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Export Credits and Development Financing

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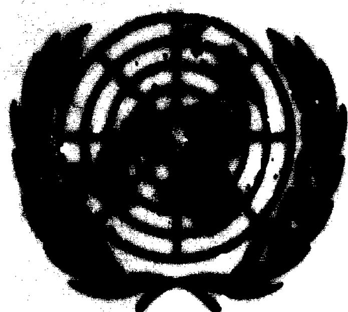

Part One
Current Practices and Problems

UNITED NATIONS

SUMMARY AND CONCLUSIONS

THE PROBLEMS AND THEIR SETTING

In the sellers' market which characterized the period immediately following the Second World War most exports of capital goods on credit were carried out within the framework of bilateral payments agreements, which, because of the shortage of international reserves of gold and convertible currencies, had become the basic instruments for the financing of trade among non-dollar countries. These agreements were usually negotiated for periods averaging one to three years and provided for swing credits to cover short-term trade fluctuations. All balances in excess of the swing credits were to be settled immediately or within a stipulated period ranging from three months to one year. Despite the explicit provisions relating to the settlement of such balances, however, the creditor countries in several instances found themselves obliged to permit the accumulation of substantial balances in excess of the swing credits initially agreed upon, and, finally, in order to maintain a normal flow of exports they had no alternative but to negotiate consolidation agreements rescheduling repayment of these short-term debts over a longer period. Nominal short-term export credits thus evolved into *de facto* medium-term credits.

The accumulation of commercial arrears and their subsequent renegotiation proved unsatisfactory to both creditor and debtor countries. Suppliers were confronted with liquidity problems and the prospect of exchange losses, while their governments, facing balance of payments difficulties, were obliged to commit funds abroad for periods far exceeding those originally agreed upon. For the debtor countries, debt renegotiation often led to a lowering of their credit rating and a consequent increase in the cost of new borrowing. This situation hastened the transition to organized financing systems for medium-term suppliers' credits (credits of between one and five years), since central banks became increasingly unwilling to continue financing the accumulation of commercial arrears.

The organization of such financing systems was accompanied by the extension to medium-term suppliers' credits of export credit insurance, originally introduced after the First World War for short-term suppliers' credits (credits of up to one year). In this way, a number of governments sought to transfer gradually an increasing share of the responsibility for the provision of export financing to the supplier, or rather, in view of the latter's normal reliance on bank credit, to the private banks. Exporting countries became increasingly reluctant to conclude bilateral agreements providing for the granting of global governmental credit lines, preferring agreements stipulating that they would not oppose, or would actively favour by providing credit insurance, the granting by suppliers of medium-term export credits.

The pressure on the supplier to provide both goods and capital, or to arrange for the financing of his sales, frequently led to an over-emphasis on the credit factor by buyers who, lacking ready cash, might be willing to ignore higher prices or inferior quality in their endeavour to secure more advantageous credit terms. Such terms became in fact increasingly available, as the sellers' market for capital goods gradually developed into a buyers' market, as a result of the recovery of the economies of western Europe and Japan.

The export credit insurance institutions in the major exporting countries, foreseeing the possibility of a credit race and fearing its consequences, organized through the Union d'assureurs des crédits internationaux (Berne Union), [1] the international association of credit insurers, direct exchanges of views leading to concerted action relating to the duration of export credit insurance cover, which determined the duration of credits. In 1953, they reached an understanding that export credit insurance should not exceed five years for heavy capital goods. [2] They also agreed that buyers of capital goods should make a reasonable down payment before or upon delivery of the goods.

The threat of a credit race, which this understanding was designed to arrest, was due less to exporters spontaneously making generous credit offers as part of an aggressive sales policy than to the developing countries' pressure — in the prevailing buyers' market — to obtain credit maturities more compatible with their development needs, tempo of growth and existing and potential external resources. The widespread demand in developing countries for credits exceeding five years was bound to influence the medium-term export financing process, but it is unlikely that this process would have changed so rapidly and so significantly without the emergence of an increasing tendency on the part of bilateral aid supplying countries to tie their development loans to procurement from national suppliers.

From the mid nineteen fifties onwards, exporters in almost all western European countries began exerting pressure on their governments to provide export credit insurance for periods in excess of five years. The reason generally advanced was that the Export-Import Bank of Washington, through its long-term project and equipment loans granted directly to buyers in developing countries, was in fact enabling American exporters to sell on terms which European suppliers could only offer if they could obtain long-term export credit insurance, which would enable them to secure bank financing on

[1] Established in 1934 to facilitate exchanges of views on insurance techniques and information related to credit ratings.

[2] As regards other categories of goods, it has been generally recognized that export credit insurance should not exceed six months for consumer goods and raw materials, eighteen months for durable consumer goods and three years for light capital goods such as agricultural machinery, large commercial motor vehicles, lathes and generators.

similar terms. In a 1956 memorandum to the Government of the Federal Republic of Germany, the Bundesverband der Deutschen Industrie (Confederation of German Industries) specifically recommended the creation of an institution similar to the Export-Import Bank of Washington to finance export credits with maturities exceeding five years.

Businessmen in the countries of continental Europe accentuated their pressure in 1957 when the United Kingdom decided to expand the volume of long-term financial assistance granted through the machinery provided for in section 3 of the Export Guarantees Act of 1949, which stipulates that funds allocated under this programme must be utilized for the purchase of United Kingdom goods and services. One year later, the United States, fearing increased strain on its reserves, decided that future Development Loan Fund loans and grants should, like the loans granted by the Export-Import Bank of Washington, be tied to specific purchases of American goods. Thus, exporters in the donor countries received a great deal of indirect financial support through tied development finance loans granted by their governments to foreign buyers.

This situation resulted in the first departures from the Berne Union five-year understanding (the Union was notified of three such departures in 1957, four in 1958 and six in 1959). In a number of countries whose governments were unwilling or unable to provide development loans — tied or untied — to developing countries and whose exporters were faced with competition from such loans, new interpretations of the five-year understanding were put forward. According to the interpretation which had the most far-reaching implications and which derived basically from the desire of exporters in other countries to meet competition from United Kingdom and United States exporters who benefited from the tied development loans granted by their Governments to developing countries, the five-year understanding applied only to guarantees issued for credits granted by the supplier to the foreign buyer (suppliers' credits); guarantees given for credits granted directly by credit institutions to buyers in developing countries (buyers' credits or financial credits) to enable them to pay cash for the purchase in the credit supplying country of heavy capital goods needed for development projects lay outside the scope of the understanding, particularly since such purchases usually involved substantial amounts which could not reasonably be expected to be reimbursed over five years, in view of the developing countries' financial situation and the normal amortization period for such goods. As can be seen, this interpretation, motivated by the need to meet competition arising from tied development loans, introduced the concept of export credits as a means of providing aid to developing countries. The subsequent development of the "aid through trade" concept led to the issuance of guarantees for suppliers' credits in excess of five years granted in connexion with the execution of large-scale projects in developing countries

Since the end of the past decade, a gradually increasing number of export credits have thus been granted and insured on terms and for purposes which have tended to blur the distinction between trade and aid. As a result of this trend, the annual gross flow of new guaranteed export credits exceeding five years, as reported to the Berne Union, rose rapidly from the equivalent of $78 million in 1960 to $709 million in 1963. The resulting complex situation has led to growing concern regarding both the increasing external debt burden of the developing countries and the possibility of trade distortion.

The export financing process

In the developed market economies

As noted above, export credits for the purchase of capital goods take two basic forms: suppliers' credits and buyers' credits (the latter also being referred to as financial credits). Suppliers' credits are granted by suppliers to buyers on a medium-term basis (credits of between one and five years) or on a long-term basis (credits of between five and usually up to ten years). Since few suppliers selling on deferred-payment terms have sufficient resources to bridge the credit period, most of them finance the credits they have granted by borrowing from a credit institution. The financing is usually made available through advances against promissory notes signed by the buyer or against bills of exchange drawn on and accepted by the buyer or the discounting of these notes or bills. The credit institution often refinances the credit it has financed with an export credit institution, a special credit refinancing institution or the central bank.

The financing of export credits depends in most cases on the issuance by an export credit insurance institution of a policy providing protection against commercial and/or non-commercial risks. The insurance policy issued in favour of the exporter and assigned by him to the credit institution which finances the credit serves as collateral for the credit, and its period of validity generally determines the length of the credit. The credit institution may request, as additional collateral, a repayment guarantee from a reliable bank in the buyer's country; when deemed necessary, it may also request a commitment from the central bank of that country to make foreign exchange available for the servicing of the credit. Similarly, the export credit insurance institution may itself request the repayment guarantee and the foreign exchange commitment as prerequisites for the issuance of the insurance policy.

Although an insurance policy is usually accepted by the credit institution as satisfactory collateral, export credit insurance does not represent a comprehensive endorsement of the credit by the export credit insurance institution. The guarantee does not come into effect automatically if the bills are not honoured at maturity; loss is not recognized and indemnified until a certain period — usually six months — has elapsed, and the insurance policy does not generally provide for the payment to the credit institution of the interest that would accrue between the maturity date of unpaid bills and the settlement of the claims. Loss must result from one of the causes set forth in the insurance policy, which does not include the supplier's failure to comply with the terms of the contract and may fail to include non-acceptance of the goods by the buyer. Consequently, an ordinary insurance policy does not give export bills the status of gilt-edged paper, and credit institutions negotiating them will usually have recourse against the supplier. The supplier may, however, be able to obtain

non-recourse financing when the export credit insurance institution gives the credit institution a direct guarantee which, unlike ordinary credit insurance, covers non-repayment for any reason whatsoever.

Buyers' credits are granted directly to the foreign buyer by a credit institution or a consortium of credit institutions in the exporting country in order to enable him to purchase capital goods or services from suppliers in that country on a cash basis, the government of the exporting country guaranteeing repayment under the official export credit insurance scheme. Buyers' credits are relatively substantial, generally exceed five years and are granted in connexion with large-scale projects.

As a rule, commercial banks have financed short-term suppliers' credits as part of their ordinary lending business, but have been either reluctant to accept the burden of financing medium-term suppliers' credits and long-term export credits (suppliers' credits and buyers' credits) or legally prohibited from doing so. This situation is a corollary of the traditional attitude towards the provision of medium-term and long-term domestic financing. There has generally been a tradition of specialization, sometimes imposed by banking laws and regulations but generally dictated by accepted banking principles, which has tended to maintain (with a certain amount of overlapping) a distinction between short-term lending, carried out by commercial banks utilizing short-term or sight deposits, and medium-term and long-term lending, carried out by investment banks or special medium-term and long-term credit institutions utilizing resources borrowed on the capital markets, medium-term and long-term time deposits, and government funds.

Only in those countries — primarily Switzerland, the United Kingdom and the United States — where money-market resources have been deemed by and large commensurate with the demand for medium-term and long-term export credit financing have commercial banks been willing to provide such financing.[8] In these countries, with the exception of the United States, the commercial banks are further protected against possible liquidity difficulties by a commitment on the part of the central bank to grant them rediscounting facilities in case of need, or after a given period. In certain other countries, for example, Austria, France and Italy, the financing or refinancing of medium-term and long-term export credits has been entrusted to existing medium-term and long-term credit institutions of general competence. In a number of other countries in western Europe as well as in Canada and Japan, further specialization has taken place within the medium-term and long-term field with the establishment of special institutions for the purpose of providing medium-term and long-term export credit financing, owing to the fact that commercial banks have been unwilling to commit more than a very safe proportion of their resources to such financing, or to the absence of any credit institution of general competence which could, by enlarging the scope of its operations, assume responsibility in that field.

[8] In the United States, most exports of capital goods involving long-term credits are financed through the "project and equipment loans" of the Export-Import Bank of Washington and the development loans of the Agency for International Development.

In the centrally planned economies

In the centrally planned economies, a relatively small proportion of export transactions involving capital goods is carried out through purely commercial credits; most of these transactions are effected through state credit granted within the framework of bilateral governmental agreements, usually designated as economic co-operation agreements. Commercial export credits for the acquisition of machinery and equipment are as a rule granted by the foreign trade organizations; however, in certain countries (especially Hungary and Poland) some individual industrial enterprises may themselves grant such credits directly to the buyer. The decision to supply the goods on credit is taken by the foreign trade organizations or industrial enterprises concerned, sometimes after prior consultation with the Ministry of Foreign Trade, the central bank and or other competent authorities.

The foreign trade organizations are autonomous bodies which conduct their commercial activities under their own name, possess their own funds and operate on strict commercial principles; they usually specialize in particular categories of goods. The foreign trade organizations of Czechoslovakia, Hungary and Poland have established technical and supply offices abroad.

The foreign trade enterprises may finance the credits they grant by borrowing from the central bank, the foreign trade bank or a similar state credit institution. In the case of capital goods, these credits are granted on a medium-term or long-term basis. Medium term commercial export credits usually have maturities of between one and five years, while long-term commercial export credits are granted for periods ranging from five to eight years. The buyer is usually required to make a down payment averaging 10 per cent of the value of the contract at the time of signature and a similar payment upon delivery of the goods. Depending on the type of equipment and various economic circumstances, each of these payments may be reduced to 5 per cent or increased to as much as 30 per cent.

The guarantee of the government of the buyer's country or a reliable credit institution in that country is very often a prerequisite for the granting of the commercial export credit. A gold clause may be inserted in the credit contract as a guarantee against the effects of devaluation and inflation in the buyer's country. The credits are usually repayable in the currency of the importing country (which will be used to purchase local commodities), in convertible currencies or in goods manufactured in the plants equipped with the aid of the credit.

Export credit insurance

The factors which make selling abroad on deferred-payment terms riskier than selling on the domestic market on similar terms are well known. Reliable information concerning prospective foreign buyers may be hard to obtain, making it difficult to assess their creditworthiness accurately. Suppliers fear that, in case of non-payment, it may prove complicated or costly to press their claims in foreign courts, and that in the buyer's country alien creditors may not always receive the same treatment as do domestic creditors.

In addition to commercial risks (insolvency and default of the buyer), external trade involves important non-commercial risks arising from events beyond the control of both buyer and supplier. Losses may be caused by political events such as war, rebellion and expropriation, by catastrophes such as hurricanes, floods and earthquakes, and by monetary phenomena such as foreign exchange shortages and other transfer difficulties. When such events occur before delivery of the goods, they may prevent the buyer from fulfilling the contract or make it impossible to transport the goods to their destination. When they occur after delivery, they may render previously solvent buyers insolvent or prevent payment by solvent buyers.

It has therefore been considered necessary to provide protection not only against commercial risks, which loom greater in foreign markets than in the home market, but also against the other risks peculiar to export trade, which fall outside the scope of the supplier-buyer relationship and may interfere with the payment or remittance of the sums due.

The vital importance of exports to their economies has, over the years, led the governments of a number of countries to introduce export credit insurance as part of their export promotion programmes. The expansion of export trade, however, has been sought for different reasons at different epochs, according to the changing conditions and requirements of the economic conjuncture. When export credit insurance was first introduced for short-term suppliers' credits soon after the First World War, its main purpose was to help combat the then prevailing large-scale unemployment. During the nineteen thirties export credit insurance was used with a view to mitigating the effects of the depression by helping to maintain a certain flow of exports at a time when widespread market dislocation, foreign exchange crises and political instability were transforming the conditions under which international trade had previously been financed, making it difficult for suppliers and bankers to continue to assume their traditional risk-bearing responsibility.

In the early nineteen fifties, with the progressive shift from a sellers' market to a buyers' market and the gradual change in the pattern of international trade resulting from the expansion of capital goods exports, export credit insurance was extended first to medium-term suppliers' credits and then, towards the end of the decade, to long-term export credits (suppliers' credits and buyers' credits). This enlargement of the scope of export credit insurance has been accompanied by a growing tendency to regard such insurance not only as a method of promoting the developed countries' exports of capital goods and services but also to a certain extent as an instrument of their aid policies.

While all the developed market economies have established export credit insurance schemes, the only centrally planned economies operating such schemes are Czechoslovakia and Hungary. The absence of insurance in the other centrally planned economies may be attributed to the fact that in these economies, export credits, like domestic credits, are financed out of public funds. Indeed, the main purpose of the Czechoslovak and Hungarian schemes is understood to be to provide for the spreading of the risks (through reinsurance on the international market).

Each of these schemes is administered by a department of a state-owned general insurance company, the Státni Pojišťovna (State Insurance Institute) of Czechoslovakia and the Állami Biztosító (Insurance Enterprise of the State) of Hungary. These companies are not members of the Berne Union but belong to a number of international insurance organizations. (Both companies belong to the International Union of Aviation Insurers and the International Union of Marine Insurers; in addition, the Czechoslovak company is a member of the International Credit Insurance Association.)

The duration of the insurance available in these two countries conforms to accepted international commercial standards for the different categories of goods. The maximum portion of the credit which can be insured is 90 per cent. In general, export credit insurance is sought only for transactions which are not guaranteed by a reliable bank in the buyer's country.

International co-operation and the problem of export credit insurance and export credit terms

It is thought that the Berne Union has on the whole exerted a greater restraining influence on credit competition than might have been expected and "has been of considerable value in keeping the extension of credit within reasonable bounds".[4] However, in trying to influence the international trade financing pattern, the Union has been handicapped by several factors. It is an association of private, public and mixed autonomous insurance institutions in which governments are not officially represented. Its members consequently find it difficult to resist when their governments direct them to insure transactions for terms longer than those recommended by the Union: at their June 1959 meeting, the Union members confessed that they had been obliged to violate the five-year understanding under pressure from their governments, upon which they were dependent for support.

The Union's power to act effectively was moreover impaired from the outset by the fact that export credit institutions in a number of industrial countries which controlled a relatively large part of the world supply of capital goods were either reluctant to join it or were willing to become associate members only: the Istituto Nazionale delle Assicurazioni (Italy) did not become a member until 1960, while the Export-Import Bank of Washington (United States) became an associate member in 1951 and did not acquire full membership until January 1962.[5] The Export Insurance Section of the Ministry of International Trade and Industries of Japan has never joined the Union.

Furthermore, the Union's effectiveness has been vitiated by the absence of a clear-cut definition of the essential difference between tied development loans and export credits in the strict sense. The Export-Import Bank of Washington has been providing long-term tied

[4] *See* United Kingdom, Export Credits Guarantee Department, *ECGD Services* (London, 1964), p. 30.

[5] It should be noted that the obligations assumed by the Export-Import Bank of Washington as a full member of the Berne Union apply only to its joint insurance programme with the Foreign Credit Insurance Association and its bank guarantee programme.

loans since 1934, yet the possible influence of such loans upon international competition was not fully assessed when the five-year understanding was arrived at, because at that time international competition in the capital goods sector was not as intense as it subsequently became as a result of the increase in world supplies of such goods. However, with the intensification of international competition and the resultant struggle to secure markets it became apparent that exporters in countries providing tied development loans were in fact indirectly benefiting from their governments' development aid programmes.

The Berne Union has continually expressed its concern at creeping competition in the export credit field and recently stressed the need to establish a system of international co-operation and co-ordination between governments, declaring its readiness to help achieve such co-operation. Attempts to establish and maintain orderly arrangements for the provision of export credit insurance and export credits are under way at the government level within the European Economic Community (EEC) and the Organisation for Economic Co-operation and Development (OECD). The International Bank for Reconstruction and Development, in response to a request from the United Nations Conference on Trade and Development,[6] is currently seeking possible solutions to these problems, particularly in terms of the resulting debt servicing burden of the developing countries.

The Council of the European Economic Community has expressed its interest in export credit insurance and export credit problems under the terms of article 112 of the Treaty of Rome dealing with the harmonization of national schemes of export aid, and has taken steps aimed at avoiding disruptive competition. On 27 September 1960, it established a special body called the Groupe de coordination des politiques d'assurance-crédit, des garanties et des crédits financiers (Co-ordinating Group for Policies of Credit Insurance Guarantees and Financial Credits). The Co-ordinating Group was entrusted with the following tasks:

"To formulate suggestions with a view to harmonizing among Member States, to the extent that is within their power, conditions for export credit insurance, financial credits and investment guarantees, taking into account, in the case of export credit insurance, the Berne Union understandings and the work carried out in this field by institutions in the Member States.

"To seek ways of promoting the multilateral utilization of the financial resources placed at the disposal of developing countries.

"To encourage the exchange of information and consultations on all problems falling within its competence. . .".[7]

The Co-ordinating Group has worked on three levels, namely, increased co-ordination among members through prior consultation, harmonization of export credit insurance terms and conditions and formulation of a common policy. However, its efforts to influence the export credit race have not had the expected effect, owing mainly to the fact that a number of important export credit supplying countries are not members of the European Economic Community.

The Organisation for Economic Co-operation and Development has continued and expanded the work of its predecessor, the Organisation for European Economic Co-operation (OEEC) in the field of export credit insurance. In 1962, the OECD Trade Committee entrusted the examination of export credit insurance and export credit policies to a special intergovernmental panel on export credits and export credit guarantees, which met in 1962 and 1963, and recommended the establishment of a permanent Group on Export Credits and Credit Guarantees. This Group, which was set up in November 1963, is composed of senior government officials with a major responsibility in the formulation of policies in the field of export credit insurance and foreign trade, who are advised by senior officials of the export credit and export credit insurance institutions. Its terms of reference state that:

"regular confrontations on the policies pursued by the Governments of Member countries in the field of export credits and credit guarantees are to be pursued with the general objectives of evaluating these policies, determining the problems which arise and resolving or mitigating these problems by multilateral discussion. Further objectives should be to aim, on the experience acquired from the confrontations, at working out common guiding principles, considering all possibilities of improving co-operation between member countries in this field by such means as prior consultations, prior notification and/or a question-and-answer procedure, or by other suitable means".

The major problem which the OECD Group on Export Credits and Credit Guarantees has studied has been that of controlling credit competition with regard to credits exceeding five years. One of the proposals designed to solve this problem would strengthen the Berne Union "question and answer" procedure by setting up a system that would be binding on governments for the exchange of information on the credit terms for which official support is available for contracts in negotiation. Prolonged and serious consideration has been given to the adoption of this system, though final agreement has not yet been reached.

The strengthening of the question and answer procedure would permit the fair application of the matching principle, but only to a certain extent, since the impossibility or difficulty in some instances of obtaining financing to match the maturity offered by competing suppliers would still leave suppliers in certain countries at a disadvantage; furthermore, it might not succeed in completely preventing trade distortion arising from long-term export credits, since there is a strong possibility that some buyers — especially the less experienced ones — might still be influenced by the availability of long-term credit maturities rather than by price, quality or speed of delivery. While it can be argued that tied development loans do not cause harmful trade distortion when they are granted at costs well below the market rates and for periods which few if any suppliers would consider matching, there is serious fear that the granting

[6] See *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), annex A.IV.14.

[7] *Journal officiel des Communautés européennes*, 27 October 1960, p. 1340/60. (*Unofficial translation.*)

to foreign buyers of export credits in which the distinction between aid and trade characteristics is not fairly evident might exacerbate bilateralism in international trade and create abnormal trade movements.

A proposal to separate commercial export credits from aid credits by a system based on the length of the repayment period has been laid before the Group by the Netherlands delegation. According to this proposal, a "neutral area" — in which no credit insurance would be available — would be established to separate the maximum maturity of export credits (for example, ten years) and the minimum maturity of aid credits (for example, fifteen years). Thus aid-motivated operations would be clearly separated from trade-motivated transactions and, even if aid-motivated credits continued to be tied to procurement in the donor countries, their trade distorting effect would be less serious than that of trade-motivated credits on non-commercial terms.

Export credits as a means of financing economic development in developing countries

While the normal function of export credits is to serve as an instrument for financing international trade, medium-term and especially long-term export credits have nevertheless become an important source of external financing for development projects in developing countries. In 1962 and 1963, the amount of net government-guaranteed medium-term and long-term export credits granted to developing countries by OECD members amounted to slightly less than $500 million, compared to an annual net average of $400 million (consisting mostly of medium-term credits) during the 1955-1960 period and an annual net average of $200 million (consisting of medium-term credits only) during the 1950-1955 period.[8] In 1964, net government-guaranteed medium-term and long-term export credits granted to developing countries by the Development Assistance Committee (DAC) members (which at that time consisted of OECD members minus Sweden and Switzerland) amounted to $744 million, representing almost 25 per cent of the aggregate net flow of private capital to those countries and over 8 per cent of the total net flow of financial resources from DAC members to those countries.[9] However, the percentages for all DAC members except the United States were in most cases very much higher.

In this connexion it should be noted that in Canada, where long-term export credits are financed exclusively out of public funds, such credits accounted for about one third of the "total official Canadian aid effort for 1964-1965".[10] Similarly, in Japan, where a government agency finances the bulk of export credits out of government funds, export credits account for a very high proportion of Japan's outstanding overseas loans and investments. According to the Japanese Ministry of Finance, outstanding export credits accounted for 54.2 per cent of outstanding Japanese overseas loans and investments as of 31 December 1962.[11]

Conclusions

While it may be desirable to re-establish the distinction between aid credits proper and export credits, an over-rigid approach might impede the development of the developing countries and hamper the growth of international trade, which would in turn slow down economic growth in the developed countries themselves. The widespread concern felt among exporting countries regarding "unfair competition" in the provision of export credits and its degeneration into a "disruptive race" cannot be isolated from the broader problems arising from the fact that the total volume of capital currently being made available to developing countries is already inadequate to meet their financial requirements.

The search for a solution to export credit competition must be undertaken with reference to the accepted need for a sustained and indeed increasing net flow of financial resources into developing countries. Although these countries are making great efforts to expand their exports and to develop import substitutes, it would appear that in the foreseeable future their minimum investment programmes will continue to exceed their capacity to earn and save, especially foreign exchange, and that an increasing flow of external financing will remain essential to the fulfilment of even these minimum programmes. No matter how serious the limitations of export credits may be as a means of financing economic development, in terms of their inappropriate maturities, high cost and sometimes even the over-pricing of the goods, they have nevertheless, as shown by the figures given, become an important source of external financing for developing countries.

