain limits in respect of commercial risks. Under arrangements introduced in 1964, Eximbank gave the FCIA discretionary authority to expedite the insurance of export credit transactions involving invoice values of up to \$300,000 in selective markets. Beneficiaries of export credit insurance policies may be:

(a) Corporations organized and operating under United States law;

(b) Individuals or partnerships resident in the United States (except partnerships consisting of one or more foreign-controlled corporations), or

(c) Foreign corporations which are doing business in the United States.

416. Short-term insurance policies stipulate that exports must be "produced or manufactured in the United States to the extent that at least one half of the value, exclusive of price mark-up, has been added by labour or material exclusively of United States origin". Medium-term insurance policies are primarily designed to cover heavy durables, machinery, plant equipment etc., produced or manufactured in the United States, and certain types of livestock and surplus agricultural products originating in the United States. Insurance is granted for the value of the United States content on products with a minor percentage of foreign content.

417. Insurance is also available for goods on consignment and sales from consignment stocks held abroad; cover for risks on trade fairs, technical services and leased equipment is obtainable only as a direct guarantee from Eximbank. Eligible exports must be payable in United States dollars and shipped from a United States port. Applications for insurance are submitted by the exporter either through his insurance agent or broker or direct to the FCIA. Financing institutions can also act as intermediaries. Policies are not assignable, except with the written approval of the FCIA. Any amounts payable under the policies may be assigned on written notice of such assignment to the FCIA, which also reserves the right to approve such assignments. Assignment of the policy proceeds does not mean that the credit institution is under an obliga-

tion to finance without recourse. Also, when agreeing to non-recourse financing the credit institution will provide it to the extent that the risks are covered by the insurance policy and will exclude those risks not assumed by the FCIA.

418. Four types of policy are issued by the FCIA:

Comprehensive short-term policies, covering commercial and political risks combined on sales involving payment terms up to 180 days;

Short-term political-risk-only policies, covering loss from political risks only on sales involving payment terms up to 180 days;

Comprehensive medium-term policies, covering commercial and political risks combined on sales involving payment terms generally from 181 days to five years (seven years for some types of aircraft);

Medium-term political-risk-only policies, covering loss from political risks only on sales involving payment terms generally from 180 days to five years (seven years for some types of aircraft).

While medium-term coverage is obtainable for individual transactions or for repetitive sales to one buyer, the short-term insurance programme requires that the exporter insure all or much of his export business. However, the "whole-turnover requirement" has to a large extent been replaced by the requirement of "reasonable spread of risks". The FCIA may permit exclusion of certain buyers (such as subsidiaries), certain countries, or shipments covered by irrevocable confirmed or unconfirmed letters of credit, or allow the exporter to cover only certain product lines if it is satisfied that the insured business provides a reasonable volume of spread of market risks. The insurance of repetitive medium-term export transactions is primarily intended for the exporter who has a distributorship agreement with the purchaser.

419. The standard insurance policies become effective with the shipment of the goods to the buyer. However, a pre-shipment coverage endorsement may be attached as an added coverage for the period between the contract sale and the shipment of the goods.

420. Commercial risks include:

Insolvency of the buyer;

Protracted default, that is, failure of the buyer to pay within six months after due date of payment the amount due, in whole or in part, for products delivered to and accepted by him;

Non-acceptance of the goods by the buyer when not due to the fault of the exporter.

421. Political risks include:

Transfer risk resulting from the buyer's inability to convert into dollars payment funds deposited with a bank or appropriate agency in his own country;

Cancellation or non-renewal of an export licence or imposition of restrictions on the export of products not subject to licence or restriction prior to the date of shipment, under circumstances not due to the fault of the buyer;

Cancellation under circumstances not due to the fault of the buyer of previously issued and valid authority to import such shipment;

Imposition of any law, or of any order, decree or regulation having the force of law, which under circumstances not due to the fault of the buyer prevents the import of such shipment into the buyer's country;

War, hostilities, civil war, rebellion, revolution, insurrection, civil commotion or other like disturbance;

Requisition, expropriation or confiscation of or intervention in the business of the buyer or guarantor by a governmental authority;

Transport or insurance charges occasioned after shipment by interruption or diversion of voyage outside the United States due to political causes, and which charges are impracticable to recover from the buyer.