If it is therefore intended that total flows should not diminish, so that the growth of the developing countries and of international trade need not be retarded, restraints on the granting of government-guaranteed export credits would presumably be compensated by an increase in the volume of aid credits or associated with the provision of other forms of long-term financing.[12]

The fact is that a number of developed countries look upon medium-term and long-term export credits as a major means of assisting the developing countries and find it easier to grant export credits than aid credits, because in their view export credits — particularly long-term credits — have growth stimulating effects which benefit their own domestic economies as well as aid features which benefit the developing countries. Any measures by the developed countries which would substantially reduce the over-all flow of financial resources to developing countries would also reduce the flow of

[8] Organisation for European Economic Co-operation, *The Flow of Financial Resources to Countries in course of Economic Development, 1956-1959 (Paris, 1961)*, and Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries, 1956-1963* (Paris, 1964).

[9] Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1965 Review, Report of the Chairman of the Development Assistance Committee* (Paris, 1965).

[10] Canada, External Aid Office, *A Report on Canada's External Aid Programs*, June 1965, p. 5.

[11] *Asahi Shimbun* (Tokyo), 9 March 1963.

[12] For example, the possibility was recently adumbrated of long-term borrowing by the developing countries, outside the congested channels of private capital market floatations, through direct placement with semi-public or publicly controlled financial institutions in the developed countries. *See* "Regional development financing", report by Henry S. Bloch to the United Nations Trade and Development Board (TD/B/AC.4/R.3), chapter 2, pages 24 ff.

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their capital goods exports, and are thus likely to appear as unattractive to the latter as to the former.

An increase in aid credits or the provision of alternative forms of financing whose repayment periods would be more appropriate for economic development purposes than those of even medium-term and long-term export credits might also help alleviate the excessive debt-service burdens of developing countries, which in recent years have aroused fear of spreading liquidity crises. This problem of indebtedness arising from export credits has two main aspects: costs and maturities. The cost of export credits remains relatively high, and the longer the maturity the heavier the total interest burden.

In some countries (Austria, France, Italy, Japan and the United Kingdom) government facilities in the form of financing or refinancing funds and/or interest subsidies make it possible to offer export credits in excess of five years at interest rates lower than market rates, but since such facilities, while falling within the framework of export promotion programmes, are often granted for the purpose of assisting developing countries, they confer upon these credits a certain aid character which may be considered as susceptible of having a trade distorting effect. On the other hand, abnormally low export credit interest rates might reduce the commercial banks' willingness to commit their own funds to export financing and might therefore result in reduced commercial bank participation in export financing or in pressure on central banks for increased refinancing facilities. The question of export credit interest rates might be profitably examined at the international level. In particular, it might be worth while to study the possibilities and effects of generalizing the system of subsidized export credit interest rates. Progress in that direction would undoubtedly be welcomed by developing countries, although it could not constitute a substitute for directly increasing their purchasing power by increasing their own export earnings.

Export credit maturities have been lengthened in order to meet competition arising from tied development loans, and this process has been facilitated by the absence of standards generally accepted as appropriate for capital goods amortization in developing countries. Further lengthening would do little to alleviate the external debt-service burden of the developing countries, unless the maturities were geared to the pay-back period of particular projects and to the balance of payments prospects of the importing country, that is, unless export credits were granted with maturities that would assimilate them all but completely with aid credits.

There remains then a gap between the capital goods requirements of developing countries and the volume of such goods they can soundly acquire through export credits on the one hand and export earnings, aid credits and grants on the other. Even where aid credits can be expanded beyond what might otherwise be offered, by tying them to procurement in the grantor country, there are rather severe limitations both on the additional amounts which can thus be made available and on the net benefits which such tied aid brings to the developing country. Moreover, whatever the motivation of the tied aid credit offer, its effect is unavoidably to add another dimension to the use of credit maturities as an element in the competitive race among capital goods exporters.

As has been seen, the problems which have arisen from the prevailing system of financing international trade in capital goods — mainly over-indebtedness of the developing countries on the one hand and possible trade distortion on the other — are highly complex. The experience already acquired in attempting to cope with these problems would tend to indicate that the developing countries' need for an expanding inflow of capital goods is well matched by the developed countries' interest in expanding their sales of these goods. A workable solution to these problems would thus have to encompass all substantial export credit suppliers from among both western and eastern countries as well as the countries importing capital goods under such credits.

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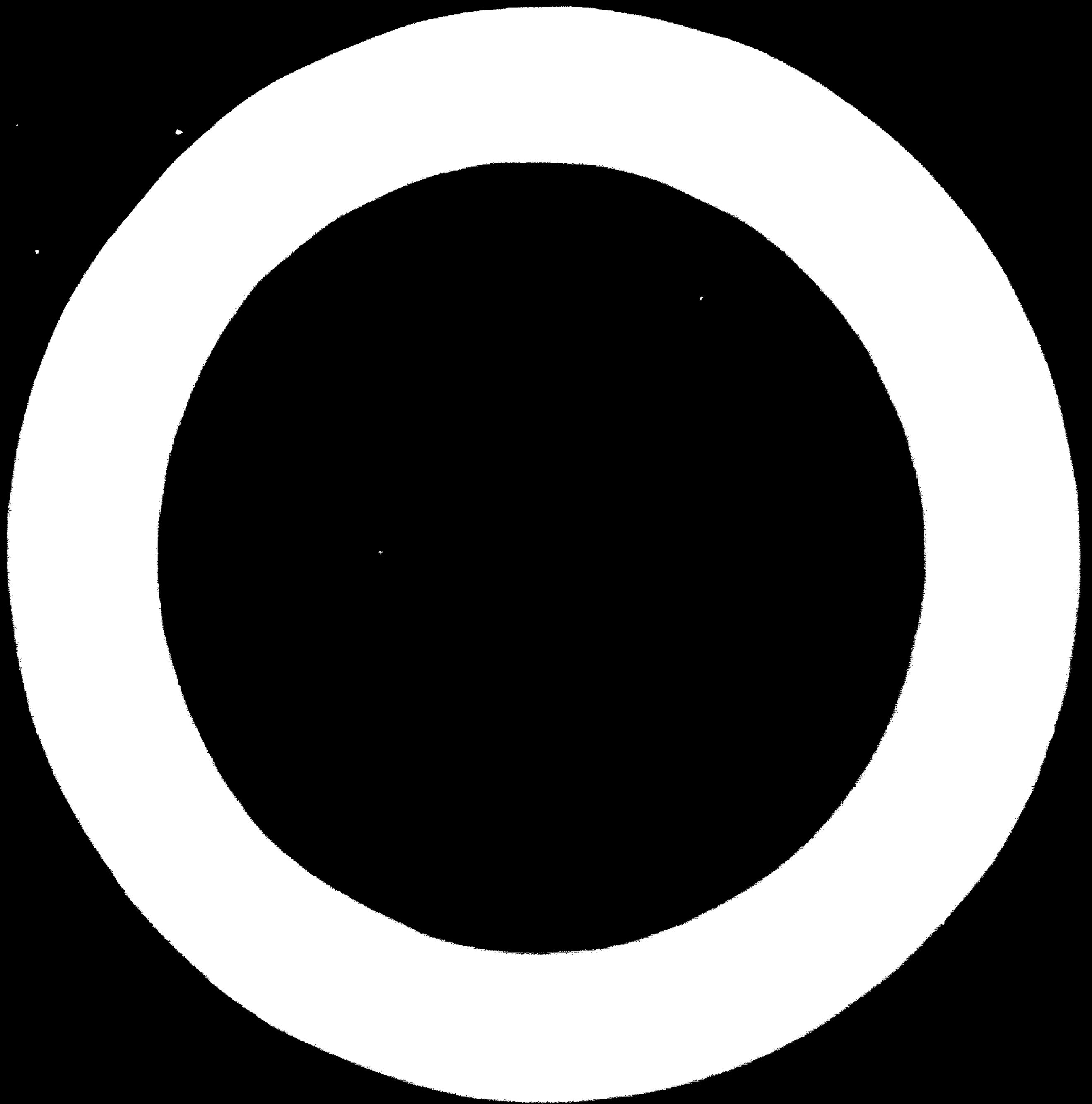
The export promotion value attached to export credit insurance and export credit schemes in developed countries has aroused the interest of developing countries in the possibility of using them for promoting their own exports, with a view to accelerating their industrialization programmes. The increase in their capacity to export industrial products had led some of these countries to contemplate introducing export credit insurance and such schemes have now been institutionalized by the Governments of Brazil, India, Israel, Mexico and Pakistan. The Inter-American Development Bank has initiated a scheme for refinancing export credits granted in member countries for intraregional sales of capital goods. The growing interest of the developing countries in this subject and particularly in the possibility of international arrangements for the provision of export credit insurance has also been manifested in a number of international bodies, including the United Nations Conference on Trade and Development [13] and the Inter-American Development Bank. [14] There is thus a growing need for systematic study of the problems and possibilities of export credit insurance and export credit schemes at both the national and the multinational, especially regional, level and of their possible contribution to the promotion of exports from the developing countries. Such study may well start from an analysis of the methods and effectiveness of the existing schemes, as a basis for their possible improvement and their adaptation to other countries and regions.

[13] *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report,* annex A.IV.14.

[14] *See* Inter-American Development Bank, *Credit Insurance and the Promotion of Latin American Exports* (Washington, D.C., March 1965), page 3.



INTRODUCTION

1. Since the end of the Second World War, the industrialized countries' desire to promote their exports of capital goods, combined with the inadequacy of the developing countries' capacity to import capital goods for their expanding development needs, has resulted in profound changes in the methods by which international trade in such goods is financed.

2. External financing for the purchase of capital goods needed in developing areas had formerly been obtained through long-term borrowing on the world capital markets or through direct investment by foreign enterprises. Even before 1939, however, the capital markets had become largely closed to the developing countries, and it is unlikely that they will reopen to them in the near future. Direct foreign private investment underwent a period of rapid growth during the nineteen fifties, but has levelled off since the beginning of the present decade and seems unable to meet the developing countries' development needs. Additional long-range financing, some of it on grant or concession terms, has been made available through bilateral and multilateral programmes, but has not been able to keep pace with the enormous expansion of the demand for financing for the acquisition of capital goods resulting from the implementation of major development programmes in all the developing countries and especially in the newly independent countries.

3. In their search for alternative sources of funds, the developing countries have come to look increasingly to the suppliers of goods to arrange the necessary financing. In this process, conventional short-term export credits have gradually been forced into medium-term and long-term forms. The evolution of this process, the problems it has raised with regard to international trade and the economic development of the developing countries, and the search for solutions to those problems constitute the subject of this report.

Chapter I

THE PROBLEMS AND THEIR SETTING

ARRANGEMENTS FOR THE FINANCING OF INTERNATIONAL TRADE IN CAPITAL GOODS IN THE IMMEDIATE POST-WAR PERIOD

4. In the sellers' market which characterized the period immediately following the Second World War, most exports of capital goods on credit were carried out within the framework of bilateral payments agreements, which, because of the shortage of international reserves of gold and convertible currencies, had become the basic instrument for the financing of trade among non-dollar countries. These agreements were usually negotiated for periods averaging one to three years, and provided for swing credits to cover short-term trade fluctuations. All balances in excess of the swing credits were to be settled immediately or within a stipulated period generally ranging from three months to one year. Despite the explicit provisions relating to the settlement of such balances, however, the creditor countries in several instances found themselves obliged to permit the accumulation of large balances in excess of the swing credits initially agreed upon and, finally, in order to maintain a normal flow of exports they had no alternative but to negotiate consolidation agreements rescheduling repayment of these short-term debts over a longer period. Nominal short-term credits thus evolved into *de facto* medium-term credits.

THE ORGANIZATION OF FINANCING SYSTEMS FOR MEDIUM-TERM SUPPLIERS' CREDITS

5. The accumulation of commercial arrears and their subsequent renegotiation proved unsatisfactory to both creditor and debtor countries. Suppliers were confronted with liquidity problems and the prospect of exchange losses, while their governments, facing balance of payments difficulties, were obliged to commit funds abroad for periods far exceeding those originally agreed upon. For the debtor countries, debt renegotiation often led to a lowering of their credit rating and a consequent increase in the cost of new borrowing. This situation hastened the transition to organized financing systems for medium-term suppliers' credits (credits of between one and five years), since central banks became increasingly unwilling to continue financing the accumulation of commercial arrears.

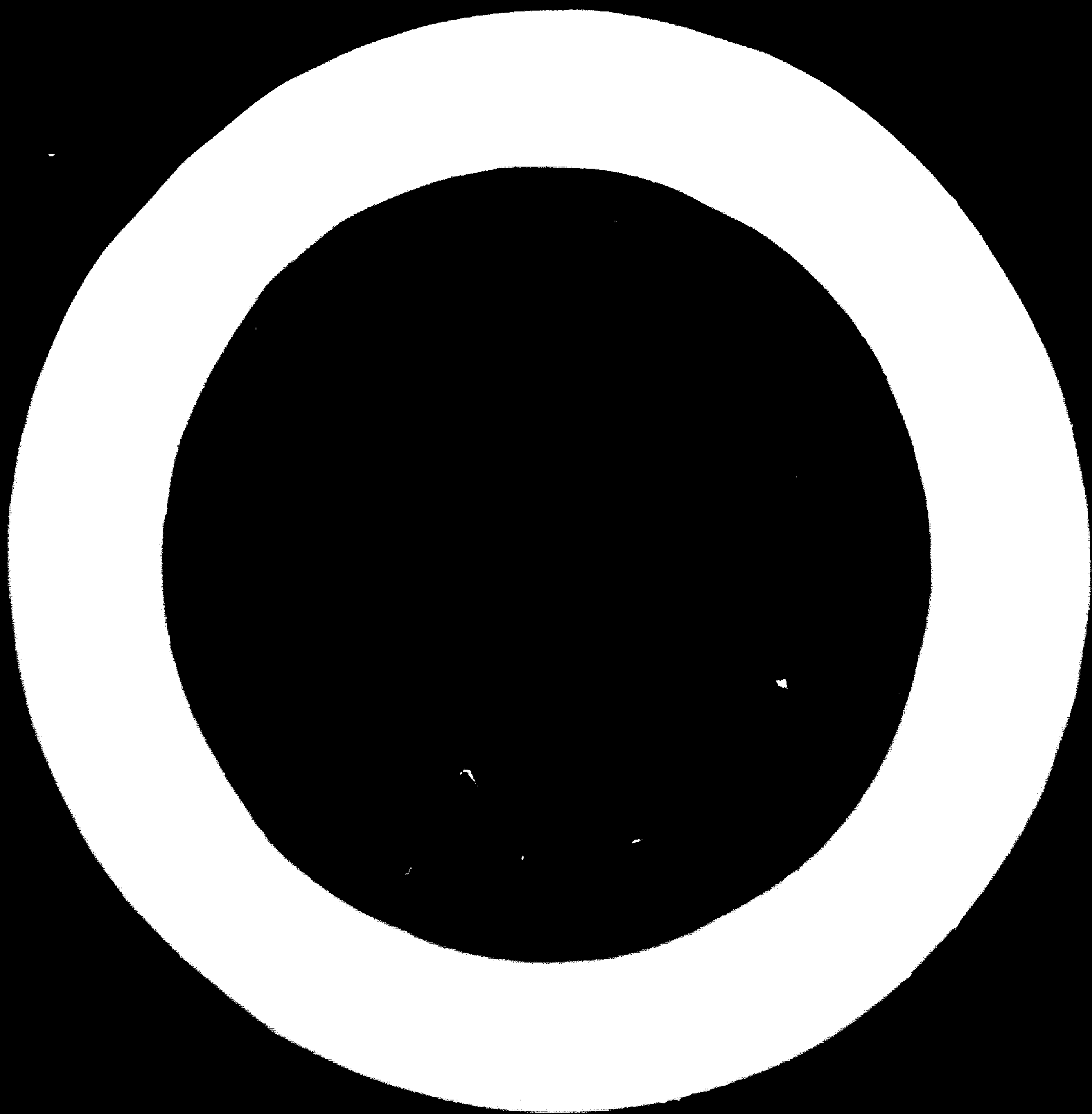
6. At the beginning of 1950, the Bank Deutscher Lander of the Federal Republic of Germany placed a rediscount line of DM 400 million, derived from European Recovery Programme counterpart funds, at the disposal of the Kreditanstalt für Wiederaufbau for the financing of suppliers' credits of up to four years. In March of the same year France organized a financing system for suppliers' credits of two to five years based on the existing scheme for financing medium-term domestic transactions. In October 1950, the Belgian Institut de réescompte et de garantie earmarked B fr 800 million for the financing of suppliers' credits of up to five years. In December 1950, the Japanese Government established the Export Bank of Japan [1] to finance suppliers' credits of between six months and five years. In 1952 the United Kingdom extended the maximum export credit period for transactions with buyers outside the sterling area to three years, or, in the case of exports of national interest, to four or five years; prior to that time, credits exceeding six months for such transactions had been subject to the approval of the Foreign Exchange Control Commission, and half the contract price had had to be paid within six months and the rest within two years. In Italy, Act No. 955 of 22 December 1953 introduced a financing system for suppliers' credits of between one and five years, the granting of which was entrusted to the specialized institutions engaged in the granting of medium-term and long-term domestic credit. Four to five years thus became a generally accepted maximum maturity for medium-term suppliers' credits.

7. The organization of financing systems for medium-term suppliers' credits was accompanied by the extension to medium-term suppliers' credits of export credit insurance, originally introduced after the First World War for short-term suppliers' credits (credits of up to one year). In this way, a number of governments sought to transfer gradually an increasing share of the responsibility for the provision of export financing to the supplier, or rather, in view of the latter's normal reliance on bank credit, to the commercial banks. Exporting countries became increasingly reluctant to conclude bilateral agreements providing for the granting of global governmental credit lines, preferring agreements stipulating that they would not oppose, or would actively favour by providing credit insurance, the granting by suppliers of medium-term export credits.

THE FEAR OF A CREDIT RACE AND THE BERNE UNION FIVE-YEAR UNDERSTANDING

8. The pressure on the supplier to provide both goods and capital or to arrange for the financing of his sales frequently led to an over-emphasis of the credit factor by purchasers who, lacking ready cash, might be willing to ignore higher prices or inferior quality in their endeavour to secure more advantageous credit terms. Such terms became in fact increasingly available as the sellers' market for capital goods gradually developed into a buyers' market as a result of

[1] Pursuant to an amendment of 1 April 1952, the scope of the Bank's activity was expanded to cover import financing and its name was changed to the Export-Import Bank of Japan.



the recovery of the economics of western Europe and Japan. The export credit insurance institutions in the major exporting countries, foreseeing the possibility of a credit race and fearing its consequences, organized through the Berne Union, [2] the international association of credit insurers, direct exchanges of views leading to concerted action relating to the duration of export credit insurance cover, which determined the duration of credits. In 1953, they reached an understanding that export credit insurance should not exceed five years for heavy capital goods. [3] They also agreed in another understanding that buyers of capital goods should make a reasonable down payment before or upon delivery of the goods.

The problem of export credit insurance and export credit terms

9. The five-year understanding was based essentially on a consensus among export credit insurance and export credit institutions that credits exceeding five years, whether for domestic or export transactions, were more in the nature of investments than commercial operations; it was thought that buyers should not be allowed to spread instalments over a period equivalent to the expected duration of the equipment but should repay in a much shorter time, using undistributed profits, cash flow from depreciation allowance on previous investments and funds earmarked for depreciation allowance, or capital assets replacement in relation to the new investment.

10. It is true that it may be possible to pay back credits for certain types of capital goods in less than five years, but the repayment of credits for the establishment of large factories may need to be spread over a much longer period. Moreover, the capacity to repay within a given period depends to a significant extent on the circumstances and degree of development of the importing country: for example, a project that would have a four to five year pay-back period in a developed country may have a much longer pay-back period in a developing country, although the monopolistic or semi-monopolistic market conditions for certain products prevailing in some developing countries might in certain cases make it possible for plants there to pay back the capital invested in a relatively short period. The five-year limit may prove inappropriate not only at the micro-economic or corporate financing level but also at the macro-economic level, that is, in relation to the foreign exchange earning capacity of the importing country. From the latter point of view, the export-increasing and import-saving effects of the contemplated project are the main criteria for appraising the appropriateness of the maturity of the financing to be provided.

11. In countries facing exchange problems the granting of import licences for machinery and equipment may be conditional upon the supplier agreeing to accept deferred-payment terms which would ensure that reimbursement would not impose an undue strain on foreign exchange reserves. For example, in Argentina licences for imports of capital goods involving sums exceeding $100,000 are granted only if the importer can obtain from the supplier credit terms exceeding five years, according to the following mandatory schedule set in December 1964 by the Central Bank of Argentina:

Credits (dollars)	*Maturity period (Years)*	*Grace period*
Under 5,000	Cash	–
5,000 – 20,000	2	0.5
20,000 – 50,000	3	1
50,000 – 100,000	4	1
100,000 – 200,000	5	1
200,000 – 500,000	6	2
500,000 – 1,000,000	7	2
Over 1,000,000	(At least 7)	(At least 2)

12. In India, import licences for equipment and machinery involving sizable sums of foreign exchange are issued only for transactions with countries which have granted long-term credits or provided long-term credit insurance for export credits to the Indian Government within the framework of bilateral agreements, or which have granted a private Indian buyer appropriate deferred-payment terms under which repayment is likely to start after ten years. Otherwise, India issues import licences only for equipment and machinery which involve small sums of foreign exchange and will save or earn foreign exchange in a relatively short time.

Tied development loans and departures from the Berne Union five-year understanding

13. The threat of a credit race, which the Berne Union five-year understanding was designed to arrest, was due less to exporters spontaneously making generous credit offers as part of an aggressive sales policy than to the developing countries' pressure — in the prevailing buyers' market — to obtain credit maturities more compatible with their development needs, their tempo of growth and their existing and potential external resources. The widespread demand in developing countries for credits exceeding five years was bound to influence the medium-term export financing process, but it is unlikely that this process would have changed so rapidly and so significantly without the emergence of an increasing tendency on the part of bilateral aid supplying countries to tie their development loans to procurement from national suppliers. In 1963, the Chairman of the Development Assistance Committee (DAC) [4] of the Organisation for Economic Co-operation and Development (OECD) was to point out that about two-thirds of the bilateral aid extended by DAC countries was subject to procurement restrictions, and to observe:

"The various circumstances which have prompted individual countries to tie their aid include balance of payments difficulties and the under-utilisation of

[2] *See* chapter IV.

[3] As regards other categories of goods, it has been generally recognized that export credit insurance should not exceed six months for consumer goods and raw materials, eighteen months for durable consumer goods and three years for light capital goods such as agricultural machinery, large commercial motor vehicles, lathes and generators.

[4] The Development Assistance Committee was established in January 1960 for the purpose of co-ordinating and improving the effectiveness of bilateral development aid. DAC member countries now include: Austria, Belgium, Canada, Denmark, Federal Republic of Germany, France, Italy, Japan, Netherlands, Norway, Portugal, Sweden, United Kingdom and United States.

resources and unemployment in particular industries and areas. Other factors which have exerted an influence are the desire of the donor government to be fully identified with the project it has financed and the desire to promote exports, both directly and indirectly. Some countries claim that they must tie aid to protect their trade against procurement restrictions on the part of other donors. The effect of tying on public opinion and political sentiment is also considered by many D.A.C. Members to be particularly important. In fact, it has been strongly argued that popular and parliamentary support for foreign assistance programmes is greatly strengthened when the assurance can be given that employment is provided by the programme and such an assurance can only be given if aid is tied. Thus, it is felt by some countries that tying enables them to reach or maintain a volume of aid greater than would otherwise have been possible."[5]

14. From the mid-nineteen fifties onwards, exporters in almost all western European countries began exerting pressure on their governments to provide export credit insurance for periods in excess of five years. The reason generally advanced was that the Export-Import Bank of Washington, through its long-term project and equipment loans granted directly to buyers in developing countries, was in fact enabling American exporters to sell on terms which European suppliers could offer only if they could obtain long-term export credit insurance which would enable them to secure bank financing on similar terms. In a 1956 memorandum to the Government of the Federal Republic of Germany, the Bundesverband der Deutschen Industrie (Confederation of German Industries) specifically recommended the creation of an institution similar to the Export-Import Bank of Washington to finance export credits with maturities exceeding five years.

15. Businessmen in the countries of continental Europe accentuated their pressure when in 1957 the United Kingdom decided to expand the volume of long-term financial assistance granted through the machinery provided for in section 3 of the Export Guarantees Act of 1949, which stipulates that funds allocated under this programme must be utilized for the purchase of United Kingdom goods and services. One year later, the United States, fearing increased strain on its reserves, decided that, in future, Development Loan Fund loans and grants should, like the loans granted by the Export-Import Bank of Washington, be tied to specific purchases of American goods. Thus, exporters in the donor countries received a great deal of indirect financial support through tied development loans granted by their governments to foreign buyers.

16. This situation resulted in the first departures from the Berne Union five-year understanding (the Union was notified of three such departures in 1957, four in 1958 and six in 1959). In a number of countries whose governments were unwilling or unable to provide development loans — tied or untied — to developing countries and whose exporters were faced with competition from such loans, new interpretations of the five-year understanding were put forward. According to the interpretation which had the most far-reaching implications and which derived basically from the desire of exporters in other countries to meet competition from United Kingdom and United States exporters who benefited from the tied development loans granted by their Governments to developing countries, the five-year understanding applied only to guarantees issued for credits granted by the supplier to the buyer (suppliers' credits): guarantees given for credits granted by credit institutions directly to buyers in developing countries (buyers' credits or financial credits) to enable them to pay cash for the purchase in the credit supplying country of heavy capital goods needed for development projects lay outside the scope of the understanding, particularly since such purchases usually involved substantial amounts which could not reasonably be expected to be reimbursed over five years, in view of the developing countries' financial situation and the normal amortization period for such goods. As can be seen, this interpretation, motivated by the need to meet competition arising from tied development loans, introduced the concept of export credits as a means of providing aid to developing countries. The subsequent development of the "aid through trade" concept was to lead to the issuance of guarantees for suppliers' credits in excess of five years granted in connexion with the execution of large-scale projects in developing countries.

17. Another interpretation designed to soften the five-year limit related to the starting point from which the five years were to be counted. The failure of the original understanding to specify the starting point from which the five years should be calculated made it possible to count the five years from the time of delivery of the last part of the order, thus stretching maturities to seven or eight years, since one to three years might elapse between the first and last deliveries.

18. By 1961, departures from the five-year understanding had become so frequent and maturities had been stretched so far (sometimes up to ten years after delivery of the last part of the order) that the Berne Union was obliged to make a formal recommendation to members in that connexion and to issue a precise definition of the starting point: in the case of capital goods consisting of individual items usable in themselves (for example, locomotives) the starting point for a single shipment was to be the date when the buyer took physical possession of the goods in his own country, and, when the order consisted of several shipments, the "mean date" of the dates when the buyer took physical possession of the first and last shipments; in the case of capital equipment for complete plants or factories, the starting point was to be the date when the buyer took physical possession of all the equipment (excluding spare parts) supplied under the contract; in the case of construction or installation contracts, the starting point was to be the date when the seller had completed the construction or the installation of the plant. In the case of such construction or installation contracts, guarantees could also run for six years from the date when all the equipment (excluding spare parts) was delivered to the site. However, Union members were expected to report credits, even if they were shorter than five years from the date when

[5] Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1963 Review, Report of the Chairman of the Development Assistance Committee* (Paris, 1963), para. 52.

the seller had completed the construction or the installation of the plant, if the credit exceeded six years from the date when all the equipment was delivered to the site.

19. In their desire to meet the competition which they considered arose from tied development loans, which made it possible to dispense with a down payment by the buyer, certain countries also devised a new interpretation of the Berne Union understanding, that, in transactions qualifying for export credit insurance, the buyer should make an appropriate down payment. Originally, this had been taken to mean a minimum of 20 or exceptionaly 15 per cent of the value of the order contract, but in the late nineteen fifties certain countries began to accept much smaller percentages. In the past few years it has even become possible, in certain instances, to insure credits granted to foreign buyers to enable them to finance the down payments required in the export contracts 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 necessary supplementary materials or equipment produced by local firms.

THE EXPORT CREDIT RACE: REVIEW OF GOVERNMENTAL ACTION

20. In 1958, the Government of the Federal Republic of Germany was authorized by the Budget Act of that year (continued in force by subsequent Acts) to grant guarantees for "financial credits" to foreign states and enterprises on condition that those credits were used to finance projects involving the purchase of Federal Republic capital equipment with a minimum value of the equivalent of $1.2 million which deserved special support or were of particular interest to the Federal Republic. The guarantees could be granted for credits tied to the purchase of Federal Republic goods, for untied credits and for credits designed to enable countries faced with payments difficulties to consolidate existing debts and arrange a more convenient repayment schedule.

21. In July 1959, in Canada, section 21A was added to the Export Credits Guarantee Act of 1944 in order to empower the Export Credits Insurance Corporation (ECIC), the government agency which administers the Canadian export credit insurance scheme, to provide, when authorized by the Governor-in-Council, long-term export financing for sales of capital goods and related engineering and technical services. According to the ECIC, the purpose of section 21A is

> "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 it 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".[6]

22. In France, the *Loi de finances rectificative pour 1960* of 13 August 1960 authorized the Minister of Finance and Economic Affairs to grant loans to the Crédit national, which already refinanced medium term suppliers' credits, in order to enable that institution to refinance long-term suppliers' credits.[7] When the Crédit national obtained funds for that purpose by borrowing on the market, this Act authorized the Minister to cover the difference between the interest rates paid by the Crédit national on its borrowing operations and the preferential interest rate charged for its refinancing operations. In addition, the Act authorized the French Goverament to grant direct loans to foreign governments or to foreign institutions or corporations guaranteed by their governments or central banks in order to facilitate the purchase by them of French capital goods. The explanatory statement (*exposé des motifs*) of this Act stated:

> "France, which earmarks a substantial portion of its national income for assistance to developing countries has not yet established financial procedures enabling it, to the extent of its capacity, to grant long-term credits to foreign countries to facilitate their purchase of capital goods. It therefore seems necessary to establish provisions which will enable the Trésor to grant to the Crédit national loans designed to facilitate the mobilization by that institution of bank credits which will be granted to purchasers of capital goods for periods exceeding those for which they were now granted".

23. In the United Kingdom and the United States, where tied development loans were considered to be quite different from export credits, exporters then began to demand export credit insurance facilities comparable to those given in continental European countries. In October 1960, the United Kingdom Export Credits Guarantee Department (ECGD) was authorized to match, for a specific order, credit maturities exceeding five years from shipment offered by foreign competitors with official credit insurance or equivalent support, provided that the support did not take the form of direct aid to the buyer's country; the United Kingdom Government also decided that when a United Kingdom exporter was obliged to compete on equal terms with a foreign supplier who was proved to be offering more than five years' credit, but without official credit insurance support, the Department could insure the first five years of the total credit period (part-period cover).

24. In February 1961 the President of the United States directed the Export-Import Bank of Washington to take steps to further the assistance already given to the export community and to devise a programme that would place United States exporters on a basis of full equality with their foreign competitors who were receiving assistance from their governments. In October

[6] Export Credits Insurance Corporation, *What it is and how it operates* (Ottawa, October 1965), pp. 15-16.

[7] The Compagnie française d'assurance pour le commerce extérieur had never been prohibited from insuring long-term suppliers' credits, but prior to the adoption of the *Loi de finances rectificative pour 1960* no banking mechanism for the financing of such credits existed.

1961 the President announced a new export promotion programme under which the Export-Import Bank of Washington was to establish an export credit insurance system and also a system of direct guarantees to credit institutions for medium-term suppliers' credits; the main features of this programme were the change in the function of the Export-Import Bank of Washington, in connexion with suppliers' credits from lender to ultimate insurer, and the transfer to the credit institutions of the short-term and medium-term export credit financing function formerly performed by the Bank.

25. In April 1961 the United Kingdom decided to introduce a system of guarantees for direct "financial credits" to foreign buyers in respect of credits in excess of five years for exports of ships and "very large capital projects" (that is, those normally costing not less than $5.6 million, such as power stations, steel mills, pipelines, etc.) in order "to ensure that the facilities available through ECGD did not leave British exporters at a disadvantage with their foreign competitors".[8]

26. The credit race continued to accelerate. In May 1961, in Belgium, the Minister of Foreign Trade said in a speech before Parliament that "while there were no serious difficulties as far as short-term and medium-term credits to exporters were concerned, long-term credits were becoming a new form of rivalry among countries exporting to developing countries" and observed that "increasingly longer credit terms were being asked for, giving rise to a form of competition which set special problems to small exporting countries such as Belgium".[9] Consequently, in March 1962, a number of Belgian public and private credit institutions and private commercial banks were to establish a pool for the purpose of financing export credits with maturities exceeding five years.

27. In July 1961, Italy introduced within the framework of Act No. 635, which consolidated previous export credit insurance and export financing legislation, an insurance and financing system for "long-term credits relating to the export of goods and services, the execution of projects abroad and assistance to developing countries". During discussion of the bill in the Italian Senate, the Minister of Foreign Trade said that "the bill was a fundamental step in the Government's policy of giving assistance to Italian foreign trade operators in the framework of the common effort to help developing countries"; he added that one of the innovations of the bill was that "purely commercial credits were to be widened into financial credits with broader possibilities of utilization" and that "without this new system it would be practically impossible for Italy to participate in international groups extending multilateral aid such as are at present the aims of international co-ordination efforts".[10]

28. In 1962, the Danish and Swedish Parliaments introduced special guarantees for private export credits (mainly long-term) granted to developing countries in connexion with development projects; similar guarantees were introduced by the Norwegian Parliament in 1963.

[8] United Kingdom, Export Credits Guarantee Department, *ECGD Services* (London, revised July 1965), p. 28.

[9] Bank for International Settlements, "Press review" (Basle), 24 May 1961.

[10] *Ibid.*, 22 May 1961.

Also in 1962, both Norway and Sweden established an export credit institution to finance medium-term and long-term suppliers' credits, while on 14 December 1962, the Danmarks Nationalbank informed the Minister of Finance that it would henceforth be prepared to make refinancing facilities available to commercial banks for long-term export credits covered by the special guarantees provided for in the Act of 19 March 1962 on Technical Co-operation with Developing Countries.

29. The policy of the Netherlands Government regarding acceptance for insurance of export credits with maturities exceeding five years was outlined in a memorandum on aid to developing countries which the Minister of Foreign Affairs presented to the chairman of the Second Chamber of the States General on 18 August 1962. Commenting on this memorandum, the General Manager of the Nederlandsche Credietverzekering Maatschappij N.V. (the Netherlands export credit insurance agency) stated:

> "It appears from this memorandum that the Government continues to aim at a restriction of competition in credit terms which contains dangers to both industrialized and under-developed countries owing to the loss in meaning of prices and quality. The Government is therefore of the opinion that the prevailing Berne Union standards must be adhered to as much as possible. The Government wants to make an exception for the insurance of private financial credits that are granted to enable the execution by Netherlands enterprises of projects forming part of a plan accepted by a consortium for that country, formed under the sponsorship of the World Bank or by a similar international group. The credit term acceptable for insurance will generally be ten years. . . . Besides this possibility of insuring credits with a term exceeding five years, the possibilities are of course maintained as they have existed before, to insure such credits in the event of the exporter having to meet competition from a foreign supplier whom Government facilities enable to offer a longer credit-term (matching) and in the event of part insurance, during five years of a longer credit-term, if there is competition but no apparent Government support."[11]

30. The United Kingdom authorities for their part had always maintained that discriminatory issuance of export credit insurance constituted unfair competition and might lead to a distortion of international trade, and that all countries should receive the same treatment as far as the length of credit insurance was concerned. Consequently, when the Export Credits Guarantee Department had been authorized in 1961 to issue guarantees for financial credits to foreign buyers, it had been made clear in Parliament that such guarantees were available for transactions with all countries.[12] In 1964, the Department provided insurance for a number of financial credits with maturities ranging from ten to thirteen years in connexion with large-scale projects in eastern Europe. Certain countries (Federal Republic of Germany, France, Italy) interpreted this move as a

[11] *See* 1963 *Report of the Management to the Shareholders* of the company.

[12] *See* United Kingdom, Parliament, House of Commons, *Parliamentary Debates* (*Hansard*), *1960-61*, vol. 638, 12 April 1961.

case in which the matching principle was applicable and announced their intention to follow suit. On 30 October 1964 France agreed to provide export credit insurance valid for seven years after delivery for half the contract value of an order for capital goods placed in France by the USSR, the other half being paid in cash or financed within the limit of the five-year understanding. In the Federal Republic of Germany, a ruling introduced at the beginning of 1965 allows export credit insurance to be extended for a period of eight years in some cases in trade with eastern European countries.

31. Within the framework of the 1964 Export Promotion Act, Austria introduced two systems for refinancing long-term export credits to foreign buyers for the purchase of Austrian goods, one covering credits to all countries and the other covering credits to developing countries only.

32. In France, prior to April 1964, the Compagnie française d'assurance pour le commerce extérieur insured only credits granted by the supplier to the foreign buyer. The decrees of 25 April 1964, however, authorized that institution to insure against political, catastrophe, transfer and, in some cases, commercial risks, credits granted by French credit institutions to foreign buyers of French goods to enable them to finance the down payments required in the export contracts and local expenditures incurred in connexion with the installation of the equipment purchased in France, such as the execution of civil engineering works by local contractors or the purchase of supplementary material or equipment produced by local firms.

33. Although the French Government had from 1963 onwards concluded, on the basis of the *Loi de finances rectificative pour 1960*, financial protocols with developing countries associating long-term suppliers' credits with governmental loans for financing local expenditures incurred in connexion with the installation of the equipment purchased with the suppliers' credits, the buyers' credit system was not introduced until the adoption of the *Loi de finances rectificative pour 1965* of 30 December 1965. Article 5 of this Act 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 those portions of the buyers' credits whose maturities exceed five years (the portions with maturities not exceeding five years being granted by the commercial banks which finance them with the Crédit national). Buyers' credits to be granted for transactions involving a minimum sum of approximately $5 million (F fr 25 million) and a minimum maturity of eight years are intended primarily for the financing of purchases of capital goods by developing countries. Franc area countries are not, in principe, eligible for such credits since they can obtain long-term financing from 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". [13]

TWO MAJOR PROBLEMS ARISING FROM CURRENT EXPORT CREDIT TRENDS: THE DEVELOPING COUNTRIES' EXCESSIVE EXTERNAL DEBT BURDEN AND POSSIBLE TRADE DISTORTION

34. Thus, since the late nineteen fifties, a gradually increasing number of export credits have been insured and granted on terms and for purposes which have tended to blur the distinction between trade and aid. As a result of this trend, the annual gross flow of new guaranteed export credits exceeding five years, as reported to the Berne Union, rose rapidly from the equivalent of $78 million in 1960 to $709 million in 1963. The resulting complex situation has led to growing concern regarding both the increasing external debt burden of the developing countries and the possibility of trade distortion.

35. It must be emphasized, however, that even the extended export credit maturities (averaging eight years, though in some cases much longer) still fall far short of those of genuine development credits [14] and are not usually based on a realistic evaluation of the importing country's ability to pay. [15] In fact, these maturities often fail to accord with the equipment's appropriate amortization (pay-back) period in the developing country, or indeed with the project's chances to "yield an economic return at all". [16] Consequently, the lengthening of export credit maturities beyond the five-year limit has not, in most cases, significantly eased the developing countries' over-all external debt burden. Furthermore, in those instances where the burden has been eased, the alleviation has induced a number of these countries to accept a rapid increase in their total export credit-financed imports.

36. For many developing countries, the indebtedness problem has reached a point where there is a serious question as to whether they will be able to continue servicing their existing debts and whether they will be able to secure — or reasonably to accept — additional external financing through the export credit route for the acquisition of equipment needed for new projects. In his opening address at the 1965 annual meeting of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) and its affiliates, the Managing Director of the Fund observed:

> "There has been a growing number of instances where rising debt has disrupted the balance of payments, checked necessary capital inflows and halted economic growth. We are striving to ensure that this problem is realized by countries and anticipated by responsible action, and, when this fails, corrected by measures not inimical to continued expansion of international trade".

37. In addition it is feared that, from the commercial point of view the export credit race may seriously distort international trade, and it is generally

[13] Banque française du commerce extérieur, *Actualités du commerce extérieur*, January-February 1966 (Paris), and Compagnie française d'assurance pour le commerce extérieur, *Bulletin mensuel destiné aux assurés de la Compagnie française d'assurance pour le commerce extérieur* (Paris), 15 May 1966, No. 126, p. 15.

[14] *See* chapter V.

[15] *Ibid.*

[16] World Bank and IDA, *Annual Report 1964-65* (Washington, D.C.), p. 58.

felt that although no exporting country can now compete successfully in the world market without being able to offer long deferred-payment terms, excessive credit competition should be avoided. In that connexion it may be recalled that as a result of international co-operation within the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund, tariff wars and competitive devaluations are no longer a cause of concern, so that one may also realistically look to similar international efforts with a view to working out effective arrangements governing export credit insurance and export credit practices.[17]

[17] *See* chapter IV.

Chapter II

THE EXPORT FINANCING PROCESS

Forms and methods of export financing

38. As noted in chapter I, export credits for the purchase of capital goods take two basic forms: suppliers' credits and buyers' credits (the latter also being referred to as financial credits). Suppliers' credits are granted by suppliers to buyers on a medium-term basis (credits of one to five years) or on a long-term basis (credits of between five and usually up to ten years). Since few suppliers selling on deferred-payment terms have sufficient resources to bridge the credit period, most of them finance the credits they have granted by borrowing from a credit institution. The financing is made available through advances against promissory notes signed by the buyer or against bills of exchange drawn on and accepted by the buyer or the discounting of these notes or bills. The credit institution often refinances the credit it has financed with an export credit institution, a special credit refinancing institution or the central bank.

39. The financing of export credits depends in most cases on the issuance by an export credit insurance institution of a policy providing protection against commercial and/or non-commercial risks (*see* chapter III). The insurance policy issued in favour of the supplier and assigned by him to the credit institution which finances the credit serves as collateral for the credit, and its period of validity generally determines the length of the credit. The credit institution may request, as additional collateral, a repayment guarantee in the form of an endorsement or a letter of guarantee from a reliable credit institution in the buyer's country; when deemed necessary, it may also request a commitment from the central bank of that country to make foreign exchange available for the servicing of the credit. Similarly, the export credit insurance institution may itself request the repayment guarantee and/or the foreign exchange commitment as prerequisites for the issuance of the insurance policy.

40. Although an insurance policy is usually accepted by the credit institution as satisfactory collateral, export credit insurance does not represent a comprehensive endorsement of the credit by the export credit insurance institution. The guarantee does not come into effect automatically if the bills are not honoured at maturity; loss is not recognized and indemnified until a certain period — usually six months — has elapsed, and the insurance policy does not generally provide for the payment to the credit institution of the interest that would accrue between the maturity date of unpaid bills and the settlement of the claims. Loss must result directly from one of the causes set forth in the insurance policy, which do not include the supplier's failure to comply with the terms of the order contract and may fail to include non-acceptance of the goods by the buyer. Consequently, an ordinary insurance policy does not give export bills the status of gilt-edged paper, and credit institutions negotiating them will usually have recourse against the supplier. Recourse financing means that the supplier carries the financing provided by the credit institution on his books as a contingent liability until the credit institution notifies him that the buyer has honoured the export bills. If a bill is not honoured, the credit institution charges a corresponding amount to the supplier's account. The supplier may, however, be able to obtain non-recourse financing when the export credit insurance institution gives the credit institution a direct guarantee (usually known as a "bank guarantee") which, unlike ordinary credit insurance, covers non-repayment for any reason whatsoever.

41. The granting of a suppliers' credit thus involves the negotiation of three agreements:

(*a*) A contract between the supplier and the buyer specifying the details of the order and the conditions and terms of the credit;

(*b*) An agreement between the supplier and the export credit insurance institution, under which the latter commits itself to insure the contemplated transaction;

(*c*) An agreement between the supplier and the credit institution, under which the latter promises to finance the credit.

42. As a rule, the credit granted by the supplier to the buyer does not cover the total value of the transaction, and the buyer is usually required to make a down payment averaging between 15 and 20 per cent of the invoice value on or before delivery. The credit granted to the supplier by the credit institution does not usually exceed the portion of the credit granted to the buyer which is covered by the insurance policy; the supplier is expected to finance the uninsured portion of the credit out of his own funds or by means of parallel financing.

43. Buyers' credits are granted directly to the foreign buyer by a credit institution or a consortium of credit institutions in the exporting country in order to enable him to purchase capital goods or services from suppliers in that country on a cash basis, the government of the exporting country guaranteeing repayment under the official export credit insurance scheme. In many countries, the term "buyers' credit" is synonymous with the term "financial credit". In certain other countries it has a wider connotation: for example, in the Federal Republic of Germany it refers also to consolidation credits, and in Italy it embraces also credits granted by the medium-term and long-term credit institutions to foreign governments or central banks for "economic

rehabilitation" purposes, which need not necessarily involve the purchase of Italian goods and services. In France, the term "financial credit" is not synonymous with the term "buyers' credit". It is applied to credits granted by French credit institutions to foreign buyers to finance the down payments required in export contracts with French suppliers and local expenditures incurred in connexion with the installation of the equipment purchased in France; although such credits may be said to be tied to an export transaction, they are nevertheless considered to constitute outright loans since the exporter is not responsible for committing or liquidating the local expenditures. [1]

44. Buyers' credits involve substantial sums, and are generally granted in connexion with the execution of large-scale projects for periods exceeding five years. They usually involve the following agreements:

(*a*) A commercial contract between the supplier and the foreign buyer, specifying the details of the order;

(*b*) An agreement between a credit institution or a consortium of credit institutions in the exporting country under which the former commit themselves to provide the necessary financing;

(*c*) A guarantee given by the export credit insurance institution to the credit institution under the official export credit insurance scheme.

45. Buyers' credits as well as suppliers' credits are sometimes granted within the framework of bilateral agreements between the government of an exporting country and the government of an importing country, under which the former stands ready to guarantee up to a certain ceiling export credits granted to buyers in the importing country and guaranteed by the government of the latter country. Examples of such agreements are the *accords-cadre* concluded between countries of the European Economic Community (EEC) and developing countries and the agreements between Switzerland and Chile, India and Pakistan 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). [2]

46. In recent years, a number of bilateral governmental agreements have been concluded under which the government of the exporting country undertakes not only to insure a given amount of export credits for the acquisition of machinery and equipment but also to grant direct public loans to finance local expenditures incurred in connexion with the installation of the goods purchased and/or to insure private bank credits granted for the same purpose or for the purpose of financing the down payments called for in export contracts. [3]

47. In transactions carried out on the basis of buyers' credits, as in the case of suppliers' credits, the buyer is usually required to make a down payment before or upon delivery which approximates 10-20 per cent of the invoice value. In some countries, for example, Italy, Switzerland and the United Kingdom, the balance may be financed entirely by buyers' credits, and in such cases the supplier provides no financing out of his own funds. Upon delivery of the goods the credit institution, which is given a direct, unconditional and comprehensive guarantee, purchases from the supplier on a non-recourse basis all the promissory notes signed by the buyer, or grants a direct loan to the buyer enabling him to pay cash to the supplier.

48. The cost of export credit financing depends above all on the conditions prevailing in the money market. It is greatly influenced by the availability of refinancing from the central bank, of public funds placed at the disposal of export credit financing or refinancing institutions or of government subsidies to make up the difference between the preferential interest rates charged for the financing or refinancing of export credits and the prevailing market rates. The availability of such government facilities enables the credit institutions to grant buyers' credits or to finance suppliers' credits at lower rates than those charged for the granting or financing of comparable domestic credits. It should be noted that in the case of suppliers' credits the rate paid by the supplier is not necessarily the same as that which he charges to the buyer. In some exceptional cases, suppliers, in order to obtain orders, have offered export credits at lower rates than those at which they have been able to finance such credits. Conversely, suppliers have sometimes charged buyers higher rates than those which they themselves have paid.

49. The final cost of the credit to the supplier consists of the interest rate charged by the credit institution (which has recently varied between 5.5 and 8 per cent) plus the cost of the insurance policy. The final cost of the credit to a private buyer may in addition include the cost of a guarantee provided by a credit institution in his country and, when that institution requires a mortgage as a condition for giving its gua-

[1] *See* Jacques Guesnon (Director at the Compagnie française d'assurance pour le commerce extérieur), *La Compagnie française d'assurance pour le commerce extérieur, Bulletin de liaison et d'information de l'Administration centrale des finances*, No. 31, June-August 1965, page 18.

[2] Examples are: agreement signed by France with Iran on 13 December 1963 for long-term suppliers' credits equivalent to $60 million; agreements signed by France with India in 1964 and 1965 for long-term suppliers' credits equivalent to $40 million; agreements signed by France with Pakistan in 1964 and 1965 for long-term suppliers' credits equivalent to $20 million.

[3] Financial protocols associating long-term suppliers' credits and governmental loans signed by France with developing countries as of 31 December 1965:

Country	*Date of protocol*	*Governmental loans*	*Suppliers' credits*
		(Millions of dollars equivalent)	
Mexico [a]	21.6.1963	30	105
Morocco	23.7.1963	42	1.8
Tunisia	9.8.1963	18	20
Spain	25.11.1963	30	120
Turkey	13.2.1964	8.3	16.6
Tunisia	25.2.1964	4.6	9.2
Cambodia	4.7.1964	10	18
Ethiopia	4.7.1964	3	8
Greece	20.8.1964	8.2	16.4
Turkey	13.10.1964	3.3	6.6
Morocco	16.12.1964	40	24

Source: Ministère des finances, *Statistiques et études financières* (Paris), December 1965, p. 1564.

[a] The protocol with Mexico also included a $15 million financial credit (as defined in France). The protocol provided for the financing of local expenditures incurred in connexion with the installation of equipment purchased in France through a combination of governmental and private credits. When the protocol was signed, the Compagnie française d'assurance pour le commerce extérieur was not legally authorized to insure private credits granted for such purposes; this authorization was granted by the above-mentioned decrees of 25 April 1964.

rantee, the legal fees relating to the establishment of the mortgage.

TABLE 1. AVERAGE COST OF FINANCING EXPORT CREDITS AT THE END OF JUNE 1966
(Percentage)

Country	Medium-term credits	Long-term credits
Austria	6.5	7.25 and 5.5 [a]
Belgium	6.25	6.5
Canada	6	6
Denmark	8	8
France	6-7	5.7
Germany (Federal Republic)	4.5-6	8
Italy	5.9	5.9
Japan	6 [b]	6 [b]
Sweden	8	5.75-8
United Kingdom	5.5 or 7.5-8.5 [c]	5.5 [d]
United States	6-7	6-7

[a] The 5.5 per cent rate applies only to transactions with developing countries, and includes the insurance premium.