422. FCIA policies do not cover:

Losses arising out of the exchange fluctuations or devaluation of the currency of the buyer's country, unless they occur after the due date or the date of the buyer's local currency deposit;

Losses due to the fault of the insured exporter or his agent;

Transactions providing for payment in any currency other than United States dollars;

Losses with respect to which a dispute exists between the exporter and the buyer, until such loss shall have been finally determined to be a valid and legally enforceable indebtedness of the buyer, or otherwise settled to the satisfaction of the insurers;

Losses insurable under the American Institute of Marine Underwriters' War and Strike, Riot and Civil Commotion clauses current on the date of shipment;

Losses for which written claim is not made prior to the expiration of eight months from due date of indebtedness.

423. For short-term transactions under comprehensive coverage, commercial risks are insured up to 90 per cent of the invoice value and political risks up to 95 per cent; the short-term political-risk-only policy provides coverage up to 90 per cent. For medium-term transactions, as noted in the section above on Financing procedures, the buyer is ordinarily required to make a down payment of 20 per cent of the invoice value on or before delivery, so that the financed portion is normally 80 per cent of the contract price; the maximum coverage in the case of a comprehensive policy is 90 per cent of the financed portion for losses due to either commercial or political risks; the medium-term political-risk-only policy provides coverage up to 90 per cent of the financed portion.

424. Premium rates vary according to the length of the credit period and the market category of the buyer's country (markets are classified into four categories, A, B, C and D). The average premium rate for short-term comprehensive policies is about 48 cents per \$100 of the gross invoice value; for short-term political-risk-only policies, it is reduced by approximately 25 per cent. For medium-term policies, the premium rates are charged on the "financed portion" or the unpaid balance of the invoice value after deducting the buyer's initial cash payment. They increase progressively according to

the market category of the buyer's country, and by half-yearly intervals, from the minimum credit period of 181 days to one year to the maximum period of five years. The range of premium rates for medium-term policies can be illustrated by the fact that the rate for a one-year credit might be approximately 0.5 per cent for a transaction with a buyer in an "A" country, against 1.2 per cent for a buyer in a "C" country. For a five-year credit, the rates would be 1.7 and 4.4, respectively; an additional premium is charged for contracts covering the pre-shipment period, which is limited to a maximum of one year. Premium rates during the consignment period are 50 per cent of the applicable medium-term rates for comprehensive cover.

425. Claims arising from commercial credit losses under both comprehensive short-term and medium-term policies are payable promptly upon submission of proof of the buyer's insolvency, or of his failure to pay (for reasons other than insolvency) within six months after the due date. Claims arising from losses due to political events are payable within three months after submission of the best evidence reasonably available to the insured of a loss due to the political event named.

426. After the payment of claims, any sums recovered from the buyer or any other source are shared, after reimbursement of the expenses of recovery, between the insurers and the insured in the proportion in which they shared the original loss.

*Eximbank guarantees*

427. As an alternative to the FCIA insurance policy, the exporter can arrange for financing of his medium-term export sales on a non-recourse basis with his bank, which will obtain guarantees from Eximbank for the political risks in respect of all maturities and the commercial risks in respect of the "later" maturities. "Early" maturities are defined as the first half of the instalments of a one, two or three-year credit, or the first eighteen months of the instalments of a longer credit, exclusive of the exporter's 10 per cent retention. The "later" maturities consist of the remaining instalments exclusive of the exporter's 10 per cent retention. The difference in treatment of the early maturities is due to the commercial bank's desire not to assume risks for periods exceeding one to two years. The maximum maturity for such guarantees is twelve years. Guarantees become effective upon purchase by the banks from the exporter of the buyer's promissory notes.