[b] The Export-Import Bank of Japan participates in joint financing with the commercial banks (*see* section on institutional arrangements) and charges rates of between 4 and 7 per cent, while the commercial banks apply rates of between 8.5 and 9.0 per cent on their portion of loans, giving a weighted average of about 6 per cent.

[c] Prior to 1962 the rate was one per cent above the bank rate with a minimum of 5 per cent; in January 1962 the London clearing banks and the Scottish banks agreed to finance medium-term export credits backed by a bank guarantee at a rate of 5.5 per cent for a period of two years for the export of capital goods. The rate for transactions carried out under an ordinary insurance policy is 7.5 to 8.5 per cent.

[d] In February 1961 the Bank of England extended its refinancing facilities to enable long-term export credits to be financed at 5.5 per cent; they had previously been financed at 6.5 per cent.

INSTITUTIONAL ARRANGEMENTS FOR EXPORT CREDIT FINANCING

50. As a rule, commercial banks have financed short-term suppliers' credits as part of their ordinary lending business, but have been reluctant to bear the burden of financing medium-term suppliers' credits and long-term export credits (suppliers' and buyers' credits) or have been legally prohibited from doing so. This situation is a corollary of the traditional attitude towards the provision of medium-term and long-term domestic financing. There has generally been a tradition of specialization, sometimes imposed by laws and regulations but always dictated by sound banking principles, which has tended to maintain — with a certain amount of overlapping — a distinction between short-term lending, carried out by commercial banks utilizing short-term or sight deposits, and medium-term and long-term lending, carried out by investment banks or special medium-term and long-term credit institutions utilizing resources borrowed on the capital markets, medium-term and long-term time deposits and government funds. In a number of countries, further specialization has taken place within the medium-term and long-term field, with the establishment of credit institutions specializing in financing particular sectors of the economy. The institutional arrangements adopted to meet the need for medium-term and long-term export credit financing have therefore varied from country to country, depending on the magnitude of money market supplies and the structure of the existing banking system. However, the institutional arrangements have by and large followed three main patterns.

51. In Denmark, Switzerland, the United Kingdom and the United States, where money market resources have been deemed more or less commensurate with the demand for medium-term and long-term export credit financing, commercial banks have been willing to provide such financing.[1] In all these countries, with the exception of the United States, the commercial banks are further protected against possible liquidity difficulties by a commitment on the part of the central bank to grant them refinancing facilities in case of need or after a given period.

52. In Denmark, commercial banks can convert with the Danmarks Nationalbank, the Danish central bank, export bills with maturities of between two and five years issued in connexion with suppliers' credits involving a minimum of DKr 1 million into credit certificates which may be sold on the money and capital markets or used as collateral for loans from the Danmarks Nationalbank. As noted above, these facilities are also available for long-term export credits to developing countries covered by special guarantees provided for in the Act of 19 March 1962.

53. In Switzerland, the Banque nationale suisse, the central bank of Switzerland, has established a limited rediscounting line for medium-term suppliers' credits and long-term export credits which commercial banks can utilize, although none has so far done so.

54. In the United Kingdom, the Bank of England refinances medium-term suppliers' credits to the value of repayments due to be made by the buyer in the next eighteen months or of 30 per cent of the loan outstanding, whichever is the greater. The Bank also stands ready to refinance the whole of the outstanding balance of long-term export credits five years or more after their origin. Furthermore, commercial banks are allowed to count assets thus refinanceable as liquid when calculating their liquidity ratios. Although the bulk of medium-term and long-term export credit financing in the United Kingdom is derived from the money market, some funds for the financing of medium-term suppliers' credits are also derived from the capital market through the contribution of funds by private insurance companies, acting as institutional investors, to the resources of lending consortia formed on the initiative of merchant banks to finance contracts for large-scale projects. Private insurance companies have also provided the equivalent of $420 million for long-term export credits, these funds being administered by a special company, the Insurance Export Finance Company.

55. The second pattern is that found in Austria, France and Italy, where the financing or refinancing of medium-term suppliers' credits and long-term export credits has been entrusted to existing medium-term and long-term credit institutions.

56. In Austria, medium-term suppliers credits and long-term export credits are financed by the commercial

[1] In the United States, most exports of capital goods involving long-term credits are financed through the project and equipment loans granted by the Export-Import Bank of Washington and the development loans granted by the Agency for International Development.

banks, which refinance the medium-term suppliers' credits with the Oesterreichische Nationalbank, the central bank of Austria, up to a global ceiling established by law, and the long-term export credits with the Osterreichische Kontrollbank, a mixed institution (jointly owned by public and private interests) established in 1946 to provide services not normally provided by commercial banks, which had formerly been made available by the Osterreichische Kontrollbank für Industrie und Handel. The Osterreichische Kontrollbank refinances long-term export credits under two schemes, a general scheme for capital goods transactions with all countries, and a special scheme for capital goods transactions with developing countries. Refinancing resources for the first scheme are derived from a fund contributed by a number of commercial banks, which is replenished by borrowing on the capital market. Resources for the second scheme are contributed by the Government and a consortium of commercial banks: the Counterpart Funds Administration of the European Recovery Programme makes funds available to the Osterreichische Kontrollbank for this purpose at a special rate of one-eighth of one per cent *per annum*; and the commercial banks have agreed to make available at any time, at the prevailing market rate, an amount four times as great as that contributed by the Counterpart Funds Administration. This combination of public and private funds makes it possible to refinance long-term export credits to developing countries at the preferential rate of 5.5 per cent, as compared with the rate of 7.25 per cent charged for refinancing long-term export credits under the general scheme.

57. In France, medium-term suppliers' credits and long-term export credits are financed by the commercial banks, but the pivotal agencies of the medium-term and long-term export financing system are two government-controlled institutions, the Crédit national and the Banque française du commerce extérieur. The Crédit national, established in November 1919 to facilitate post-war reconstruction and finance industrial development, has, in the period following the Second World War, broadened the scope of its activities to include the refinancing of medium-term suppliers' credits (March 1950), long-term suppliers' credits (August 1960) and those portions of buyers' credits whose maturities do not exceed five years (December 1965). The Crédit national refinances medium-term suppliers' credits and those portions of long-term export credits whose maturities do not exceed five years with the Banque de France, but bears the final refinancing responsibility for those portions of long-term suppliers' credits whose maturities exceed five years. In principle it may borrow funds for refinancing the latter from the Treasury, but in fact it obtains such funds by borrowing from insurance companies, savings institutions and the Caisse des dépôts et consignations. As noted, the *Loi de finances rectificative pour 1960* authorizes the Minister of Finance and Economic Affairs to grant subsidies to the Crédit national to make up the difference between the cost of such borrowing and the preferential refinancing rate charged to the financing institution. However, in the case of buyers in countries which have signed an *accord de coopération* (co-operation agreement) with France, those portions of long-term suppliers' credits whose maturities exceed five years are refinanced by the Caisse centrale de coopération économique, the government agency which administers the French aid programme. Those portions of buyers' credits whose maturities exceed five years are granted directly by the Banque française du commerce extérieur, established in 1946 to facilitate the financing of export and import transactions by means of endorsements, acceptances and rediscounting. The endorsement of the Banque française du commerce extérieur is a prerequisite for the refinancing of export credits by the Crédit national. To a limited extent, long-term suppliers' credits endorsed by the Banque française du commerce extérieur are refinanced out of a common fund by the Groupement interbancaire pour le commerce extérieur, an association of commercial banks established for that purpose in 1962 in order to lighten the export credit refinancing burden formerly borne exclusively by the Crédit national. Each bank's participation in the common fund is limited to one per cent of the private deposits it receives in France, and may not exceed 5 per cent of its own funds. The intervention in the export financing process of the central bank of France and of government-controlled institutions using funds provided by public, private and mixed institutions has made it possible to finance export credits at the favourable rate of approximately 6 per cent.

58. In Italy, medium-term suppliers' credits and long-term export credits are financed within the general credit institutional framework established by the Banking Act of 1936, 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. The medium-term and long-term credit institutions most active in the export credit financing field are the Istituto Mobiliare Italiano, the Ente Finanziario Interbancario, the Banco di Credito Finanziario and, to a less extent, the Istituto di Credito per le Imprese di Publica Utilità. These institutions obtain their funds mainly through the floatation of bonds and similar instruments (real estate bonds, interest-bearing certificates, etc.), the collection of medium-term deposits and refinancing with the Mediocredito Centrale, a government agency whose resources are derived from a government endowment fund and loans assigned to it by the Treasury. The Mediocredito Centrale acts as the central rediscounting organ for the medium-term and long-term credit institutions and refinances up to 75 per cent of the portion of the export credit financed by those institutions. If lack of funds prevents it from refinancing the full 75 per cent, it refinances a smaller percentage and reimburses to the credit institutions the difference between the preferential interest rate they charge and the cost of borrowing the supplementary funds on the market. The Mediocredito Centrale derives its interest subsidy resources from its net profits and funds contributed for that purpose by the Treasury. Its intervention in the export financing process, either 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 (5.9 per cent) than that charged for comparable domestic loans (about 8 per cent), thus making it possible to reduce the cost of the export credit to the foreign buyer.

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EXPORT CREDITS AND DEVELOPMENT FINANCING

Part One. Current Practices and Problems

On page 11, paragraph 54 should read as follows:

54. In the United Kingdom the bulk of medium-term and long-term export credit financing is provided by the commercial banks. The Bank of England stands ready to refinance insured export credit of two years or more. The amount refinanceable 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 refinanceable 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 refinanceable under this scheme as liquid assets.

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59. The third and most common pattern is that found in Belgium, Canada, the Federal Republic of Germany, Finland, Japan, the Netherlands, Norway and Sweden, where it has been found necessary to supplement the machinery of bank credit and financing facilities by establishing special institutions for the purpose of financing or refinancing medium-term suppliers' credits and long-term export credits, owing to the fact that commercial banks have been unwilling to commit more than a very safe proportion of their resources to such financing or to the absence of any credit institution of general competence which could, by enlarging the scope of its operations, assume responsibility in that field.

60. In Belgium, medium-term suppliers' credits and long-term export credits are financed from a special pool whose potential resources consist of revolving credit lines equivalent to $240 million committed by three public credit institutions ($120 million) and thirteen commercial banks ($120 million).[5] The participants do not specifically block 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 to examine applications for financing of medium-term suppliers' credits.

61. In Canada, medium-term suppliers credits are financed by the commercial banks (chartered banks) and refinanced by the Export Financing Corporation of Canada, Ltd., a wholly owned subsidiary of the Canadian chartered banks with an authorized capital of the equivalent of $46.5 million, of which one-fifth is paid up. The bulk of the corporation's refinancing resources is derived largely from borrowing on the Canadian and United States money markets. Long-term export credits are financed by the Export Finance Division of the Export Credits Insurance Corporation, a Crown company; funds for that purpose are obtained from the Treasury up to a global ceiling established by Parliament, which is now fixed at the equivalent of $372 million.

62. In the Federal Republic of Germany, medium-term suppliers' credits were originally financed by a government institution of general competence, the Kreditanstalt für Wiederaufbau, established in 1948 to finance post-war reconstruction. In 1952, however, the medium-term export credit financing functions of the Kreditanstalt für Wiederaufbau were transferred to the Ausfuhrkredit Aktiengesellschaft, a private non-profit corporation formed by a consortium of banks for the financing of medium-term suppliers' credits. The funds at the disposal of the Ausfuhrkredit Aktiengesellschaft are derived from two credit lines: "A" line and "B" line. The "A" line at present consists of a credit equivalent to $167 million extended by the member banks, while the "B" line consists of a refinancing line of the equivalent of $71 million made available by the Bundesbank. Long-term export credits are financed by the Kreditanstalt für Wiederaufbau which obtains funds for its export credit financing operations by borrowing on the capital market or from other sources.[6]

63. In Japan, the Export-Import Bank, a government agency, finances suppliers' credits in excess of six months, very often in co-operation with the commercial banks; in the latter case, the Bank refinances 70 per cent of credits of between six months and one year and 80 per cent of credits of more than one year. The Bank's financing resources consist of capital subscribed by the Japanese Government and supplementary funds borrowed from the Treasury.

64. In the Netherlands, commercial banks may, in principle, finance all export credits irrespective of maturity, but in practice financing for medium-term suppliers' credits and long-term export credits is provided by three specialized institutions, the N.V. Export-Financiering-Maatschappij, the Maatschappij voor Middellang Crediet N.V. and the N.V. Maatschappij voor Krediet op Vaste Termijn. The two latter institutions are owned by commercial banks and obtain their main resources by floating bond issues and contracting long-term loans with maturities of up to ten years. The first institution, which is the most important and is owned jointly by public and private credit institutions, obtains the bulk of its resources by raising loans on the capital markets and from deposits made by participating banks. These resources may be supplemented by refinancing facilities provided by the Nederlandsche Bank N.V. (the Netherlands central bank) for export bills which are due to mature within one year. Facilities for financing exports of ships are also provided by ship 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.

65. In Norway, medium-term and long-term suppliers' credits are financed by the A/S Forretningsbankenes Finansierings-og Eksportkreditt-institutt, a specialized private institution established for that purpose by the Norwegian commercial banks. In 1964, the institution's capital was increased from the equivalent of $1.4 million to the equivalent of $2.4 million; it can augment its resources by raising loans on the capital market, but the total amount of bonds in circulation at any time must not exceed a sum equivalent to ten times its capital.

66. In Sweden, a specialized institution, the AB Svensk Exportkredit finances medium-term and long-term suppliers' credits. Since the liberalization of the banking regulations in 1965, the commercial banks have, in principle, been in a position to finance all export credits irrespective of maturity, but in practice they finance short-term and medium-term suppliers' credits, leaving the AB Svensk Exportkredit to finance suppliers' credits of between five and ten years. The

[5] Prior to 30 April 1966, medium-term and long-term export credits 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, 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. On that date, however, the two pools were merged and their aggregate potential resources increased from an equivalent of $218.75 million to an equivalent of $240 million.

[6] For transactions carried out on behalf of the Government of the Federal Republic of Germany, the Kreditanstalt für Wiederaufbau, which administers the official aid programme, uses public funds which it handles on a trust basis.

latter institution has a share capital of the equivalent of $19.3 million subscribed by the Government (50 per cent) and by twelve commercial banks (50 per cent). It may raise the funds needed for its financing activities on the capital markets.

THE EXPORT FINANCING PROCESS IN THE CENTRALLY PLANNED ECONOMIES

67. In the centrally planned economies, a relatively small proportion of export transactions involving capital goods is carried out through purely commercial credits; most of these transactions are effected through state credits granted within the framework of bilateral governmental agreements, usually designated as economic co-operation agreements. These agreements, as a rule, cover not only the cost of equipment and machinery and of those construction materials not available in the credit receiving country but also the cost of preparatory work, including, for example, prospecting and exploration or preparation of blueprints as well as the cost of post-installation support, such as technical assistance and the training of local personnel. Usually, the state credits are granted at an interest rate of 2.5 to 3 per cent and are repayable over a period of eight to fifteen years, starting one year after the delivery or installation of the equipment. Repayment has commonly been effected through the shipment of export commodities or of the goods produced by the plant built with the credit.

68. Commercial export credits for the acquisition of machinery and equipment are granted by the foreign trade organizations. In Hungary and Poland, however, some individual enterprises may themselves grant such credits directly to the buyer: for example, in Hungary Ganz-Mávag, which manufactures locomotives and rolling stock, and Pannonia, the foreign trade company of the Csepel Iron and Steel Works, and in Poland the Bielsko factory and the Racibórz factory, which manufacture textile machinery and machine tools, respectively.

69. The foreign trade organizations are autonomous bodies which conduct their import and export activities under their own names and according to their own rules, possess their own funds and operate on strict commercial principles. They operate under the guidance and supervision of their respective ministries of foreign trade, which do not intervene in their transactions as long as the latter conform to the over-all trade plan, which forms part of the national economic plan. The organizations have representatives in foreign countries, whose duties include, *inter alia*, customer liaison, market prospection and the negotiation and signing of contracts.

70. The foreign trade organizations specialize in specific categories of goods. Thus, in Czechoslovakia, Technoexport, the largest of the eight foreign trade organizations dealing with exports of capital goods, specializes in the export of machinery and equipment for the chemical and rubber industries, the refrigerating and food-stuffs industries, the engineering industry, the building materials and wood-working industries and also in exports of ships and dredgers; Skoda-export deals with machinery and equipment for power-stations, metallurgical works, engineering works and rolling mills and also with electric locomotives and trolley buses; Investa exports machinery and equipment for the shoe and textile industries and Strojimport exports machine tools, die-casting machinery, foundry equipment, presses, machine-testing instruments, etc. In Hungary, Komplex deals with factory equipment, Mogürt with motor vehicles and Transelectro with electrical equipment and appliances. In Poland, ten organizations handle exports of machinery and equipment, the largest being Cekop (complete industrial plants and installations), Metalexport (metal-working machinery, textile machinery, paper-making machinery, pumps, compressors and machine tools). Centromor (ships and marine equipment), Elektrim (electrical and power installations) and Centrozap (machinery and complete plants for the mining, iron and steel industries, etc.).

71. In Romania three organizations specialize in exports of capital goods: Industrialexport (complete plants and machinery for the oil and chemical industries, the mining industry, the iron, steel and power industries and the shipbuilding and refrigerating industries); Mașinexport (transportation and construction equipment, cranes pumps, etc.) and Auto-Tractor (tractors, automobiles, transportation equipment and agricultural machinery).

72. In the Union of Soviet Socialist Republics the number of organizations specializing in exports of machinery and equipment has increased from four before the Second World War to fifteen in 1966. For example, Tjazhpromexport deals with the construction of complete plants for the mining and metallurgical industries, while Prommashexport constructs complete plants for the engineering, machine tool and electrical industries. Mashinoexport exports equipment for the oil, mining and building industries, Energomashexport specializes in exports of electrical and power equipment and Aviaexport deals with exports of aeroplanes, helicopters, etc. Three other organizations specialize in transportation equipment: Avtoexport (passenger cars, trucks, buses, tractors), Sudoimport (ships and marine equipment) and Tractoroexport (agricultural and road-building equipment).

73. The foreign trade organizations may, if necessary, finance the credits they grant by borrowing from the central banks (in Hungary and Romania) or the foreign trade bank or a similar state credit institution (in Czechoslovakia, Poland and the Union of Soviet Socialist Republics). In Czechoslovakia, the institution responsible for financing these credits is the Ceskoslovenská obchodní banka a.s., established on 27 November 1964, which took over some of the functions formerly performed by the State Bank of Czechoslovakia, particularly in the field of international banking and foreign exchange operations; in addition, the Ceskoslovenská obchodní banka a.s. keeps the country's clearing and other external accounts, buys and sells foreign exchange, provides foreign trade banking services, grants and accepts foreign credits and assists in the development of Czechoslovakia's foreign trade. In Poland, export credit financing has been provided since July 1966 by the Bank Handlowy w Warszawie S.A., which, on 1 January 1964, assumed responsibility for all settlements relating to foreign trade previously handled by the Narodowy Bank Polski, the Polish central bank. In the Union of Soviet Socialist Republics the foreign trade organizations can finance their export

credits with the Vneshtorgbank (Bank for Foreign Trade), established in 1922, which dealt only with non-commercial payments and accounts until 1961, when it also assumed responsibility for commercial operations, formerly financed by the Gosbank, the USSR central bank.

74. Export credits involving capital goods are granted on a medium-term or long-term basis. Medium-term export credits usually have maturities of between one and five years, while long-term export credits are granted for periods ranging from five to eight years. The buyer is usually required to make a down payment averaging 10 per cent of the value of the contract at the time of signature and a similar payment upon delivery of the goods. Depending on the type of equipment and on various economic circumstances, each of these payments may be reduced to 5 per cent or increased to as much as 30 per cent.

75. The guarantee of the government of the buyer's country or a reliable credit institution in that country is very often a prerequisite for the granting of the commercial export credit. A gold clause may be inserted in the credit contract as a guarantee against the effects of devaluation and inflation in the buyer's country. The interest rates charged generally average 4-6 per cent. The credits are usually repayable in the currency of the importing country (which will be used to purchase local commodities), in convertible currencies or in goods manufactured in the plants equipped with the aid of the credit.

Chapter III

EXPORT CREDIT INSURANCE

THE PROBLEM OF EXPORT CREDIT RISKS

76. The factors which make selling abroad on deferred-payment terms riskier than selling on the domestic market on similar terms are well known. Reliable information concerning prospective foreign buyers may be hard to obtain, making it difficult to assess their credit-worthiness accurately. Suppliers fear that in case of non-payment it may prove complicated or costly to press their claims in foreign courts, and that in the buyer's country alien creditors may not always receive the same treatment as do domestic creditors.

77. In addition to commercial risks (insolvency and default of the buyer), external trade involves important non-commercial risks arising from events beyond the control of both buyer and supplier. Losses may be caused by political events such as war, rebellion and expropriation, by catastrophes such as hurricanes, floods and earthquakes, and by monetary phenomena such as foreign exchange shortages and other transfer difficulties. When such events occur before delivery of the goods, they may prevent the buyer from fulfilling the contract or make it impossible to transport the goods to their destination. When they occur after delivery, they may render previously solvent buyers insolvent or prevent payment by solvent buyers.

78. It has been considered necessary, therefore, to provide protection not only against commercial risks, which loom greater in foreign markets than in the home market, but also against the other risks peculiar to export trade, which fall outside the scope of the supplier-buyer relationship and may interfere with the payment or remittance of the sums due.

THE RATIONALE AND OBJECTIVES OF GOVERNMENT-BACKED INSURANCE

79. The great number of buyers throughout the world makes it possible to spread the commercial risks — that is, the risks arising from circumstances within the buyer's control — adequately and, by means of actuarial calculations similar to those employed for life insurance, to assess the probable average loss percentage. Consequently, when the commercial risks involved in export transactions are considered not to be abnormally increased by conditions in the buyer's country, private insurance companies have been willing to underwrite them for their own account, since sufficient premium income to meet possible claims payments can be expected to accumulate over a long period. Similarly, private insurance companies have always been willing to underwrite the risk of losses arising from damage to the goods during shipment to the buyer's country.

80. In the case of non-commercial risks, which threaten not only payments due from individual buyers but all payments due from an entire country (country risks), an actuarial basis is obviously not conceivable. The "magic of averages" does not operate, owing to the limited number of countries in the world market. Moreover, the events leading to the occurrence of political, monetary and catastrophe risks are highly imponderable and in most cases unpredictable. There is no way of forecasting, with any acceptable margin of error, possible future fluctuations in the political and economic situation of importing countries which may force them to control imports, ration foreign exchange payments or decree moratoria. Given the evolution of the world conjuncture, the past cannot be relied upon as a valid guide to the future: in the nineteen thirties foreign investors and suppliers incurred most of their losses through bankruptcy or cancellation or rejection of orders, whereas in the post-war period apprehensions concerning non-payment seem to have arisen mainly from the fear of exchange shortages, expropriations and political disturbances. Possible claims payments in connexion with non-commercial risks might involve sums incommensurate with the premium reserves of private insurance companies, as can be seen from the example of the Export Credits Guarantee Department of the United Kingdom, which in two years, owing to exchange difficulties in a single market, became liable for claims payments equivalent to the total premium income received on all markets during the preceding twenty-two years.[1] Moreover, the unwillingness of private companies to underwrite commercial risks in respect of sales to countries which do not have an excellent credit rating has often led governments to assume responsibility for all or part of such risks. It should be noted that since a government cannot be declared bankrupt, there is no possibility of insolvency and the risk of default by governments, public buyers or private buyers guaranteed by their governments is considered to be a political risk.

81. The vital importance of exports to their economies has, over the years, led the governments of a number of countries to introduce export credit insurance as part of their export promotion programmes. The expansion of export trade has, however, been sought for different reasons at different epochs, according to the changing conditions and requirements of the economic conjuncture. When export credit insurance was first introduced for short-term suppliers' credits, soon after the First World War, its main purpose was to help combat the then prevailing large-scale unemployment. During the nineteen thirties export credit

[1] United Kingdom, Export Credits Guarantee Department, op. cit., p. 17.

insurance was used with a view to mitigating the effects of the depression by helping to maintain a certain flow of exports at a time when widespread market dislocation, foreign exchange crises and political instability were transforming the conditions under which international trade had previously been financed, making it difficult for suppliers and bankers to continue to assume their traditional risk-bearing responsibility. In the early nineteen fifties, with the progressive shift from a sellers' market to a buyers' market and the gradual change in the pattern of international trade resulting from the expansion of capital goods exports, export credit insurance was extended first to medium-term suppliers' credits and then, towards the end of the decade, to long-term export credits (suppliers' credits and buyers' credits). This enlargement of the scope of export credit insurance has been accompanied by a growing tendency to regard such insurance not only as a means of promoting the developed countries' exports of capital goods and services but also to a certain extent as an instrument of their aid policies.

The banking function of export credit insurance

82. Export credit insurance enables suppliers to sell abroad on deferred-payment terms without endangering their financial equilibrium by assuming responsibility for excessive risks. An export credit insurance policy guarantees the supplier against possible substantial losses or against prolonged illiquidity caused by protracted failure to pay on the part of the buyer. Furthermore, the insurance policy can be of great assistance in facilitating the mobilization of export credits when the supplier is not in a position to finance his transactions himself. This latter role of export credit insurance has assumed unprecedented importance in view of the fact that an increasing number of firms, faced with the necessity of granting more export credits in order to expand their business, have found they can do so only by seeking more bank financing.

83. The banks' willingness to make advances or provide discounting facilities increases *pari passu* with their assurance that the supplier is protected against failure to pay on the part of his foreign customers. The addition of an insurance institution's signature to those of the parties to the export transaction greatly improves the quality of the export bill. In those circumstances, banks tend to place less emphasis on the exporter's credit-worthiness. The fact that the risks involved in export transactions are covered by government-sponsored institutions has also brought about increased participation by credit institutions in the export financing process and has led to mobilization of funds which would not otherwise have been available.

84. As has been said in the preceding chapter, an export credit insurance policy is in most cases a prerequisite for the granting of credits, and its validity largely determines the length of the credit to be granted. Export credit insurance has become an integral part of the export financing process and export credit insurance institutions perform, on the whole, a function complementary to that of the credit institutions.

Institutional features

85. Despite international co-operation aimed at harmonizing the various national schemes and despite the effects of competition, which tends to increase the similarity among these schemes, there are still certain differences as regards the form of government intervention, the scope of the risks insured, the nature of the transactions insured, the nature of the export insured, the risk cover and the types of policy issued.

The form of government intervention

86. This intervention has taken place to a large extent within the functional framework of co-operation between government and private enterprise, thus mobilizing for the insurance schemes the specialized experience of private insurers and the business community as a whole and their knowledge of export trade problems and efficient business management. The closest form of co-operation is that exemplified by the Netherlands and the United States, where the insurance scheme is administered by a private organization which insures non-commercial risks for account of the Government and handles commercial risks to a great degree for its own account: thus the Nederlandsche Crediet-verzekering Maatschappij N.V., whose shares are held by Netherlands banking institutions and by Netherlands, United Kingdom and Swiss insurance and reinsurance companies, 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 company. In practice, however, the Nederlandsche Crediet-verzekering Maatschappij insures commercial risks for its own account and reinsures them with its commercial reinsurers, having recourse to government reinsurance only in the case of transactions with developing countries involving maturities in excess of two years. In the United States, the Foreign Credit Insurance Association, a voluntary unincorporated association of approximately sixty-five stock and mutual insurance companies, insures commercial risks for its own account and non-commercial risks for the account of the Government through the Export-Import Bank of Washington, which also provides reinsurance for liabilities above certain limits in respect of commercial risks.

87. Close co-operation also exists in France, where the Compagnie française d'assurance pour le commerce extérieur, a mixed joint-stock company, insures for its own account commercial risks in respect of short-term transactions and insures for account of the Government non-commercial risks for all transactions as well as commercial risks on medium-term and long-term transactions. Decisions on the granting of export credit insurance for account of the Government are taken by an interministerial committee, the Commission des garanties et du crédit au commerce extérieur.

88. Another form of co-operation between government and private enterprise is that found in Austria, the Federal Republic of Germany and Switzerland where insurance is provided for account of the government by private or mixed companies acting as commission agents on instructions from the Ministry of Finance, as in Austria, or from an interministerial committee, as in the Federal Republic of Germany and Switzerland. In Austria, the Österreichische Kontrollbank AG, a banking institution owned by three big nationalized banks and two private banks, acts as

trustee for the Government and provides coverage against both commercial and non-commercial risks. In the Federal Republic of Germany, insurance against both commercial and non commercial risks is provided by the Government through the Hermes Kreditversicherungs AG, a private insurance company, and the Deutsche Revisions-und Treuhand AG, which act as agents of the Federal Government. In Switzerland the Bureau pour la garantie contre les risques à l'exportation, an organization administered by a private trade association, the Société suisse de fabricants de machines (Swiss machinery manufacturers' association), has been entrusted with handling, for account of the Government, the official insurance programme, which provides coverage against non-commercial risks only. In the Federal Republic of Germany and Switzerland, however, private insurance companies (in the Federal Republic of Germany, the Gerling Konzern Speziale Kreditversicherungs AG and the Deutsche Kreditversicherungs AG and in Switzerland, the Eidgenoessische Versicherungs AG and a subsidiary of the Gerling Konzern Speziale Kreditversicherungs AG) have been willing to insure for their own account commercial risks for transactions with buyers in countries with an excellent credit rating.

89. A completely different form of co-operation prevails in other countries where insurance is provided directly by the Government through a government department, as in Japan (Ministry of International Trade and Industry) and the United Kingdom (Export Credits Guarantee Department); through a government agency, as in Denmark (Eksportkreditradet), Finland (Vientitakulaitos), Norway (Garanti-Instituttet for Eksportkreditt), Sweden (Exportkreditnämnden); or through a public corporation, as in Belgium (Office national du Ducroire), Canada (Export Credit Insurance Corporation) and Italy (Istituto Nazionale delle Assicurazioni) (in the latter country, the official insurance scheme provides coverage against non-commercial risks only).[2] In almost all these countries private enterprise participates in the export credit insurance process through representation on the executive bodies which examine applications for insurance and supervise the schemes, or through advisory councils. For example, in Denmark, members of the Eksportkreditradet (the export credit council) include representatives of trade associations in addition to the representatives of the Danmarks Nationalbank and the ministries concerned. In the United Kingdom, the Export Credits Guarantee Department is assisted by an Advisory Council of private individuals representing banking, insurance and industry. In addition, private participation is particularly significant in Belgium, Italy and the United Kingdom, where private companies (in Belgium, the Compagnie belge d'assurance-crédit; in Italy, the Societa Italiana Assicurazione Crediti, and in the United Kingdom the Trade Indemnity Company, Limited) provide cover against commercial risks for transactions with buyers in countries having an excellent credit rating.

The scope of the risks covered

90. While many schemes — those of Japan, the Netherlands and the United Kingdom, for example — have adopted a global definition of non-commercial risks, embracing all risks beyond the control of the supplier or the buyer, other schemes, such as those of Belgium, France and the United States, cover only the risks specified in the policy. Political risks and transfer risks are covered by all schemes and catastrophe risks are covered in most cases. The risk of price increases during the production of the goods is covered only in Finland, France[3] and Italy.

91. Commercial risks are defined in all schemes as the insolvency of and default by private buyers (default by governments or buyers guaranteed by them being considered as a political risk). Insolvency is covered in all schemes except those of Italy and Switzerland, while default is excluded in Belgium (for medium-term and long-term export credits), the Federal Republic of Germany, Italy and Switzerland. Non-acceptance of the goods is covered only in Austria, Canada, Finland, the Netherlands, the United Kingdom and the United States.

The nature of the transactions insured

92. All export credit insurance schemes guarantee suppliers' credits and most schemes guarantee buyers' credits (the latter guarantees, generally called financial guarantees, are studied in a later section of this chapter). Many schemes cover suppliers' credits not only through an ordinary export credit insurance policy but also by a direct guarantee to the credit institution financing the credits (such guarantees, known as "bank guarantees" are studied in the following section). A few schemes also cover other types of operations. For example, as noted, the Compagnie française d'assurance pour le commerce extérieur guarantees credits granted to foreign buyers by credit institutions to finance down payments required in export contracts with French suppliers and local expenditures incurred in connexion with the installation of the equipment purchased in France; the Compagnie française d'assurance pour le commerce extérieur also insures against political risks equipment used in the execution of works abroad, provided that the equipment is exported to the foreign country on a temporary basis and is to be re-exported upon completion of the works. The Istituto Nazionale delle Assicurazioni guarantees credits granted by medium-term and long-term credit institutions to foreign governments and central banks for "economic rehabilitation", and the Italian Parliament is considering the possibility of authorizing that institution to guarantee credits granted to foreign buyers to finance local expenditures relating to export transactions with Italian suppliers. In four of the six countries having an investment guarantee system (Austria, Federal Republic of Germany, Japan and Norway), this system (which falls outside the scope of this study) is administered within the institutional framework of the export credit insurance scheme. In the other two countries (Denmark and the United States) the investment guarantee system is administered by a different agency.

The nature of the export insured

93. In the context of export credit insurance, the

[2] A bill now before the Italian Parliament proposes to extend to commercial risks the cover provided under the official export credit insurance scheme.

[3] The French scheme covers this risk only to the extent to which the increase in French prices exceeds the increase in world prices.

term "export" is interpreted in a very broad sense, since, in addition to sales of goods, it may include such operations as sales of patents; performance of services; construction of public works, preparation of studies, provision of consultative or advisory services, etc.; lease of equipment, patents, etc.; exploration of foreign markets; consignment of stocks for sale abroad, and participation in trade fairs abroad.

94. In the case of sales of goods, all categories of goods are eligible for insurance under all schemes, provided they are of national origin or, in the case of capital goods, that they have a satisfactory content of national material and labour. In addition, in countries such as Belgium where the transit trade is relatively important, it is also possible to obtain insurance for short-term sales of goods manufactured abroad, provided that such transactions are not detrimental to the corresponding national industry.

95. In recent years, there has been an increasing tendency for suppliers in several countries to participate jointly in export contracts for major projects, which has created problems for insurance institutions in cases where buyers have preferred to sign contracts with a single supplier rather than deal with several suppliers. This led the countries of the European Economic Community in May 1962 to agree on reciprocal arrangements under which the insurance of a main contractor for capital goods could cover work subcontracted in another EEC country up to a value of 30 per cent of the main contract; in June 1965, this percentage was increased to 40 per cent in the case of contracts of up to $7.5 million, while 30 per cent was retained for contracts exceeding $10 million; for contracts of between $7.5 million and $10 million the value of the foreign content of the related subcontract must not exceed $3 million. Austria, Denmark, Norway, Sweden and Switzerland have concluded reciprocal agreements with the EEC countries for the purpose of issuing joint cover on major capital goods exports. The United Kingdom has concluded reciprocal agreements with Austria, Denmark, Norway, Sweden, Switzerland and the EEC countries to cover, under certain conditions, contracts involving up to 30 per cent of foreign goods where these goods emanate from one of these countries. Canada has been given the statutory authorization to conclude similar reciprocal agreements.

The risk cover

96. Except in a few cases involving direct guarantees, all export credit insurance schemes require the supplier to retain a direct financial interest in the insured transaction. This risk-sharing requirement, under which the supplier carries a small proportional share of any loss for his own account, is designed to discourage irresponsible trading and ensure that the supplier will exercise great care in choosing his customers and in appraising their credit-worthiness, that he will pursue the buyer for collection of payments after they become due, and that he will have a stake in maximizing recoveries once he has received his claims payments from the export insurance institution. The tendency has been to make the insured responsible for a sum corresponding approximately to his expected profit and to provide him with adequate protection for what is considered to be his "prime cost".

97. The percentage of cover in respect of risks which are beyond the insured's control is very often substantially higher than that in respect of commercial risks, which the insured can minimize by exercising restraint with regard to the safety and length of the credit he grants. Similarly, the percentage of cover is usually higher for sales to public bodies than for sales to private buyers, since in the latter case the exporter is assumed to be in a position to exercise sounder judgement. The percentage of cover ranges from 75 to 90 for commercial risks and from 85 to 95 for non-commercial risks. The percentage of cover is generally lower for losses connected with the holding of stocks abroad, the exploration of foreign markets and participation in trade fairs.

98. The importing country's grading is also often used as a criterion in determining the cover to be provided (*see* section below on the solvency of insurance schemes). In the case of countries which are considered relatively poor credit risks, the supplier is sometimes asked to assume responsibility for more than the normal minimum percentage of losses arising from commercial and non-commercial risks. For example, under new regulations introduced in the United States in May 1965, the supplier is normally expected to carry 10 per cent of the risk, but, depending on the country, he may be required to assume responsibility for 20 to 30 per cent.

99. Credit institutions usually finance only the insured portion of export transactions, and since this financing is generally provided with recourse against the supplier, the institutions take into account the latter's over-all financial situation. If his financial situation is particularly sound, the supplier may also be able to obtain parallel financing for part or all of the uninsured portion of the transaction: the shorter the maturities of the export bills, the easier it will be to obtain such financing. With the lengthening of export credit maturities, suppliers may therefore increasingly be confronted with a situation in which the uninsured portions of their various transactions accumulate, constituting frozen assets which diminish the firm's potential liquidity.

100. Certain formulas have been adopted to help overcome this growing liquidity problem. In the United Kingdom, for example, the Export Credits Guarantee Department agreed in 1962 to increase cover to 100 per cent in the case of "trouble-free" contracts two years after the goods had been delivered and accepted by the buyer; the waiting period was reduced to one year in 1965. However, the Department has direct recourse against the supplier for claims payments made to him should his subsequent behaviour compromise the recovery position, for example should he fail to pursue the buyer. In 1963 the French Government introduced a system of progressive guarantees for long-term suppliers' credits, making it possible to diminish the supplier's share of the risk for bills with maturities exceeding five years. Under this system, the total cover is calculated so that the weighted average of the guaranteed portion does not exceed 90 per cent, maturities falling due after five years being covered for more than that percentage, with less cover for the earlier maturities. In July 1965, a similar system was introduced in the Netherlands.

The types of policy issued

101. There are two basic types of policy, the specific policy and the comprehensive policy, also known as the global or whole-turnover policy. Under the latter, the exporter insures all of his transactions with an agreed group of countries against both commercial and non-commercial risks. Such policies are based on the principle that the averaging of relatively safe transactions and more hazardous transactions will spread the risks satisfactorily, thus permitting the scheme to offer insurance at advantageous rates on a sound financial basis. The comprehensive policy also establishes a quasi-partnership relationship between the insurance institution and the supplier. Under the specific policy, the exporter insures part of his transactions or even a single deal. Such policies involve an element of choice in that the supplier can usually select the risk against which he wishes to be protected. The supplier trading with well-known firms or with purchasers whose credit-worthiness is unquestionable may be interested only in non-commercial risk cover; he may also apply for insurance only in respect of the riskier markets. Although the comprehensive policy is apparently the norm for export credit insurance transactions, there are many cases which call for the issuance of specific policies. The concepts of volume of business, repetitive transactions and spread of risk in all directions (by markets, buyers, terms of payment, types of risk) upon which the comprehensive policy principle is based are not applicable, for example, to transactions involving industrial machinery and equipment, which usually require long production periods and offer no repetitive pattern of business. Since the specific policy allows little spread of risks, the premium rates charged are usually higher than those for the comprehensive policy.

102. Most export credit insurance institutions show a marked preference for comprehensive policies for short-term transactions, often making them mandatory in such cases. In the United Kingdom such policies are mandatory in respect of all transactions with maturities not exceeding five years, provided that the business follows a continuous, repetitive pattern involving a wide range of buyers and markets. A supplier wishing to insure such business must request cover for all or most of his future export business against both commercial and non-commercial risks for a period of one or three years ahead. If he chooses the longer period, he is given a rebate at the end of the three years. In contrast, suppliers can obtain only specific policies for large capital projects involving considerable liabilities for many years ahead and requiring long manufacturing periods which render them incompatible with the comprehensive principle. United Kingdom suppliers occasionally ask the Export Credits Guarantee Department to exclude the buyer or market risks from cover, on the assumption that the cost of such limited cover would be considerably lower. The Department has refused to split the risks, however, "since to do so for one exporter would leave the door open to widespread selection against it [the comprehensive principle] leaving it [the Department] with the same overall claims liability but less premium". The ECGD has also insisted that

"it is in any case misconceived to imagine that market and buyer risks can always be separated into water-tight compartments: experience shows that this separation can often prove difficult in practice. Lastly, a point which is often forgotten is that the exclusion of either political or commercial risks from cover would greatly reduce the value of a guarantee as security for bank finance".

The Department has summed up its position by saying that the comprehensive approach has enabled it "to develop facilities which are consistently available for business with most markets in the world, to cover a very wide range of risks and to offer insurance at the lowest price".[4]

Bank guarantees

103. As noted in chapter II, a credit institution discounting the export bills guaranteed under an export credit insurance policy will normally do so with recourse against the supplier. Credit institutions do not regard the cover provided by the insurance policy as sufficient protection, since the policy may not cover the risk of non-acceptance of goods by the buyer and might be invalidated by the supplier's failure to comply with the terms of the contract. Moreover, the insurance policy does not usually provide for payment of the interest that would accrue between the maturity dates of unpaid export bills and the dates on which claims are paid by the insurance companies. The credit institutions must seek repayment from the supplier in those occasional cases where the buyer defaults and the supplier is not covered under the insurance policy.

104. Recourse financing, which, to a certain extent, is provided on the security of the supplier's assets, may be particularly burdensome when the supplier has already accumulated substantial financial commitments, especially in the case of exports of capital goods involving large sums and credit maturities of five years or more. In order to overcome such difficulties, many export credit insurance schemes have introduced the bank guarantee system under which the credit institution is given a direct guarantee that it will be unconditionally reimbursed in the event of non-payment by the buyer. The bank guarantee system enables the supplier to obtain financing without reducing his borrowing capacity.

105. In the United Kingdom, for example, bank guarantees, which are applicable to individual contracts for the supply of manufactured goods to a value of $70,000 or more and on credit of not less than two years from shipment, promise payment of 100 per cent of any default three months after due date of payment. However, the United Kingdom bank guarantee system, which now permits the supplier to obtain 100 per cent refinancing, is operative only from the date of acceptance of the goods and is not normally available for any foreign goods included in the contract. A separate recourse arrangement is made between the Export Credits Guarantee Department and the supplier under which the Department retains the right of recourse against the supplier for any payments made to the credit institution by the Department where it can be shown that the latter would not have been liable for such payments under the terms of the normal insurance policy.

[4] United Kingdom, Export Credits Guarantee Department, op. cit., p. 2.

106. In the United States, guarantees to credit institutions are given on a case-by-case basis by the Export-Import Bank of Washington, which covers political risks in respect of all maturities and the commercial risks in respect of 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 supplier's 15 per cent retention. The later maturities include the remaining instalments, exclusive of the 15 per cent retention. The difference in treatment of the early maturities is due to the credit institutions' desire in most cases not to assume risks beyond two years. Guarantees may be granted for periods up to twelve years, while the five-year limit is still the rule for ordinary export credit insurance.

Financial guarantees

107. In the case of projects for which payments are to be spread over a period exceeding five years, export credit insurance institutions may guarantee loans made by credit institutions direct to the overseas buyer (financial guarantees) to enable him to pay cash to the supplier. While in the case of ordinary export credit insurance the beneficiary is usually the supplier, in the case of financial guarantees the policy is issued in favour of the credit institution. Examination of the request usually starts when the supplier is in the process of negotiating with the buyer and has found a credit institution which is ready to grant a loan to the buyer. Terms of financial guarantees are arranged with both the supplier and the credit institution. Drawings on the credits are made by the supplier and not by the foreign buyer. The supplier usually assumes part of the risk himself. Premium rates are calculated in the same way and are usually based on the same rates as in the case of export credit insurance. Financial guarantees are intended to facilitate the financing of large capital projects for which suppliers' credits of up to five years are deemed inappropriate.

108. For example, in the Federal Republic of Germany financial guarantees are granted in respect of projects of particular importance, preferably in developing countries, which involve deliveries of capital goods worth at least $1.25 million and whose maturities exceed five years. Losses are covered as follows: 80 per cent in the case of commercial risks and 85-90 per cent in the case of political risks.

109. In the United Kingdom, financial guarantees are not normally available for projects costing less than $5.6 million, excluding local expenditure, or $2.8 million in the case of ships, and the nature of the assets created must be such that their useful life extends substantially beyond the period of the credit. There must be demonstrably strong commercial grounds for gaining the contract; for example, it must be shown that the contract might eventually assist the United Kingdom's balance of payments, maintain its position in an established market or stimulate an industry which is short of orders. It is made clear that these guarantees are intended to assist United Kingdom exporters and to benefit the United Kingdom economy.[5]

The solvency of export credit insurance schemes

110. Export credit insurance is granted in accordance with commercial principles, that is, by charging premiums which, owing to the number of operations involved, should over a set period be sufficient to provide adequate working capital and constitute a reserve to cover possible losses and a contingency reserve to meet administrative expenditures in periods when cyclical factors cause the volume of transactions to dwindle. If premium income regularly failed to cover disbursements, the government would be obliged to make up the deficit on a quasi-permanent basis, which would be tantamount to subsidizing the export industries and operating the insurance scheme at great expense to the taxpayer. It is true that the imponderables of export credit transactions make it essential for export credit insurance schemes to have the possibility of recourse to government funds, but those resources are to be drawn on only in emergencies arising from exceptional circumstances; for the bulk of their transactions, export credit insurance schemes are expected to be self-supporting. International co-operation within the Berne Union, the Organisation for Economic Co-operation and Development and the European Economic Community has been aimed at ensuring that export credit insurance schemes shall not degenerate into routine subsidizing systems, and that the cost of insurance shall not constitute a factor of competition in international trade. Exporters in all countries pay more or less comparable premium rates.

111. The premium pattern is quite often complex and rates vary mainly according to the type of policy (*see* section above on the types of policy issued). Premium rates are in general lower for comprehensive policies — usually issued for short-term transactions — than for specific policies tailored to individual medium-term and long-term transactions. They also vary according to the buyer's credit-worthiness and the grading of the buyer's country. When assessing the buyer's credit-worthiness, the insurance institution investigates his financial resources, commercial standing, business morality and legal status, general business experience and familiarity with the line of business concerned, the overall situation in that line of business, measures taken by the government of the buyer's country that may affect the buyer's position (discrimination between nationals of the supplier's country and other aliens, etc.) and the fiscal policy of the buyer's country (for example, heavy taxes on the type of industry in which the buyer is engaged, designed to channel investment away from that industry into other fields deemed more profitable to the national economy).

112. In their appraisal of the factors which may influence country risks, export credit insurance institutions devote particular attention to a country's general economic situation, its level of foreign exchange holdings, its foreign exchange policy and its balance of payments prospects. Through exchange of information, they have worked out a country grading system, under which a country is placed in a given class (of which there are usually four) according to its political, economic and financial situation. The gradings are kept under constant review through continuous surveillance of economic

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[5] *Ibid.*, p. 51.

trends in all countries and particularly of foreign ex-
change positions and policies. The grading of a par-
ticular country may be moved up or down should any
subsequent development modify its political, economic
or financial situation. It may happen that conditions in
a given country are deemed so unsatisfactory that no
insurance cover is provided for transactions with that
country.

113. Export credit insurance schemes have in general managed to achieve and maintain financial equilibrium. Administrative expenditures have been met out of premiums; losses have remained extremely low and most of them have been recovered within a relatively short period of time. In Canada, from the establishment of the Export Credits Insurance Corpora-
tion in 1945 to 31 December 1965, the ratio of gross losses (that is claims paid minus recoveries) to insured
credits was 1.1 per mil.[6] In Switzerland, from 1934 to 1965, this ratio was 1.2 per mil.[7] In the United Kingdom, export business valued at over $28,000 million was insured by the Export Credits Guarantee Department during the period 1930-1963 inclusive, and claims of about $244 million were paid; 68 per cent of these were paid in respect of losses caused by political risks but 32 per cent arose from the insolvency or default of private buyers and minor causes.[8] In the United States, from the inception in February 1962 of the insurance programme operated jointly by the Export-Import Bank of Washington and the Foreign Credit Insurance Association (FCIA) to the end of 1965, total claims paid (short-term and medium-term transactions) amounted to $3.3 million, recoveries to $1.4 million and losses to $1.9 million; as of the same date, the cumulative value of short term and medium-term insurance policies issued amounted to $1,400 million. Consequently, the ratio of gross losses to credits insured was approximately 1.3 per mil.[9] The ratio of net losses (i.e., losses written off as irrecoverable) is much lower: in Canada for example, it was 0.5 per mil or half the ratio of gross losses to insured credits. The members of the Berne Union, who communicate their financial accounts to each other for mutual scrutiny, have acknowledged that so far no export credit insur-
ance scheme has been regularly subsidized. Although the true principle of insurance, the law of averages, is not entirely valid in the case of export credit insurance, experience has shown that by adhering to sound under-
writing concepts and applying certain time-tested criteria of risk selection (for example, by imposing com-
prehensive policies instead of insuring specific transac-
tions, or by establishing an incentive system), an export credit insurance scheme can, over a given period, balance its premium income and disbursements.

[6] Information obtained from Canada, Export Credits In-
surance Corporation.

[7] Calculated on the basis of statistics contained in "Docu-
mentation pour la presse; la garantie fédérale contre les ris-
ques à l'exportation en 1965", press bulletin of the Bureau
pour la garantie contre les risques à l'exportation.

[8] United Kingdom, Export Credits Guarantee Department,
op. cit., p. 10.

[9] Ratio calculated on the basis of figures published in *FCIA Newsletter*, No. 3, and Eximbank's annual reports.

EXPORT CREDIT INSURANCE IN THE CENTRALLY PLANNED ECONOMIES

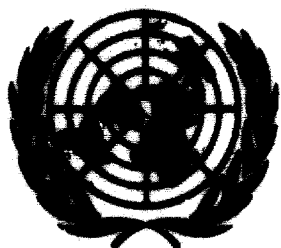
114. Czechoslovakia and Hungary are the only centrally planned economies operating export credit insurance schemes. The absence of insurance in the other centrally planned economies may be attributed to the fact that in these economies, export credits, like domestic credits, are financed out of public funds. Indeed, the main purpose of the Czechoslovak and Hungarian schemes is understood to be to provide for the spreading of the risks through reinsurance on the international market.

115. Each of these schemes is administered by a department of a State-owned general insurance com-
pany, the Státni Pojistovna (state insurance institute) of Czechoslovakia and the Allami Biztositó (state insurance enterprise) of Hungary. These companies are not members of the Berne Union, but belong to a number of international insurance organizations. (Both companies belong to the International Union of Avia-
tion Insurers and the International Union of Marine Insurance; in addition, the Czechoslovak company is a member of the International Credit Insurance Asso-
ciation.)

116. The duration of the insurance available in these two countries conforms to accepted international commercial standards for the different categories of goods. The maximum portion of the credit which can be insured is 90 per cent. In general, export credit insurance is sought only for transactions which are not guaranteed by a reliable bank in the buyer's country.