428. To the banks which have signed the Master Guarantee Agreement covering the Eximbank guarantee programme, Eximbank has given discretionary authority with regard to applications for non-recourse financing of transactions up to \$500,000 under conditions similar to those under which the FCIA may exercise discretionary authority with regard to insurance.

429. Many features of the Eximbank guarantee programme are identical with the FCIA-Eximbank insurance programme. These features relate particularly to eligibility for guarantees, assignment of guarantees or guarantee proceeds, pre-shipment guarantees, guarantee rates and documentation required for application. However, there are some basic differences. Guarantees may be granted for periods of up to twelve years, while the five-year limit is still the rule at the FCIA. The beneficiary of FCIA insurance is always the exporter, while the beneficiary of an Eximbank guarantee is a

commercial bank. Financing may be provided with or without recourse in the case of insurance, while it is always provided on a non-recourse basis under the guarantee programme.

430. Claims on early maturities (cover of political risks only) are settled in the same way as similar claims under an insurance policy. Claims relating to later maturities are payable immediately after notice of default. During the 1964/65 fiscal year, losses of \$735,000 from guarantee and insurance claims, less recoveries, were paid. During the previous fiscal year, net claims paid had amounted to \$286,000.

TABLE 71. UNITED STATES: GEOGRAPHICAL DISTRIBUTION OF SHORT-TERM INSURANCE, CUMULATIVE AS OF 30 JUNE 1965  
(Thousands of dollars)

Area	Issued	Outstanding
Africa	56,586.6	7,679.9
Asia	114,948.3	17,996.4
Canada	15,571.9	2,177.2
Europe	543,145.8	60,828.9
Latin America	592,821.2	84,143.1
Oceania	49,869.6	7,672.4
<b>TOTAL</b>	<b>1,372,943.4</b>	<b>180,497.9</b>

TABLE 72. UNITED STATES: GEOGRAPHICAL DISTRIBUTION OF MEDIUM-TERM INSURANCE, CUMULATIVE AS OF 30 JUNE 1965  
(Thousands of dollars)