Department of Economic and Social Affairs

Export Credits and Development Financing



Part One
Current Practices and Problems

UNITED NATIONS - New York, 1966

Chapter IV

INTERNATIONAL CO-OPERATION AND THE PROBLEM OF EXPORT CREDIT INSURANCE AND EXPORT CREDIT TERMS

THE UNION D'ASSUREURS DES CRÉDITS INTERNATIONAUX (BERNE UNION)

Membership, purpose and structure

117. The Union d'assureurs des crédits internationaux, usually known as the Berne Union after the city in which it was founded, was established in 1934 by a number of European private credit insurance companies and by the government department which operated the United Kingdom export credit insurance scheme. According to its statutes, only institutions or corporations which insure export credit transactions may become full members of the Union. Institutions or corporations whose activities can be considered as being related to export credit insurance may become associate members. At present, corporations or institutions in the following countries are full members: Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, India, Israel, Italy, Netherlands, Norway, Pakistan, South Africa, Spain, Sweden, Switzerland, United Kingdom and United States of America.

118. The principal purpose of the Union, as defined in its statutes, is:

"to work for the rational development of credit insurance in the international field by improving the information services of full members by means of making known to one another the results obtained in this sphere and, generally, to foster the regular exchange of views regarding essential questions of credit insurance as well as on the problems which arise in the field of technique and organization".

Union members

"agree on their honour not to conceal any fact nor to put forward in their mutual communications any item of information likely to mislead other full members".

119. The Union is administered by a President, a Vice-President and a Management Committee, all elected by the members at the annual meetings. There is also a Technical Sub-Committee, composed of experts from member organizations, which studies technical questions relating to export credit insurance, on which it issues reports and gives opinions for the guidance of members. The legal seat of the Union is in Berne, and the secretariat is located in Paris.

120. The Union holds annual and extraordinary general meetings at which technical aspects of export credit insurance are discussed, views exchanged on a confidential basis on the economic situation of various importing markets and mutual agreement sought on the formulation of policies regarding specific questions. The Union does not operate through binding decisions or rules, but through understandings, the most important of which take the form of recommendations to members. These recommendations, however, are not necessarily recognized by governments, for even those institutions which are government-controlled are members of the Union solely in their capacity as insurers, and do not represent their governments.

121. Although no member is compelled to comply with the Berne Union understandings, any departures from the recommended standards must be disclosed to the Union after the insurance policy is issued. A formal procedure for reporting departures was adopted at the annual general meeting in June 1961. In addition to this reporting procedure, Union members can also obtain information through a question-and-answer procedure, under which any member has the right to question any other member on the contemplated terms and conditions when an insurance contract is being negotiated. This procedure, formally introduced at the annual general meeting at Venice in 1958 and subsequently amplified at the extraordinary general meeting at Berne in January 1960 and the Management Committee meeting in Paris in April 1965, not only enables the questioning member to offer similar terms and conditions (matching principle), but also protects member institutions against false allegations by suppliers or buyers that more advantageous credit terms are being offered by competitors in other countries.

Appraisal of the Berne Union's efforts to influence the "export credit race"

122. As has been seen in chapter I, an export credit race has been going on since the late nineteen fifties, but no adequate statistical or other data are available to provide a basis for determining the extent to which this race has distorted international trade in capital goods or is threatening to do so. It is thought, however, that on the whole the Berne Union has exerted a greater restraining influence than might have been expected and "has been of considerable value in keeping the extension of credit within reasonable bounds".[1] In trying to influence the international trade financing pattern, the Union has been handicapped by several factors. It is an association of private, public and mixed autonomous insurance institutions in which governments are not officially represented. Its members consequently find it difficult to resist when their governments direct them to insure transactions for terms

[1] United Kingdom, Export Credits Guarantee Department, op. cit., p. 30.

longer than those recommended by the Union: at their June 1959 meeting, the Union members confessed that they had been obliged to violate the five-year understanding under pressure from their governments, upon which they were dependent for support. The fact that governments are not officially members of the Union and are not bound by its understandings has also seriously impeded the smooth functioning of the question-and-answer procedure: a member institution may answer that it does not intend to insure a particular transaction on certain terms, and yet subsequently proceed to do so on instructions from its government, with the result that the transaction is concluded before other interested member institutions have had a chance to learn of the new decision and enable potential suppliers in their own country to compete by offering similar terms. The Berne Union understandings "have force only in so far as there is sufficient mutual interest and concern to maintain them and provided they are not overridden by individual government directives".[2]

123. The Union's power to act effectively was impaired from the outset by the fact that export credit institutions in a number of industrial countries, which controlled a relatively large part of the world supply of capital goods, were either reluctant to join it or were willing to become associate members only: the Istituto Nazionale delle Assicurazioni (Italy) did not become a member until 1960, while the Export-Import Bank of Washington (United States) became an associate member in 1951 and did not acquire full membership until January 1962.[3] The Export Insurance Section of the Ministry of International Trade and Industries of Japan has never joined the Union. Furthermore, the Union's effectiveness has been vitiated by the absence of a clear-cut definition of the essential difference between tied development loans and export credits in the strict sense. The Export-Import Bank of Washington has been providing long-term tied loans since 1934, yet the possible influence of such loans upon international competition was not fully assessed when the five-year understanding was arrived at, because at that time international competition in the capital goods sector was not as intense as it subsequently became as a result of the increase in world supplies of such goods. However, with the intensification of international competition and the resultant struggle to secure markets it became apparent that exporters in countries providing tied development loans were in fact indirectly benefiting from their governments' development aid programmes.

124. The Berne Union has continually expressed its concern at creeping competition in the export credit field and recently stressed the need to establish a system of international co-operation and co-ordination among governments, declaring its readiness to help achieve such co-operation. Attempts to establish and maintain orderly arrangements for the provision of export credit insurance and export credits are under way at the government level within the European Economic Community and the Organisation for Economic Co-operation and Development. The twenty-second annual meeting of the Berne Union, held at Brussels in June 1965, took note of the progress made by the OECD with regard to international consultation at the government level for a more effective control of credit competition and expressed the hope that the OECD discussions would soon lead to a definite solution of the problem. The International Bank for Reconstruction and Development, in response to a request from the United Nations Conference on Trade and Development,[4] is currently seeking possible solutions to these problems, particularly in terms of the resulting debt-servicing burden of the developing countries.

The European Economic Community

The Co-ordinating Group for Policies of Credit Insurance, Guarantees and Financial Credits

125. The Council of the European Economic Community, acting in accordance with the terms of article 112 of the Treaty of Rome which deals with the harmonization of national schemes of export aid, has expressed its interest in export credit insurance and export credit problems. On 27 September 1960, it established a special body called the Co-ordinating Group for Policies of Credit Insurance, Guarantees and Financial Credits. The Group was entrusted with the following tasks:

"To formulate suggestions with a view to harmonizing among member States, to the extent that is within their power, conditions for export credit insurance, financial credits and investment guarantees, taking into account, in the case of export credit insurance, the Berne Union understandings and the work carried out in this field by institutions in the member States.

"To seek ways of promoting the multilateral utilization of the financial resources placed at the disposal of developing countries.

"To encourage the exchange of information and consultations on all problems falling within its competence".[5]

126. The Group includes representatives of the six member countries and of the Commission of the EEC. Representatives of the export credit insurance institutions of member countries may be invited to attend, as experts, the meetings of the Group and also those of the Working Group on the Harmonization of Export Credit Insurance Conditions. The export credit insurance institutions have formed a Technical Committee which works out proposals for the harmonization of export credit insurance practices for consideration by the Working Group. The Co-ordinating Group has worked on three levels: increased co-ordination among members through prior consultation, harmonization of export eredit insurance terms and conditions, and formulation of a common policy.

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[2] *Ibid.*, p. 30.

[3] The Foreign Credit Insurance Association, which at present operates the United States export credit insurance scheme, joined the Berne Union in 1963. It should also be noted that the obligations assumed by the Export-Import Bank of Washington as a full member of the Berne Union apply only to its joint insurance programme with FCIA and its bank guarantee programme.

[4] *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), annex A.IV.14.

[5] See *Journal officiel des Communautés européennes*, 27 October 1960, page 1339/60. (*Unofficial translation.*)

The consultation procedure

127. At its sixty-seventh meeting on 14 and 15 May 1962, the Council of the EEC approved proposals submitted by the Co-ordinating Group for prior consultation among EEC members on all transactions directly or indirectly related to exports of national goods and covered directly or indirectly, wholly or partially by a government guarantee, in cases where it is intended to deviate from the Berne Union understandings or from any rule or standard unanimously adopted by the EEC countries. In the case of global lines of credit guaranteed by the government or by a government-controlled institution in an EEC member country and tied to the purchase of national goods, the consultations, which concern the length of the proposed credit in relation to the nature of the goods, are to be carried out before the decision to guarantee the credit is taken. However, when the nature of the goods to be supplied under a global line of credit is not specified, the country concerned need only inform the other members of the decision to grant the credit, although the individual transactions subsequently carried out on the basis of the credit line are subject to the normal prior consultation procedure.

128. EEC member countries must inform each other of the conclusion of bilateral agreements concerning the provision of global lines of insurance for suppliers' credits and private financial credits, but prior consultation is required only in the case of individual transactions which fail to conform to the Berne Union understandings or to any other rule or standard unanimously adopted by the EEC countries.

129. EEC member countries must inform other members immediately of financial credits granted directly, for political reasons, by the government or by a government-controlled body, exclusively from public funds, which are tied to the purchase of national goods, when the recipient of the credit or the purchaser obtains deferred-payment terms different from those recommended by the Berne Union or from any other rule or standard unanimously adopted by the EEC countries.

130. An EEC country contemplating a transaction subject to the consultation procedure must telex the following information to the other EEC members as soon as possible: country of destination; purpose of the transaction and description of its essential technical elements; length of credit requested by the importing country; credit conditions which the exporting country is planning to grant; reason for the contemplated granting of exceptional conditions (financial situation of the importing country; competition from third countries, which must be specified; situation of the exporting industry; nature of the goods).

131. The supplier (in the case of suppliers' credits) or the credit institution (in the case of financial credits) must be asked whether they agree to the consultations, but if this agreement is not forthcoming the EEC member country concerned is under an obligation to adhere to the terms of the Berne Union understandings or to any other rule or standard unanimously adopted by the EEC countries.

132. After having received this information, EEC members have seven days in which to request additional information, make comments or reservations, or, in the case of transactions they consider particularly important, to request that the related problems be dealt with at a consultative meeting. If no objections or observations are received within seven days, the EEC country concerned is free to proceed with the transaction. Even if the other member countries request further information or a consultative meeting, the EEC member may take a decision concerning the transaction once the seven days have expired if it considers that the transaction is of particular importance.

133. On 26 January 1965, the Council of the EEC approved a proposal by the Co-ordinating Group revising the consultation procedure, and introducing two main changes. First, the scope of the procedure was extended to financial credits granted from public funds and mixed agreements combining credits from public funds and suppliers' credits or private financial credits. Secondly, the member country contemplating the transaction was placed under an obligation to postpone its decision on the transaction (except in urgent cases) if all but one of the members consulted registered objections.

134. The consultation procedure has a dual purpose: (i) to provide advance information on contemplated transactions, so that all members may make similar insurance facilities available to their exporters for comparable transactions (this is a means of strengthening the Berne Union question-and-answer procedure within the EEC); (ii) to ensure co-ordination in order to attain a satisfactory degree of uniformity among governmental attitudes and policies in the export credit insurance field.

Harmonization of export credit insurance terms and conditions

135. In 1962 the Council also agreed upon a set of terms and conditions to be observed by EEC member countries and incorporated into their export credit insurance schemes. The maximum insurance cover was to be 90 per cent of the credit. A waiting period of at least six months before the settlement of claims was to be fixed with regard to sales to public buyers. The Council also agreed on the insurance procedure to be followed with regard to subcontracting (*see* the section in chapter III on the nature of the export insured). The Council has also reached agreement on a common definition of the public buyer and of political risks in respect of transactions with public buyers and the adoption of a common classification of importing countries and a common premium system for medium-term transactions.

Elaboration of a common policy on the granting of credits in excess of five years

136. The EEC Co-ordination Group has also tried to establish guide-lines for co-ordination with regard to the granting of credits with maturities exceeding five years. For this purpose it used three criteria:

(*a*) The degree of development of the buying country: the Berne Union understandings should be adhered to in the case of exports to developed countries;

(*b*) The importance of the equipment for the economic development of the buying country, or the

importance of the transaction for the industry of the exporting country. More specifically, credits exceeding five years could be granted when the project:

Formed part of a development programme;

Was to be financed within the framework of an aid consortium;

Was approved by an international organization;

Was a large-scale one;

Was of exceptional interest to the exporting country;

(c) The expected duration of the equipment.

Appraisal of the efforts of the European Economic Community to influence the "export credit race"

137. The efforts of the European Economic Community to maintain export credit competition among its members within reasonable bounds have resulted in the total or partial elimination of guarantees in respect of exchange risks, exploration of foreign markets and participation in trade fairs, which were considered to constitute disguised aid to exporters. Although a certain degree of harmonization has been achieved at the technical level, most of the other decisions reached concerning the harmonization of export credit insurance techniques and conditions have yet to be put into effect.

138. One major factor hampering the attempts to adopt common export credit insurance policies and practices is thought to be the lack of harmonization among the export credit financing systems of the countries of the European Economic Community.[6] The adoption of common policies has also been hampered by the fact that exporters in EEC member countries must meet competition from exporters in non-member countries, thus making it difficult for the EEC countries to comply with the recommendations of the Co-ordinating Group. The 1964 annual report of the Nederlandsche Credietverzekering Maatschappij N.V. observed that although the consultation procedure was "functioning quite satisfactorily" as far as the information aspect was concerned, it had had "little effect" with regard to co-ordination, for "the remarks made by the partners with regard to projects [were] mostly disregarded".[7] The Co-ordinating Group attempted to remedy this situation by trying to persuade the Organisation for Economic Co-operation and Development to adopt its criteria for the granting of export credits in excess of five years, but met with little success.

The Organisation for Economic Co-operation and Development

The Working Group on Export Credits and Export Credit Guarantees

139. The Organisation for Economic Co-operation and Development has continued and expanded the work of its predecessor, the Organisation for European Economic Co-operation (OEEC), in the field of export credit insurance. In 1958 the Council of the OEEC had recommended that artificial aids to exporters should be eliminated and particularly that the premiums charged by export credit insurance institutions should in the long run cover the institutions' operating expenses and losses, so that the export credit insurance system would be self-supporting rather than government-subsidized. The OEEC had also instructed its Steering Board for Trade to keep export credit insurance practices under continuous review, with a view to discouraging those practices which were likely to give undue advantages to exporters in certain countries.

140. The OECD has continued this work, and in 1962 its Trade Committee entrusted the examination of export credit insurance and export credit policies to a special intergovernmental panel on export credits and export credit guarantees which met in 1962 and 1963 and recommended the establishment of a permanent Group on Export Credits and Credit Guarantees. This Group, which was set up in November 1963, is composed of senior government officials with a major responsibility in the formulation of policies in the fields of export credit insurance and foreign trade who are advised by senior officials of the export credit insurance and export credit institutions. Its terms of reference state that:

"regular confrontations on the policies pursued by the governments of Member countries in the field of export credits and credit guarantees are to be pursued with the general objectives of evaluating these policies, determining the problems which arise and resolving or mitigating these problems by multilateral discussion. Further objectives should be to aim, on the experience acquired from the confrontations, at working out common guiding principles, considering all possibilities of improving co-operation between Member countries in this field by such means as prior consultations, prior notification and/or a question-and-answer procedure, or by other suitable means".

The strengthening of the Berne Union question-and-answer procedure

141. The main problem studied by the Group has been that of controlling competition with regard to credits exceeding five years. One of the proposals designed to solve this problem would strengthen the Berne Union question-and-answer procedure by setting up a system, that would be binding on governments, for the exchange of information on the credit terms for which official support is available for contracts in negotiation. Prolonged and serious consideration has been given to the adoption of this system, although final agreement has not yet been reached. In 1964 the Berne Union formally referred all future discussion of the question-and-answer procedure to the Group.

The "neutral area" proposal

142. The strengthening of the question-and-answer procedure would permit the fair application of the matching principle, but only to a certain extent, since in some cases the impossibility or difficulty of obtaining financing to match the maturity offered by competing suppliers would still leave suppliers in certain countries at a disadvantage. Furthermore, it might not succeed in completely preventing trade distortion arising from long-term export credits, since there is a pos-

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[6] Jacques Guesnon, op. cit.

[7] Nederlandsche Credietverzekerin Maatschappij N. V.

sibility that some buyers might still be influenced by the availability of long-term credit maturities rather than by price, quality or speed of delivery and might, moreover, tend to import non-essential equipment for which export credits with advantageous maturities were available rather than essential capital goods for which advantageous maturities could not be obtained. Hence, the lengthening of the duration of export credit insurance cover beyond the limit of the Berne Union five-year understanding in order to provide a degree of compensation for competition arising from tied development loans may have further impaired the full play of international competition.

143. While it can be argued that tied development loans do not cause harmful trade distortion when they are granted at costs well below the market rates and for periods which few if any suppliers would consider matching, there is serious fear that the granting to foreign buyers of credits in which the distinction between aid and trade characteristics is not fairly evident might exacerbate bilateralism in international trade and create abnormal trade movements. A proposal to separate commercial export credits from aid credits by a system based on the length of the repayment period has been laid before the Group by the Netherlands delegation. The motivation for this proposal appears clearly in the following passage from the 1964 report of the Management of the Nederlandsche Credietverzekering Maatschappij N.V.:

"In the course of the years, the rules for the maximum credit-term acceptable, the maximum percentage of the purchase price for which credit can be granted, the percentage of the amount of the contract which, although for this percentage credit is given in foreign exchange, may be spent on local costs, the refusal of grace periods and the percentage of cover have gradually been eroded. This is to some extent due to competition in the governmental sphere and further to the mixing of commercial export credits with credits for development aid, for which the longest possible credit terms, the highest possible percentage of credit, the greatest freedom of spending, also on local costs, the longest possible grace periods and the highest possible percentages of cover can only underline the aid-character of the credits granted. Further eroding as meant above can only be stopped by drawing a demarcation line between the field of commercial credits and that of the ald-credits, so that in the former field the normal rules for credit terms, percentage of credit, local costs, regular redemption and percentage of cover can be applied." [8]

144. This report also describes how, according to the Netherlands proposal, the distinction between commercial export credits and aid credits should be made:

"by prescribing that aid credits shall have a term of at least fifteen years and that commercial export credits shall have a term of ten years at the utmost. In this way a no man's land between the two fields will be created which will to a great extent eliminate the possibility of mixing, provided it is prescribed at the same time that matching of aid credits shall not be permitted with commercial credits, but only with aid credits and the combination of commercial credits with aid credits is precluded." [9]

145. The report then observes:

"discussions about this proposal are still in progress. The big countries have difficulties in accepting this proposal, because it would curtail their freedom of action. However, there is a beginning realization of the idea that if the making of a distinction is rejected —the above-mentioned distinction is artificial, but can be applied in practice—every attempt at co-ordination is condemned to failure." [10]

146. A certain fear has been expressed that in the case of countries which are unable to increase their aid, but are able to grant export credits, the proposal might lead to a reduction in the volume of financial resources available to developing countries. It has been argued, however, that the resultant need for increased aid to developing countries would be compensated by the advantages to be derived from the limitation or elimination of trade distortion arising from competition with regard to export credit maturities.

Export credits and the Development Assistance Committee resolution on the terms and conditions of aid

147. The Group has discussed the "neutral area" proposal with various bodies of the Development Assistance Committee of the Organisation for Economic Co-operation and Development. The Development Assistance Committee has, since its establishment, become increasingly aware of the indebtedness problem of developing countries and of the impact of export credits on their level of debt servicing. In 1963, its Chairman observed:

"The problem of keeping the debt-servicing obligations within manageable limits is further complicated by the fact that public debt obligations of these countries arise not only from the official loans made by the donor countries, but also may be the ultimate consequence of suppliers' credits extended in connection with private transactions (though in many cases guaranteed by some public body in the country of origin). Guaranteed export credits are an established factor in the conduct of trade and offer a politically easy way of providing assistance. However, it is necessary that the less developed countries should avoid undertaking an excessive volume of borrowing in forms such as suppliers' credits on 'hard' commercial terms; at the same time, the credit guaranteeing bodies in the donors have a responsibility to maintain close checks on such borrowing." [11]

148. The Committee's efforts concerning the terms of lending to developing countries have been aimed at keeping the volume of lending to levels compatible with the debt-servicing capacity of borrowing countries. In April 1963 the Committee's members, after having examined the report of its special Working Party on Financial Aspects of Assistance, adopted a resolution on the terms and conditions of aid. This resolution, which "noted with concern" that export credits "par-

[8] *Ibid.*, pp. 16-17.

[9] *Ibid.*, p. 17.

[10] *Ibid.*

[11] Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1963 Review, Report of the Chairman of the Development Assistance Committee*, para. 47.

ticularly those of a maturity of five years or less, now account for a high proportion of the total debt service of the developing countries", recommended to members of the Committee "that they relate the terms of aid on a case-by-case basis to the circumstances of each underdeveloped country or group of countries". It also recommended that countries which were members of the Committee should

"make it their objective in principle to secure a significant degree of comparability in the terms and conditions of their aid, and so far as possible to eliminate or reduce discrepancies between them. While this would not necessarily entail standard terms and conditions from all donors, it would involve a liberalisation of the terms adopted by some members, whether in their individual aid programmes or in concerted aid operations".

149. At its July 1965 meeting in Paris, the Development Assistance Committee, after noting the "continuing serious increases" in the burden of debt charges on developing countries "in spite of the progress of some DAC Members in the past year in easing the terms of public loans", emphasized that unless this trend were reversed it might result in a diminution of the net flow of resources to developing countries. The meeting recommended that members who did not already provide at least 70 per cent of their official assistance in the form of grants should try to supply at least 80 per cent of their official assistance at favourable terms, either as grants or as loans with long maturity (twenty-five years or more), at low rates of interest (3 per cent or less) and that the average grace period on loans should be seven years. The Development Assistance Committee also agreed that members should make concerted efforts to harmonize terms of assistance to individual countries as far as possible. Where consortia exist, or where consultative groups or other concerted aid operations offer the opportunity, participating countries should endeavour, in co-operation with the international bodies involved, to reach a common view on the appropriate terms at which any assistance should be provided.[12]

THE INTERNATIONAL MONETARY FUND AND DEBT RENEGOTIATION

150. Since the external debt servicing burden is often an important element in a country's balance of payments and may constitute a serious obstacle to the balanced growth of international trade, the International Monetary Fund is directly concerned with the debt burdens of its member countries. The Fund holds annual consultations on the balance of payments problems and prospects of its member countries and assists them on an individual basis in reaching solutions to their debt-servicing problems. It has encouraged creditors and debtors to renegotiate debt contracts, particularly those relating to suppliers' credits, as an alternative to persistent default, reborrowing or unilateral moratoria. However, the Fund, which provides short-term assistance to overcome balance of payments difficulties, has not provided any direct debt refinancing, for such refinancing often requires long-term funds which cannot be provided under the Fund's policy limiting the duration of its assistance to three to five years. Moreover, the debts are often large in relation to the member country's quota, and debt renegotiation may be only one aspect of a general stabilization programme under which the Fund's financial assistance may be required to meet other aspects of the balance of payments problem.

151. On 16 November 1965, in an address to the National Foreign Trade Convention in New York, the Managing Director of the Fund observed:

"In addition to the direct contributions which the Fund makes to help individual countries, the Fund has from time to time been called upon to help in reconciling the interests of those countries that are debtors and those that are creditors in international transactions. In this connection, we have recently had to sound a warning to both sides on one particular aspect of international financing . . . I refer to the extension of short-term and medium-term credits, mainly by industrialized countries, as a means of promoting exports.

"In themselves export credits serve a useful and indeed a necessary function. However, we are finding that increasing difficulties have arisen, because of excessive resort to borrowing in this form by some developing countries whose balance of payments positions have become increasingly burdened by debt-servicing obligations. This is a very difficult and delicate problem which we shall be exploring together with the World Bank, and we shall be looking for possible ways of assisting in cooperative action to solve it. I cannot, of course, say at this time what proposals may develop, but I should like you to be aware of the nature of the problem as we see it.

"Thus far, we have been able, in a limited number of cases, with the understanding and cooperation of the debtor and creditor countries and financial institutions concerned, to be of some assistance, both in our role as technician and by an appropriate use of our resources. The Fund has produced figures and analyses of countries' foreign positions and prospects and on the basis of such impartial studies, creditor countries have been able to agree among themselves on a rephasing of debt schedules. In some cases, use of the Fund's resources has been a useful element in the whole operation."[13]

152. The Fund has made available, on an informal basis, analyses of short-term and medium-term balance of payments prospects, in connexion with the renegotiation of the debts of Turkey (1958), Brazil (1961, 1965), Liberia (1963), Indonesia (1963) and Chile (1965). When Brazil's debts were renegotiated in 1965, Brazil and its creditors agreed to ask the Fund to relay to the creditors all the information supplied by Brazil concerning observance of its new policy on the acceptance of suppliers' credits. In general, debts to international development finance institutions, debts of central banks to foreign private commercial banks and debts which have already been renegotiated have been

[12] *See* Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1965 Review, Report of the Chairman of the Development Assistance Committee* (Paris, 1965), annex B, pages 117-122.

[13] International Monetary Fund, *International Financial News Survey* (Washington, D.C.), vol. XVI, No. 48, 4 December 1964, pp. 442-443.

excluded from renegotiation arrangements, although parallel refinancing has sometimes been obtained in the case of central bank debts. Most of the debts to be renegotiated have been covered by government-backed export credit insurance policies and the negotiations have therefore been conducted between governments. However, in cases involving credits not covered by a government-backed guarantee, the government of the credit supplying country concerned (for example, the United States) has generally refrained from participating formally in the debt renegotiation, since such participation would in fact entail the granting of a retroactive guarantee. In such cases the negotiations have therefore been conducted directly by the private suppliers or banks concerned.

153. Renegotiation terms and conditions have differed widely, but in general creditors have been willing to accept a debt-servicing schedule more or less compatible with the borrowing country's balance of payments position and prospects. They have generally granted a grace period and agreed to renegotiated maturities of up to ten to fifteen years. Renegotiation has usually been limited to payments of principal, the schedule of interest payments remaining unchanged. In most cases, renegotiation arrangements have involved a commitment by debtor countries to exercise restraint in the use of suppliers' credits or contractor credits. In the case of the renegotiation of Argentina's debts in 1963, this commitment was specifically linked to drawings on the Fund.

Chapter V

EXPORT CREDITS AS A MEANS OF FINANCING DEVELOPMENT IN DEVELOPING COUNTRIES

EXPORT CREDITS — A SIGNIFICANT SOURCE OF EXTERNAL FINANCING FOR DEVELOPING COUNTRIES

154. While the normal function of export credits is to serve as an instrument for financing international trade, medium-term and especially long-term export credits have nevertheless become an important source of external financing for development projects in developing countries. In 1962 and 1963, the amount of net government-guaranteed medium-term and long-term export credits granted to developing countries by OECD members amounted to slightly less than $500 million, compared to an annual net average of $400 million (consisting mostly of medium-term credits) during the period 1955-1960 and an annual net average of $200 million (consisting of medium-term credits only) during the period 1950-1955.[1] In 1964, net government-guaranteed medium-term and long-term export credits granted to developing countries by DAC members (which at that time consisted of OECD members minus Sweden and Switzerland) amounted to $744 million, representing almost 25 per cent of the aggregate net flow of private capital to those countries and over 8 per cent of the total net flow of financial resources from DAC members to those countries.[2] However, the percentage for all DAC members except the United States were in most cases very much higher (*see* table 2).

155. In this connexion, it should be noted that in Canada, long-term export credits are financed exclusively out of public funds; such credits accounted for about one-third of the "total official Canadian aid effort for 1964-65"[3] (*see* table 6). Similarly in Japan, a government agency finances the bulk of export credits out of government funds and, as can be seen from table 7, export credits account for a very high proportion of Japan's outstanding overseas loans and investments.

156. In the case of France, export credits represented 46 per cent of French bilateral assistance to countries outside the franc area in 1964 as against 41 per cent in 1963, 62 per cent in 1962 and 74 per cent in 1961. If grants which consist mainly of technical assistance expenditures are excluded, export credits represented 52 per cent of French bilateral assistance outside the franc area in 1964 as against 47 per cent in 1963, 71 per cent in 1962 and 84 per cent in 1961 (*see* table 8).

[1] Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Countries in course of Economic Development, 1956-1959* (Paris, 1961), and *The Flow of Financial Resources to Less Developed Countries, 1956-1963.*

[2] Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1965 Review, Report of the Chairman of the Development Assistance Committee*, pp. 124-125.

[3] Canada, External Aid Office, *A Report on Canada's External Aid Programs*, June 1965, p. 5.

TABLE 2. RELATIONSHIP OF PRIVATE GUARANTEED MEDIUM-TERM AND LONG-TERM EXPORT CREDITS TO TOTAL FLOW OF FINANCIAL RESOURCES FROM DAC MEMBERS TO DEVELOPING COUNTRIES IN 1964

(*Millions of dollars, except as indicated*)

Country	Total net official and private medium-term and long-term resources	Total net private medium-term and long-term resources	Net private guaranteed export credits: Medium-term	Long-term	Total	Total net export credits as percentage of total net private resources	Total net export credits as percentage of total net official and private resources
Austria	22.4	6.7	4.5	0.8	5.3	79	24
Belgium	169.9	86.5	30.4	6.5	36.9	43	22
Canada	149.9	21.1	0.8	— [a]	[a]	[a]	[a]
Denmark	30.9	20.4	10.1	8.1	18.2	89	59
France	1,360.7	514.9	67.7	99.9	167.6	32	12
Germany (Federal Republic)	784.0	367.8	83.7	89.9	173.6	47	22
Italy	236.2	181.9	78.0	28.8	106.8	58	41
Japan	319.8	109.1	10.0	18.7	28.7 [b]	26 [b]	8 [b]
Netherlands	117.0	67.9	—5.0	22.7	17.7	26	15
Norway	25.4	8.4	—0.2	3.4	3.2	38	12
Portugal	62.0	—	—	—	—	—	—
United Kingdom	838.4	346.4	37.7	98.7	136.4	38	16
United States	4,811.0	1,352.0	37.0	12.0	49.0	3	1

SOURCE: Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1965 Review, Report of the Chairman of the Development Assistance Committee.*

[a] In Canada, long-term export credits are financed exclusively out of public funds.

[b] In Japan, exports credits are financed largely out of public funds.

TABLE 3. RELATIONSHIP OF PRIVATE GUARANTEED MEDIUM-TERM AND LONG-TERM EXPORT CREDITS TO TOTAL FLOW OF FINANCIAL RESOURCES FROM OECD MEMBERS TO DEVELOPING COUNTRIES IN 1963

(*Millions of dollars, except as indicated*)

Country	*Total net official and private medium-term and long-term resources*	*Total net private medium-term and long-term resources*	*Net private guaranteed export credits*			*Total net export credits as percentage of total net private resources*	*Total net export credits as percentage of total net official and private resources*
			Medium-term	*Long-term*	*Total*		
Austria	5.9	3.8	0.2	—	0.2	5	3
Belgium	181.0	89.3	7.5	24.8	32.3	36	18
Canada	120.5	22.5	17.9	—[a]	[a]	[a]	[a]
Denmark	10.7	1.0	—2.7	0.7	—2.0		
France	1,242.0	391.3	55.6	38.2	93.8	24	7
Germany (Federal Republic)	589.0	164.8	28.7	28.7	57.4	34	9
Italy	336.8	226.6	18.7	78.1	96.8	42	29
Japan	288.2	114.7	0.8	13.3	14.1[b]	12[b]	5[b]
Netherlands	142.4	104.6	—2.8	9.1	6.3	6	4
Norway	28.7	8.1	4.1	—	4.1	50	14
Portugal	51.1	—	—	—	—	—	—
Sweden	52.5	29.6	5.0	0.1	5.1	17	10
Switzerland	171.1	164.9	80.3	21.1	101.4	61	59
United Kingdom	696.0	281.5	68.3	29.9	99.2	35	14
United States	4,518.0	763.0	26.0	4.0	30.0	4	0.6

SOURCE: Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less Developed Countries, 1956-1963.*

[a] In Canada, long-term export credits are financed exclusively out of public funds.

[b] In Japan, export credits are financed largely out of public funds.

TABLE 4. GEOGRAPHICAL DISTRIBUTION OF NET GUARANTEED PRIVATE EXPORT CREDITS FROM OECD MEMBER COUNTRIES FROM 1960 TO 1963

(*Millions of dollars*)

Credit receiving area	*1960*	*1961*	*1962*	*1963*
Europe	118.18	108.21	1.09	124.75
Africa	63.96	35.10	182.41	137.87
North of Sahara	6.08	12.36	79.59	18.85
South of Sahara	57.88	22.81	66.98	101.58
Unspecified	—	—0.07	35.84	17.44
America	262.67	327.01	232.58	183.27
North and Central America	85.13	64.69	—2.08	77.06
South America	168.73	255.00	167.37	106.20
Unspecified	8.81	7.32	67.29	0.01
Asia	20.25	54.75	34.81	122.31
Middle East	44.47	12.12	8.36	24.65
South Asia	—71.47	—75.19	—16.58	—23.18
Far East	47.25	117.82	38.73	97.68
Unspecified	—	—	4.30	23.16
Oceania	—	0.04	—0.06	—0.76
Unallocated	—2.47	—31.91	97.49	—1.04
TOTAL	462.59	493.20	548.32	566.40

SOURCE: As for table 3, table V-2.

TABLE 5. GROSS VOLUME OF GUARANTEED PRIVATE MEDIUM-TERM AND LONG-TERM EXPORT CREDITS GRANTED TO DEVELOPING COUNTRIES BY A NUMBER OF DEVELOPED COUNTRIES
(*Millions of dollars*)

Country	Medium-term			Long-term		
	1961	*1962*	*1963*	*1961*	*1962*	*1963*
Austria	11.2	15.5	5.0	14.0	3.2	—
Canada	2.6	10.2	21.7		a	a
Denmark			20.6			1.3
Germany (Federal Republic)	236.3	169.1	271.6	62.3	112.6	47.0
Italy	22.0		46.6			78.1
Japan[b]		9.4			43.6	
Netherlands		25.9		9.8	17.2	
Norway	23.7	3.6	4.1	—		
Sweden		15.0	39.3	—	—	—
United States		17.0	37.0	—	35.0	13

SOURCE: As for table 3.
[a] In Canada, long-term export credits are financed exclusively out of public funds.
[b] In Japan, export credits are financed largely out of public funds.

TABLE 6. CANADA: RELATIONSHIP OF GROSS LONG-TERM EXPORT CREDITS TO "OFFICIAL CANADIAN AID EFFORT", 1964-1965

Item	*Millions of US dollars*	*Percentage of total*
Bilateral grant aid	56.1	26.7
Bilateral development loans	46.3	22.4
Food aid	20.3	9.7
Bilateral long-term export credits	70.3	33.6
Multilateral grants	8.9	4.2
Subscriptions to the international Development Association	7.3	3.4
TOTAL	209.2	100.0

SOURCE: Canada, External Aid Office, *A Report on Canada's External Aid Programs*, p. 5.

TABLE 7. JAPAN: RELATIONSHIP OF OUTSTANDING EXPORT CREDITS TO OUTSTANDING OVERSEAS LOANS AND INVESTMENTS, AS OF 31 DECEMBER 1962

Item	*Millions of dollars*	*Percentage of total*
Subscriptions to international organizations	270	17.5
Direct private investments	436	28.3
Export credits	837	54.2
TOTAL	1,543	100.0

SOURCE: *Asahi Shimbun*, 9 March 1963.

TABLE 8. FRANCE: NET BILATERAL ASSISTANCE
(*Millions of dollars*)

Type of assistance	*1961*			*1962*			*1963*			*1964*		
	Countries within the franc area	*Countries outside the franc area*	*Total*	*Countries within the franc area*	*Countries outside the franc area*	*Total*	*Countries within the franc area*	*Countries outside the franc area*	*Total*	*Countries within the franc area*	*Countries outside the franc area*	*Total*
Public sector assistance	833	26	859	836	32	868	776	45	821	752	73	825
Grants	755	22	777	740	22	762	651	28	679	631	36	667
Loans	78	4	82	96	10	106	125	17	142	121	37	158
Private sector assistance	293	159	452	259	143	402	249	140	389	292	228	520
Guaranteed export credits	10	138	148	12	109	121	16	77	93	28	140	168
Loans and investments	283	21	304	247	34	281	233	63	296	264	88	352
TOTAL	1,126	185	1,311	1,095	175	1,270	1,025	186	1,210	1,044	301	1,345

SOURCE: Ministère d'Etat chargé de la réforme administrative, *La Politique de coopération avec les pays en voie de développement, annexes, Rapport de la Commission d'étude instituée par le décret du 12 mars 1963 remis au Gouvernement le 18 juillet 1963*, p. 83, and Ministère des finances, *Statistiques et études financières* (Paris), December 1965, pp. 1574, 1974.

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.

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Examples of projects carried out through export credits

157. Export credits have helped entrepreneurs in developing countries to set up new industries. They have permitted governments in developing countries to purchase equipment needed for social and economic infra-structure projects. They have also enabled nationals of developed countries to create industries in developing countries or to participate in joint ventures with local entrepreneurs in the latter. Engineering firms in developed countries have used export credit facilities available in their countries to construct public works in developing countries under the contractor finance scheme. Examples of the types of capital goods transaction and project made possible through the use of the export credit facilities provided by developed countries are given below (in dollar equivalents):

Credit supplying country: Belgium

Colombia
Supply and installation of the first two units for a power plant. *Credit:* $1.0 million

Guinea
Supply of machinery for processing diamond-bearing gravel. *Credit:* $1.2 million

India
Supply of a complete tubing plant. *Credit:* $1.0 million

Iran
Supply of sugar factory equipment. *Credit:* $1.5 million

Israel
Construction of a car ferry. *Credit:* $4.5 million

Mexico
Supply of a telephone exchange and transmission equipment. *Credit:* $8.0 million
Construction of a zinc plant. *Credit:* $12.3 million

Pakistan
Enlargement of a nitrate fertilizer plant. *Credit:* $2.1 million

Panama
Construction of a 22.000-ton bulk carrier. *Credit:* $2.4 million

Peru
Construction of a steel mill. *Credit:* $24.0 million

Philippines
Supply of two oil extracting plants. *Credit:* $1.5 million

Yugoslavia
Modernization of a steel mill. *Credit:* $4.6 million
Supply of 1,100 automatic looms. *Credit:* $2.0 million
Supply of a cement factory. *Credit:* $2.6 million

Credit supplying country: Canada

Argentina
Supply of locomotives. *Credit:* $11.5 million
Supply of road graders. *2 credits:* $2.6 million

Brazil
Supply of locomotives. *3 credits:* $9.9 million

Ceylon
Supply of a hydroelectric plant. *Credit:* $10.0 million

Chile
Supply of a pulp and paper mill and related equipment. *4 credits:* $21.0 million

China (Taiwan)
Supply of a furniture, lumber and plywood complex. *Credit:* $4.6 million

India
Supply of hydro equipment. *2 credits:* $14.8 million
Supply of foil mill and smelter equipment. *2 credits:* $1.7 million
Supply of locomotives. *Credit:* $7.4 million
Supply of CANDU nuclear reactor. *Credit:* $34.3 million
Supply of a zinc smelter. *Credit:* $1.4 million
Supply of a wind tunnel. *Credit:* $3.8 million
Supply of steel mill furnaces. *Credit:* $1.9 million

Israel
Supply of telecommunications equipment. *Credit:* $2.1 million

Liberia
Setting up of a telecommunications network. *Credit:* $1.5 million

Mexico
Supply of rails and locomotives. *5 credits:* $64.7 million
Expansion of a paper mill. *Credit:* $2.7 million

Pakistan
Supply of paper mill equipment. *Credit:* $5.9 million
Supply of power generation equipment. *2 credits:* $10.5 million
Supply of a CANDU nuclear reactor. *Credit:* $22.8 million

Philippines
Supply of telecommunications equipment. *Credit:* $12.5 million

United Arab Republic
Supply of telecommunications equipment. *Credit:* $4.6 million

Credit supplying country: Czechoslovakia

Afghanistan
Supply of a cement plant

Argentina
Supply of equipment for steam-power and hydro-power stations, a cement plant, a shoe manufacturing plant, and a coal separating and preparation plant

Brazil
Supply of equipment for steam-power and hydro-power stations and a cement plant

Burma
Supply of a shoe manufacturing plant

Cambodia
Supply of a tire manufacturing plant

Ceylon
Supply of a shoe manufacturing plant and a textile mill

India
Supply of a cement plant, a tire manufacturing plant, a sugar mill, a ceramic factory and a coal separating and preparation plant

Indonesia
Supply of a cement plant and a tire manufacturing plant

Iran
Supply of a textile mill

Iraq
Supply of a shoe manufacturing plant

Pakistan
Supply of a cement plant

Sudan
Supply of a shoe manufacturing plant

Syria
Supply of a sugar mill, a shoe manufacturing plant, a crude oil refinery and equipment for steam-power and hydro-power stations

Tunisia
Supply of a textile mill

Turkey
Supply of a shoe manufacturing plant, a textile mill and a ceramics factory

United Arab Republic
Supply of a cement plant, a sugar mill, a shoe manufacturing plant, a ceramics factory and pumping stations and purifying plants

Credit supplying country: Federal Republic of Germany

Burma
Construction of pharmaceutical plants

Chile
Construction of a copper refining plant

Greece
Construction of an aluminium plant

Ghana
Construction of a glass factory

Nigeria
Construction of a paper factory
Construction of a brewery

Pakistan
Construction of a chemical plant
Construction of two cane-sugar refineries

Peru
Construction of a large hydroelectric power station
Construction of a smelting plant

Thailand
Construction of a nitrogenous fertilizer plant

Turkey
Supply of complete equipment for five cement factories
Supply of transport and fishing equipment

United Arab Republic
Construction of a sugar factory
Construction of a plant to produce synthetic gas

Credit supplying country: France

Bolivia
Construction of a sugar refinery near Santa Cruz

Brazil
Construction of an oil refinery at Cubatao
Construction of a chemical plant at Cubatao
Construction of a chemical plant at Cabo Frio

Colombia
Construction of a drinking water supply in Cali

Iran
Construction of a cement factory near Meched

Turkey
Construction of a sulphur plant
Construction of a cement factory
Construction of aerodromes

Venezuela
Construction of a harbour for tankers in Maracaibo

Credit supplying country: Hungary

Argentina
Supply of diesel trains and wagons. *Credit:* $8.5 million
Supply of diesel trains. *Credit:* $9 million

India
Supply of a glass factory. *Credit:* $2.8 million
Supply of a complete ore dressing plant. *Credit:* $2 million

United Arab Republic
Supply of sleeping and dining cars. *Credit:* $6.8 million

Credit supplying country: Italy

Argentina
Construction of a gas pipeline. *Credit:* $23.9 million
Construction of the Paraná-Santa Fé tunnel. *Credit:* $3.2 million

Ghana
Construction of the Akosombo hydroelectric plant on the River Volta. *Credit:* $45.1 million

Iran
Construction of the Dez dam. *Credit:* $40.0 million

Libya
Construction of three roads (Derna-UAR frontier; Tunisian frontier-Tripoli; Tripoli-Bugrain). *Credit:* $40.3 million

Mexico
Construction of a chemical plant

Nigeria
Construction of the Kainji hydroelectric plant. *Credit:* $100.9 million

Pakistan
Construction of the Sidhnai-Mailsi canal. *Credit:* $42.0 million
Construction of the Rasul-Qadirabad canal. *Credit:* $24.5 million

Peru
Construction of Mantaro hydroelectric plant

Saudi Arabia
Construction of roads. *Credit:* $24.2 million

Sudan
Construction of the Khasham-al-Ghirba. *Credit:* $20.2 million
Civil engineering work for the Roseires dam

Turkey
Participation in the construction of civil engineering works for the Keban hydroelectric plant

United Arab Republic
Construction of an oil refinery at Suez
Execution of work for the preservation of the Abu Simbel temples

Venezuela
Execution of work for the Orinoco steel plant
Construction of a fertilizer factory

Zambia
Execution of work for the Kariba dam

Credit supplying country: Japan

India
Development of Kiriburu iron ore mine
Development of Bailadila iron ore mine

Indonesia
Construction of a bamboo-pulp paper plant

Pakistan
Supply of textile machinery
Construction of a fertilizer plant

Credit supplying country: Poland

Argentina
Supply of oilfield equipment

Brazil
Supply of tractors
Supply of drilling rigs

Burma
Supply of oil drilling equipment

Iran
Supply of building equipment

Mexico
Supply of machine tools

Uruguay
Supply of tractors

Yemen
Supply of cargo ships

Credit supplying country: United Kingdom

Kenya
Supply of hydraulic and electrical equipment for a new hydroelectric power-station to be built on the Tana River in Kenya. *Credit:* $6.3 million

Mexico
Supply of British plant, ships and services for a project designed to produce 1,000 tons of ammonia per day. *Credit:* $36.4 million

Panama

Supply of two 30,000-ton bulk carriers. *Credit:* $5.9 million

Syria

Supply and installation of a 400-mile pipeline from the oilfields in north-eastern Syria to the port of Tartous. *Credit:* $38.5 million

Turkey

Construction of a hydroelectric plant at Nirfanli. *Credit:* $29.6 million

Supply of four big grain silos. *Credit:* $17.0 million

Installation of the Catalagzi thermic power-station. *Credit:* $10.7 million

LIMITATIONS OF EXPORT CREDITS AS A MEANS OF FINANCING ECONOMIC DEVELOPMENT

158. Despite their important contribution to economic development in developing countries, export credits have serious limitations, which the Government of Nigeria has described as follows:

"(i) Offers of contractor finance are frequently associated with negotiated contracts with the inherent dangers which include 'price rigging'; the prices or costs of such contracts tend to be much higher than the added value of the credit facilities offered;

"(ii) Deferred payments arrangements from private sources tend to require payment in full over a short period which means in effect that the project financed cannot generate directly or indirectly sufficient resources (domestic or foreign) to service the credit. Such repayments over short periods therefore tend to: (*a*) place an excessive burden on the borrower's recurrent budget and reduce the budgetary surpluses available for financing further capital expenditures; (*b*) affect adversely the debtor country's balance of payments by draining the foreign exchange resources becoming available, thereby reducing the future capacity to import more capital for development".[4]

159. An article entitled "Credit and Chaos", published in the 26 March 1966 issue of the magazine *West Africa*, states:

"Ghana's difficulty throws light on a problem of great concern not only to her and her neighbours, but also to the developed countries, particularly the United Kingdom and West Germany. The problem is that of contractor finance or suppliers' credits, which accounts for most of Ghana's clamouring external debt. The system by which individual foreign firms undertake to complete a 'development' project under an agreement by which the firm, guaranteed by the firm's own government, advances a credit for the cost to the African Government at a high interest rate, is well established in West Africa. It can sometimes assist an African Government in temporary difficulty. But the extent to which the system has been used to finance development, and above all the abuses to which it can lead, is less publicized than it should be. ... Ghana—and her neighbours—must ... make quite sure that contractor finance and all it implies is used very sparingly in future".

The article ends as follows:

"Is there not a case for much greater co-operation between the credit guaranteeing organisations of, in particular, Western European governments? What is needed is some sort of international system for 'policing' credits and loans, to which African and European governments and organisations alike would subscribe."

160. In short, export credits have two serious limitations: relatively high costs, and maturities which are often inappropriate to the nature of the project and the economic and financial conditions of the developing country concerned.

The onerous cost of export credit

161. The cost of export credit may be particularly onerous for private entrepreneurs in developing countries, since it may combine several types of fee. As noted in chapter II, the interest rate charged by the credit institutions varies between 5.5 and 8 per cent. The granting of the credit may depend not only upon the transaction being covered by an insurance policy issued in the supplier's country but also upon a guarantee being provided by a reliable bank or a competent institution in the buyer's country. In certain countries, such as Chile and Israel, where the Government guarantees foreign loans to local entrepreneurs as part of an official incentive policy,[5] the commission for this service may be nominal or non-existent. In other countries, however, the bank agreeing to guarantee the operation is likely to charge a commission, which may exceed 2 per cent, and may also request security, which may take the form of a mortgage on the buyer's estate. The legal fees incurred in connexion with the mortgage represent another important addition to the original cost of the credit.

162. In cases where the buyer is a government or a public entity, the price factor is felt particularly in connexion with export credits provided under the contractor finance scheme. The engineering firm, knowing that it is to assume direct responsibility for the credit, charges a contract price which is likely to be higher than the price charged for projects carried out on a cash basis. In addition, the engineering firm may insist that it has to pay interest on the export credit and require the buyer to pay a certain percentage of the already augmented contract price as a credit charge.

163. The final cost of export credit thus differs from the usual cost of development loans, even when such loans are granted at interest rates which are very close to the market rate, as in the case of loans granted by the International Bank for Reconstruction and Development and the Export Import Bank of Washington. In the past decade the International Bank for Reconstruction and Development has charged interest rates fluctuating between 4.25 and 6 per cent. The weighted average interest rate on official bilateral loans of DAC member countries amounted to 3.4 per cent in 1963

[4] Nigeria. Federal Ministry of Economic Development. *Federal Government Development Programme, 1962-1968, First Progress Report* (Apapa, 1964).

[5] The policy of guaranteeing the repayment of export credits or the provision of foreign exchange for the servicing of these credits has made it possible for governments in developing countries to channel private investments into those fields where it is particularly needed and desirable.

and 3.3 per cent in 1964.[6] The rate charged by the Export-Import Bank of Washington for project loans is in the neighbourhood of 6 per cent. Interest rates of 3 to 3.5 per cent are charged for development loans by the Caisse centrale de coopération économique in France and the Kreditanstalt für Wiederaufbau in the Federal Republic of Germany. Sweden charges an interest rate of 2 per cent for capital project loans. In the United Kingdom a decision was taken in 1963 to grant waivers of interest in the case of loans granted under section 3 of the Export Guarantees Act. Taking into account the effects of the interest waivers, the weighted average interest rate amounted to 4.8 per cent in 1963. The United States Agency for International Development charges an interest rate of one per cent during the grace period and 2.5 per cent thereafter. Development credits granted by the centrally planned economies carry an interest rate in the neighbourhood of 2.5 per cent.

The inappropriateness of export credit maturities for development financing

164. As has been shown in chapter I, there has been a marked tendency since the late nineteen fifties to extend export credit maturities beyond the limit of the Berne Union five-year understanding. It must be emphasized, however, that the lengthening of export credit maturities, which has increased the similarity between export credits and development loans, has in general been limited; maturities of long-term export credits have averaged eight years and have extended beyond ten years in exceptional cases only.