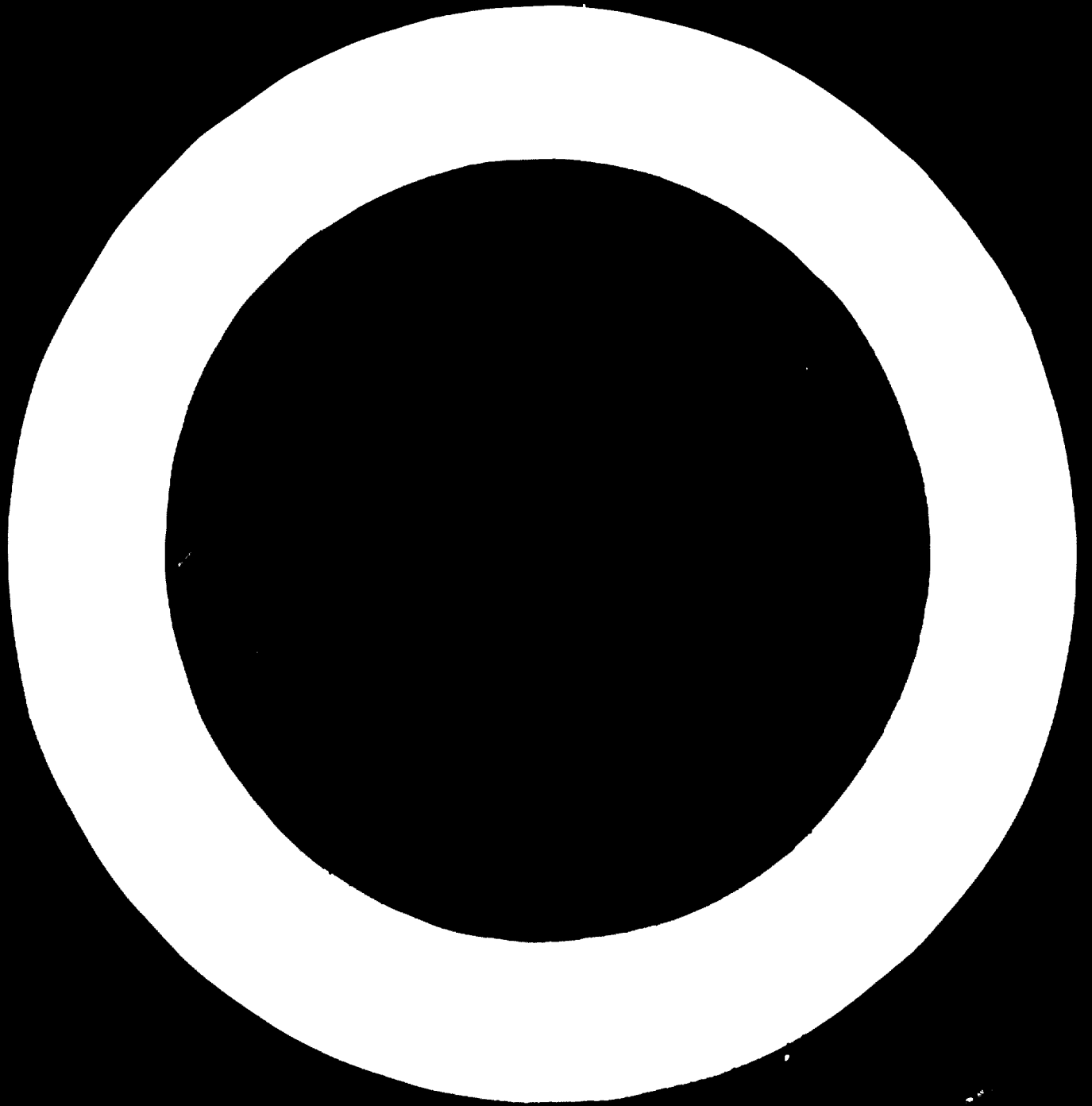
Area	Authorized	Cancelled	To be issued	Issued	Outstanding
Africa	8,587.8	3,794.8	2,902.8	1,890.2	1,486.3
Asia	22,774.4	6,707.5	7,305.6	8,761.3	4,410.9
Canada	51.7	18.6	—	33.1	30.8
Europe	7,257.4	2,109.6	1,613.0	3,534.8	2,434.2
Latin America	106,274.3	35,507.7	23,306.5	47,460.1	33,003.6
Oceania	953.9	53.9	253.0	647.0	234.3
<b>TOTAL</b>	<b>145,899.5</b>	<b>48,192.1</b>	<b>35,380.9</b>	<b>62,326.5</b>	<b>41,600.1</b>

TABLE 73. UNITED STATES: FCIA: CLAIMS EXPERIENCE  
(Dollars)

Type of claim	Claims paid	Recoveries	Type of claim	Claims paid	Recoveries
<b>Political</b>			<b>Commercial</b>		
Short-term	1,244,291	1,049,783	Short-term	1,753,424	243,244
Medium-term	3,240	3,240	Medium-term	264,593	100,000
<b>TOTAL</b>	<b>1,247,531</b>	<b>1,053,023</b>	<b>TOTAL</b>	<b>2,018,017</b>	<b>343,244</b>
			<b>GRAND TOTAL</b>	<b>3,265,548</b>	<b>1,396,267</b>

TABLE 74. UNITED STATES: GEOGRAPHICAL DISTRIBUTION OF BANK GUARANTEES, CUMULATIVE AS OF 30 JUNE 1965  
(Thousands of dollars)

Area	Authorized	Cancelled	To be issued	Issued	Outstanding
Africa	51,806.0	15,361.1	9,358.6	27,086.3	18,323.8
Asia	621,307.3	60,471.2	114,921.1	445,914.7	169,489.9
Canada	688.9	30.6	213.7	444.6	197.3
Europe	157,424.7	34,306.1	57,810.3	65,308.3	27,643.6
Latin America	259,665.7	114,710.7	51,115.2	93,839.8	54,082.2
Oceania	16,241.6	5,716.9	5,819.5	4,705.2	2,149.0
<b>TOTAL</b>	<b>1,107,134.4</b>	<b>230,596.6</b>	<b>239,238.7</b>	<b>637,298.9</b>	<b>271,885.8</b>



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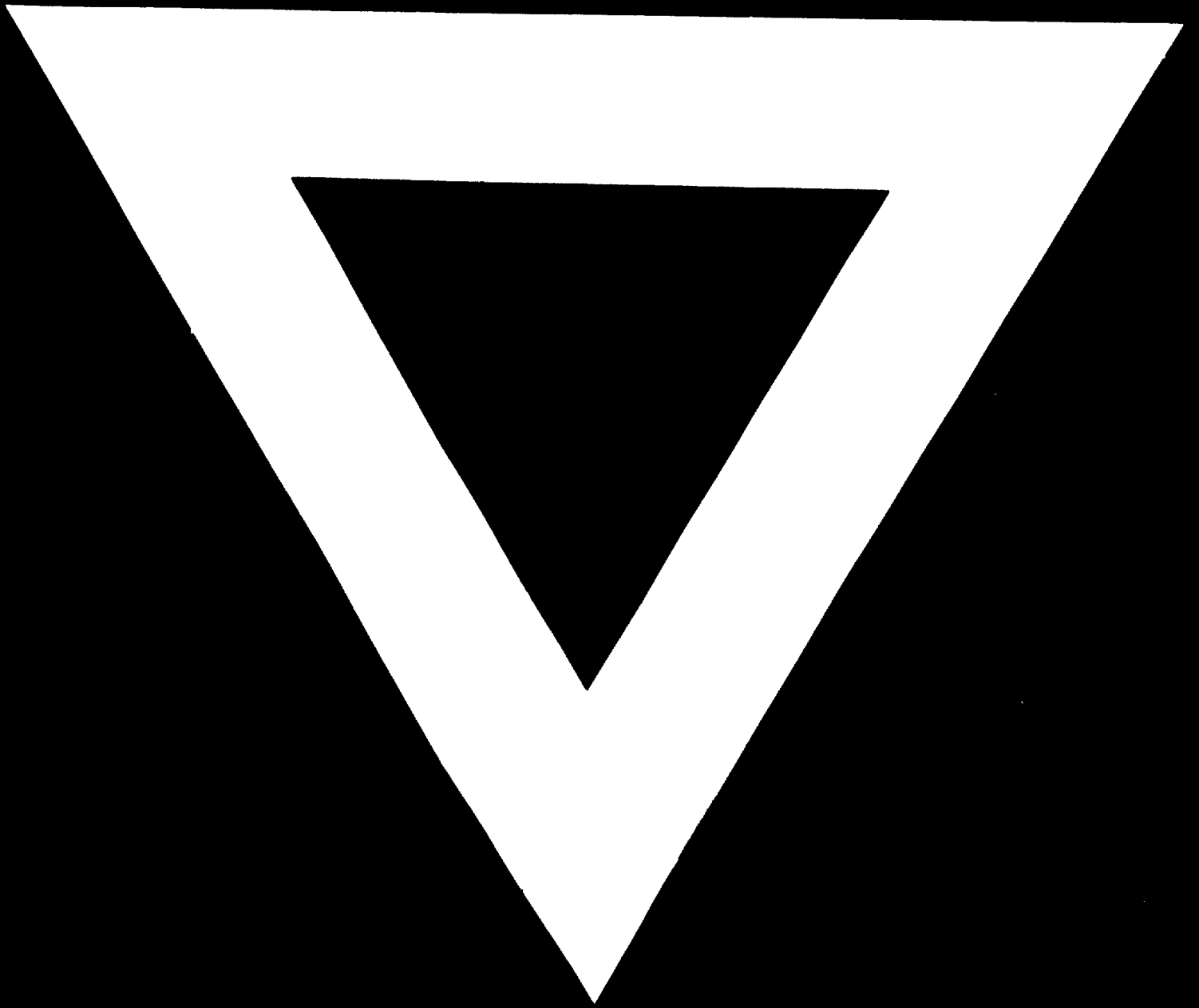
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