165. Consequently, the maturities of export credits still fall far short of those granted in respect of development loans, which are usually related to the nature of the project and the foreign exchange earning capacity of the developing country. The maturity periods of loans granted by the International Bank for Reconstruction and Development usually vary between seven and twenty-five years. Maturity periods of development credits granted by the International Development Association may attain fifty years. The weighted average repayment period of loans granted by DAC member countries was 24.6 years in 1963 and 27.6 years in 1964.[7] In 1964, Canada introduced a soft loan programme with a fifty-year repayment period which includes a ten-year grace period. Denmark, within the framework of the 1962 Act on Technical Co-operation with Developing Countries, extends loans with a twenty-year repayment period which includes a six-year grace period. In France, the repayment period for loans granted by the Caisse centrale de coopération économique is usually from fifteen to twenty years. In the Federal Republic of Germany, the repayment period for loans made by the Kreditanstalt für Wiederaufbau is usually twenty years in respect of infra-structure projects and fifteen years in respect of industrial projects. In Japan, the Overseas Economic Co-operation Fund granted its first soft loan early in 1965 with a twenty-year repayment period which includes a seven-year grace period. In the Netherlands, the Nederlandse Investeringsbank voor Onkwikelinglanden N.V. (Netherlands Investment Bank for Developing Countries) may extend loans repayable over a period of up to twenty five years with initial grace periods of up to seven years. Capital project loans made by Sweden may be repayable over twenty years with a grace period of five years.

EXPORT CREDITS AND THE EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES

166. It is a fact that export credits enable developing countries to import needed machinery and equipment without immediately paying the full price in cash; it is also true that development lending, which is to a large extent financed from budget appropriations and is strongly influenced by historical ties, may be much more difficult to secure than are export credits, which are financed mainly by the banking system and granted principally on the basis of commercial considerations. However, there is a danger that borrowing countries, when unable to secure long-term development loans or foreign direct investments, may be tempted to fall back on export credits or contractor finance at any price, rather than postpone the implementation of their development plans or at least of the projects to which they have assigned high priority. This temptation may be accommodated by the eagerness of foreign suppliers to secure order contracts, which may preclude a sufficiently cautious assessment of the project's rentability or of the importing country's ability to repay the credits, given its over-all debt position.

167. Export credits, since they are not related to the expected life of the imported equipment, are likely to become due for repayment in a relatively short time, before the foreign exchange expected to accrue directly or indirectly from the new investments can be earned. If the countries concerned are already carrying a substantial amount of foreign indebtedness that commits them to a sizable flow of debt-service payments, the added foreign exchange commitments arising from export credits will tend to increase the riskiness of all outstanding debts and worsen any balance of payments difficulties which may be associated with their chronically unstable foreign exchange earnings. When foreign exchange reserves have been almost completely utilized or earmarked and several trade debts contracted piecemeal without co-ordination and repayment planning still remain outstanding, debtor countries may be forced to seek agreement from creditor countries to accept consolidation or refinancing either bilaterally or through multilateral arrangements. Paradoxically, debtor countries faced with a serious "cash squeeze situation" may find it difficult to persuade their creditor countries, which are under no obligation to extend new credits offsetting payments due on the old ones, to agree to postpone the collection of unpaid bills or to reschedule the debts over longer periods. Debtor countries may therefore have no alternative but to curtail imports drastically, which may have the effect of slowing down economic growth and further delaying the attainment of the goal of self-sustaining growth. Even when consolidation credits are obtained, the method of repaying urgent debts by contracting other debts, the payment of which will soon become equally urgent, merely postpones the crisis, does not provide

[6] *See* Organisation for Economic Co-operation and Development, *Development Assistance Efforts and Policies, 1965 Review, Report of the Chairman of the Development Assistance Committee*, page 81.

[7] *Ibid.*

any debt relief and may prove particularly onerous in terms of its impact on economic growth.

168. As long ago as 1954, the President of the International Bank for Reconstruction and Development warned against an irrational use of export credits:

"The manner in which suppliers' credits are offered . . . sometimes results in projects being undertaken which are far from the highest priority in developmental needs. The exporting country wishes to boost its exports and therefore offers credits for financing a project using its equipment. The manufacturing supplier of equipment naturally welcomes any opportunity to increase his sales and he can certainly not be blamed if he takes advantage of whatever credit facilities may be made available. And the importing country may feel that the credit, being available, should be accepted even if not for the most useful of purposes nor on the best of terms and even if, as often happens, under these arrangements a high price for the goods must be paid. This is contrary to the interests of the importing country and may result in slower rather than faster development." [8]

Ten years later, the Bank stated:

"Part of the indebtedness problem arises from unwise borrowing and unwise lending. The trouble arises from high-pressure salesmanship on the one side, often facilitated by abuse of export credit insurance, and the desire, on the other side, to avoid all the hard work of preparing and negotiating help for projects. In these cases, large amounts of short and medium-term indebtedness are taken on, although foreign exchange earnings are not likely to increase fast enough to meet quickly maturing repayments. Such short and medium-term money is often used to finance slow-yielding projects and in too many cases projects which will never yield an economic return at all." [9]

169. In *Economic Growth and External Debt*, which originated in a study undertaken in response to a request from the Development Assistance Committee of the OECD for "a paper . . . discussing the factors which determine a country's debt servicing capacity" and in a request from the Secretary-General of the United Nations Conference on Trade and Development for assistance on a number of topics including "the methods for relating the terms and conditions of aid to the long-term needs of developing countries", the staff of the Economic Department of the International Bank for Reconstruction and Development attempts "to provide an analytical framework for the discussion of problems on debt servicing capacity of the developing countries, which are the major international borrowers today". [10]

170. This publication, which views international capital flows and external indebtedness as an aspect of the process of economic development, points out that the factor most responsible for the heavy burden of debt servicing of the developing countries is the early maturities involved. approximately 50 per cent of the total Latin American debt outstanding at the end of 1962 was repayable during the period 1963-1965 and approximately 65 per cent of this region's debt outstanding at the end of 1962 was repayable during the period 1963-1967. [11]

171. The debt-service ratio of developing countries (ratio of service payments to foreign exchange earnings on current account) has risen sharply in the past decade, giving a clear indication of the liquidity difficulties they may face in the immediate future. Argentina's debt-service ratio moved up from 2.1 per cent in 1954 to 16.0 per cent in 1959, to 23.5 per cent in 1960 and to 26.1 per cent in 1961, but declined to 22.8 per cent in 1962. Brazil's debt-service ratio passed from 8.4 per cent in 1954 to 20.8 per cent in 1955 and was at the level of 17.6 per cent and 24.2 per cent in 1961 and 1962, respectively. In Chile, the ratio of amortization and interest to exports passed from 7.7 per cent in 1954 to 10.3 per cent in 1956, 15.0 per cent in 1960, 28.5 per cent in 1961 and 27.6 per cent in 1962. In Colombia, debt service, which averaged only about 5.6 per cent from 1953 to 1956, increased to 12.1 per cent in 1957 and 25.1 per cent in 1958 and was at the level of 16.0 per cent and 13.8 per cent in 1961 and 1962, respectively. [12] Although there are conceptual difficulties in arriving at a definition of an excessive debt-service ratio which would be applicable to all countries, it is evident that debt-service ratios such as those given above would be onerous for any country. However, the burden is even heavier when the country—as is the case for the majority of developing countries—has an economy which depends on one or two commodities, subject to sharp international price fluctuations.

172. In chapter VI, "Conclusions", the above-mentioned publication states:

"The developed countries have three choices in financing the economic growth of the developing countries. *First*, they may decide that in some countries day-to-day financial dangers are so serious . . . and the long-term prospects for growth so uncertain . . . , that the only safe way out is to provide most of the needed funds on 'soft' terms. This device is, of course, already being employed on a large scale (including the disposition of surplus foodstuffs on concessionary terms), although there is some tendency for countries that have made extensive use of this device to harden up their terms, partly because other leading capital-exporting countries have continued to provide development assistance wholly or predominantly on a 'hard' basis. If 'soft' funds cannot be mobilized adequately and if it is thought that it would be risky to expand 'hard' lending, *the second choice* is to put arbitrary ceilings on the flow of funds that are made available to countries where the situation looks precarious. Depending on where the ceilings are fixed, the consequence may be that a number of profitable projects would not be undertaken because of the lack of finance, and the actual rate of economic growth in many developing countries may fall short of the technically and economically feasible rate. *The third choice* is to try to

[8] *See* International Bank for Reconstruction and Development, *Summary Proceedings, Ninth Annual Meeting of the Board of Governors* (Washington, D.C., 1954).

[9] World Bank and IDA, *Annual Report 1964-65*, p. 58.

[10] International Bank for Reconstruction and Development, *Economic Growth and External Debt*, by Dragoslav Avramovic and Associates (Baltimore, Johns Hopkins Press, 1964), p. 85.

[11] *Ibid.*, p. 115.

[12] *Ibid.*, table 8, p. 46.

live with the dangers and with the risks and to finance growth predominantly at 'hard' terms."[13]

173. The capacity to service new export credits depends on the one hand on the economic efficiency of the individual projects and on the other hand on the degree of over-all indebtedness which the importing country is capable of sustaining in the light of its balance of payments position and prospects. Projects may be given priority solely because of their "positive foreign exchange effect", that is because they are likely to generate foreign exchange, either indirectly by producing for the local market goods normally purchased abroad or directly by manufacturing goods for export.

174. The experience of developing countries in the early stages of industrialization has proved that there are certain industries which can be set up and put into production quite quickly and which by manufacturing goods that were formerly imported make it possible to save foreign exchange for servicing medium-term commitments. For example, during the past ten years the less industrialized countries in the developing regions generally tended to show fairly rapid growth rates as regards the production of non-durable consumer goods industries and certain intermediate producer goods industries such as the cement and fertilizer industries. It has been estimated that in a number of developing countries during the nineteen fifties the increase in the production of consumer goods and intermediate goods industries yielded net foreign exchange savings equivalent to 50 per cent or more of the value of capital goods imported during the first years of the decade.[14]

175. As developing countries such as Brazil, India and Mexico become relatively more industrialized, the pattern of industrial development shows a tendency to shift towards durable goods industries (for example, metallurgical and engineering industries). However, many branches of the durable goods industries may be prevented by various factors from coming immediately into full operation. One factor is that the labour force may have to be trained in an entirely new range of technical and managerial activities. Another factor is that since the creation of such industries may involve the development of whole complexes of interrelated plants, production in a given plant may be impeded by difficulties encountered in establishing ancillary industries. Consequently, investments in these industries may fail to yield any substantial amounts of foreign exchange to service medium-term commitments incurred in connexion with their establishment. When establishing such industries, it is essential, therefore, to arrange for long-term amortization schedules by financing the projects through long-term development credits. Failure to do so may mean that additional strain will be placed on the balance of payments.

[13] *Ibid.*, pp. 88-89.

[14] *World Economic Survey, 1961* (United Nations publication, Sales No.: 62.II.C.1), chap. 1.

CONCLUSIONS

176. While it may be desirable to re-establish the distinction between aid credits proper and export credits, an over-rigid approach might impede the development of the developing countries and hamper the growth of international trade, which would in turn slow down economic growth in the developed countries. The widespread concern felt among exporting countries regarding "unfair competition" in the provision of export credits and its degeneration into a "disruptive race" cannot be isolated from the broader problems arising from the fact that the total volume of capital currently being made available to developing countries is already inadequate to meet their financial requirements.

177. The search for a solution to export credit competition must be undertaken with reference to the accepted need for a sustained and indeed increasing net flow of financial resources into developing countries. Although these countries are making great efforts to expand their exports and to develop import substitutes, it would appear that in the foreseeable future their minimum investment programmes will continue to exceed their capacity to earn and save, especially foreign exchange, and that an increasing flow of external financing will remain essential to the fulfilment of even these minimum programmes. No matter how serious the limitations of export credits may be as a means of financing economic development, in terms of their inappropriate maturities, high cost and sometimes even the over-pricing of the goods, they have nevertheless, as shown by the figures given, become an important source of external financing for developing countries.

178. If it is therefore intended that total flows should not diminish, so that the growth of the developing countries and of international trade need not be retarded, restraints on the granting of government-guaranteed export credits would presumably be compensated by an increase in the volume of aid credits or associated with the provision of other forms of long-term financing.[1]

179. The fact is that a number of developed countries consider that medium-term and long-term export credits are major means of assisting the developing countries and find it easier to grant export credits than aid credits, because in their view export credits—particularly long-term credits—have growth stimulating effects which benefit their own domestic economies as well as aid features which benefit the developing countries. Any measures by the developed countries which would substantially reduce the over-all flow of financial resources to developing countries would also reduce the flow of their capital goods exports and are thus likely to appear as unattractive to the latter as to the former.

180. An increase in aid credits or the provision of alternative forms of financing whose repayment periods would be more appropriate for economic development purposes than those of even medium-term and long-term export credits might also help alleviate the excessive debt-service burdens of developing countries, which in recent years have aroused fear of spreading liquidity crises. This problem of indebtedness arising from export credits has two main aspects: costs and maturities. The cost of export credits remains relatively high, and the longer the maturity the heavier the total interest burden.

181. In some countries (Austria, France, Italy, Japan and the United Kingdom) government facilities in the form of financing or refinancing funds and/or interest subsidies make it possible to offer export credits in excess of five years at interest rates lower than market rates, but since such facilities, while falling within the framework of export promotion programmes, are often granted for the purpose of assisting developing countries, they confer upon these credits a certain aid character which may be considered as susceptible of having a trade distorting effect. On the other hand, abnormally low export credit interest rates might reduce the commercial banks' willingness to commit their own funds to export financing and might therefore result in reduced commercial bank participation in export financing or in pressure on central banks for increasing refinancing facilities.

182. The question of export credit interest rates might be profitably examined at the international level. In particular, it might be worth while to study the possibilities and effects of generalizing the system of subsidized export credit interest rates. Progress in that direction would undoubtedly be welcomed by developing countries, although it could not constitute a substitute for directly increasing their purchasing power by increasing their own export earnings.

183. Export credit maturities have been lengthened in order to meet competition arising from tied development loans, and this process has been facilitated by the absence of standards generally accepted as appropriate for capital goods amortization in developing countries. Further lengthening would do little to alleviate the external debt-service burden of the developing countries, unless the maturities were geared to the pay-back period of particular projects and to the balance of payments prospects of the importing country, that is, unless export credits were granted with maturities that would assimilate them all but completely with aid credits.

[1] For example, the possibility recently adumbrated of long-term borrowing by the developing countries outside the congested channels of private capital market floatations, through direct placement with semi-public or publicly controlled financial institutions in the developed countries. *See* "Regional development financing", report by Henry S. Bloch to the United Nations Trade and Development Board (TD/B/AC.4/R.3), chapter 2, pages 24ff.

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PREFACE

This study forms part of the programme relating to the financing of economic development which has been carried out by the Fiscal and Financial Branch of the Department of Economic and Social Affairs in response to a series of resolutions adopted by the General Assembly and the Economic and Social Council. Export credit insurance and export credit were covered in several of the reports in the series on the promotion of the international flow of private capital which have been submitted to the Economic and Social Council since 1960,[1] and especially in that for 1961, in response to General Assembly resolution 1523 (XV) of 15 December 1960 on international credit insurance.

In 1962 the Committee for Industrial Development, at its second session, requested the Secretariat to prepare a study of "measures and techniques in promoting exports of industrial equipment to under-developed countries".[2] A preliminary report on the provision of credits for the financing of imports of machinery and equipment into developing countries (E/C.5/26), consisting of an analytical section and a number of country studies, was submitted to the Committee at its third session. The Committee reviewed the report and requested the Secretariat to expand the analytical section and to undertake consultations with the governments of export credit supplying countries with a view to expanding the coverage of the country studies.[3] The Secretariat accordingly submitted a revised and expanded version of the analytical section (E/C.5/64) to the Committee at its fourth session and informed the Committee that, as suggested at its third session, the whole study would be printed for wide distribution.

In the meantime, the question of export credits had been considered by the first session of the United Nations Conference on Trade and Development, which in recommendation A.IV.14 had invited the International Bank for Reconstruction and Development to study the "use (actual and potential) and terms of suppliers' credits and credit insurance, including rediscounting arrangements" and "To identify the difficulties which arise or may arise, in particular as regards debt service, and to consider possible solutions".

In view of the work on export credits which had already been carried out by the United Nations Secretariat, the Bank and the Secretariat felt that their tasks were largely complementary and agreed to co-operate closely in the preparation of their reports.

Consequently, the present study by the Secretariat consists mainly of an analytical and historical review of the nature and operations of the existing national systems and international arrangements regarding the granting of export credit insurance and export credit and a discussion of the main problems involved in the use of these techniques for expanding the availability of foreign resources for development financing. The Bank's report will focus on the formulation of appropriate policy proposals, based on its findings regarding the use of private credits and the related problems.

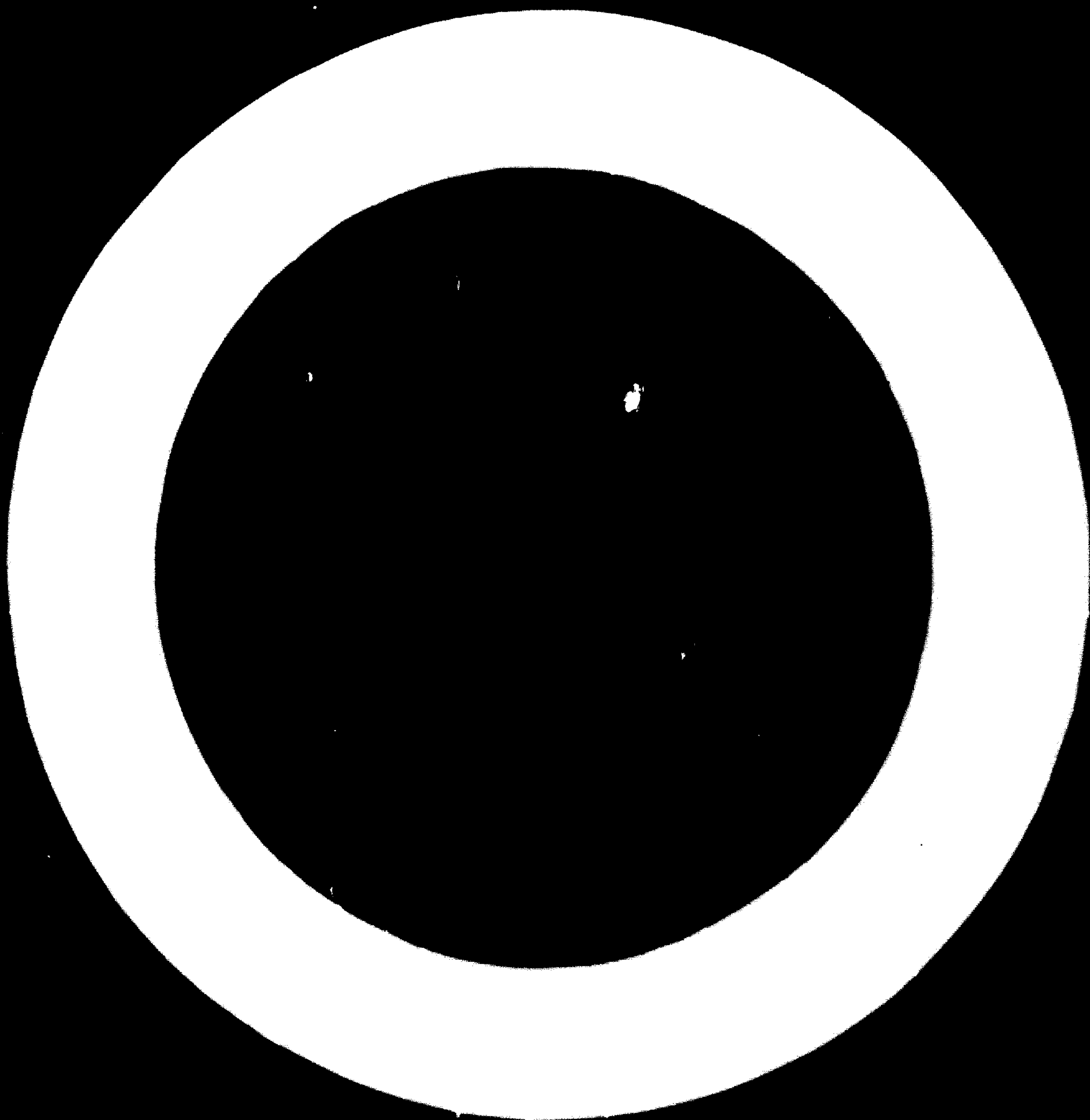
The present study consists of two parts: the first is entitled *Current Practices and Problems*; the second contains a series of country studies describing the export credit insurance and export credit systems in the export credit supplying countries. It will be submitted to the Economic and Social Council and the General Assembly as well as to the UNCTAD Committee on Invisibles and Financing related to Trade, the second United Nations Conference on Trade and Development, the Industrial Development Board and the World Symposium on Industrial Development.

In preparing the study, the Fiscal and Financial Branch of the Department of Economic and Social Affairs has benefited from the information and advice provided by international and national organizations and institutions. The Secretariat wishes to thank the President and the Secretary-General of the Union d'assureurs des crédits internationaux (Berne Union), the officers of the various export credit insurance and export credit institutions and the members of the financial community in the different countries and the officials of the European Economic Community and the Organisation for Economic Co-operation and Development, all of whom provided their views and information. It also wishes to thank the staffs of the International Bank for Reconstruction and Development and the Inter-American Development Bank for their valuable comments and suggestions.

[1] *See* "The promotion of the international flow of private capital", E/3325, 26 February 1960, paragraphs 74-76; E/3492, 18 May 1962, paragraphs 228-248, and *Official Records of the Economic and Social Council, Thirty-seventh Session, Annexes*, agenda item 10, document E/3905, 26 May 1964, paragraphs 243-288. *See* also *The International Flow of Private Capital, 1956-1958* (United Nations publication, Sales No.: 59.II.D.2), chapter IV.

[2] *Committee for Industrial Development, Report of the Second Session, Official Records of the Economic and Social Council, Thirty-third Session, Supplement No. 2* (E/3600/Rev.1), chap. V, E.1.

[3] *Committee for Industrial Development, Report of the Third Session, ibid., Thirty-sixth Session, Supplement No. 14* (E/3781), para. 76.



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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.

The following abbreviations have been used:

AID	Agency for International Development [United States of America]
DAC	Development Assistance Committee [OECD]
EEC	European Economic Community
ECGD	Export Credits Guarantee Department [United Kingdom]
ECIC	Export Credits Insurance Corporation [Canada]
FCIA	Foreign Credit Insurance Association [United States of America]
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation

*
* *

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.

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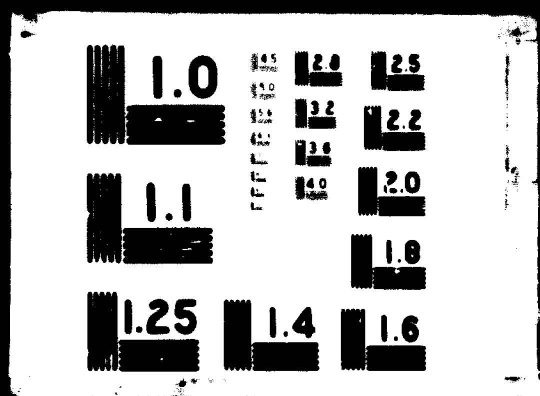

184. There remains then a gap between the capital goods requirements of the developing countries and the volume of such goods they can acquire through export credits on the one hand and export earnings, grants and aid credits on the other. Even where such aid credits can be expanded beyond what might otherwise be offered, by tying them to procurement in the grantor country, there are rather severe limitations both on the additional amounts which can thus be made available and on the net benefits which such tied aid credit brings to the developing country. Moreover, whatever the motivation of the tied aid credit offer, its effect is unavoidably to add another dimension to the use of credit terms as an element in the competitive race among capital goods exporters.

185. As has been seen, the problems which have arisen from the prevailing system of financing international trade in capital goods—mainly over-indebtedness of the developing countries on the one hand and possible trade distortion on the other—are highly complex. The experience already acquired in attempting to cope with these problems would tend to indicate that the developing countries' need for an expanding inflow of capital goods is well matched by the developed countries' interest in expanding their sales of these goods. A workable solution to these problems would have to encompass all substantial export credit suppliers from among both western and eastern countries as well as the countries importing capital goods under such credits.

Annex

EXPORT CREDITS AND EXPORT CREDIT INSURANCE AS A MEANS OF PROMOTING EXPORTS BY DEVELOPING COUNTRIES

1. The foregoing study has dealt with the provision of export credit insurance and export credits by developed countries and their use as a means of financing the acquisition of capital goods by developing countries. The export promotion value attached to such schemes in developed countries has aroused the interest of developing countries in the possibility of using them for promoting their own exports, with a view to accelerating their industrialization programmes. Some preliminary considerations on this subject are contained in this annex.

THE PROBLEMS AND THEIR SETTING

2. During the period immediately following the Second World War, developing countries tended to concentrate their industrialization efforts on import-substitution industries rather than on export industries. An increasing awareness of the need for a diversification of exports designed to produce a substantial and sustained expansion in export earnings for the financing of their economic development programmes has, however, contributed to a change in this attitude. From 1955 to 1961 exports of manufactures from developing countries increased at an annual rate of 6.5 per cent [a] and many of these countries' current development programmes are designed to accelerate the rate of export growth with a significant role being assigned to manufactures and semi-manufactures. For example, in Ethiopia, processed materials in the form of leather and leather goods, building materials and chemicals are expected to represent about 6 per cent of exports by the target year. In Ghana, timber products and processed bauxite in the form of aluminium are expected to become of increasing importance during the plan period. In India, the plan calls for a substantial increase in exports of manufactures, with chemicals and engineering goods supplementing traditional textile products. In the United Arab Republic, the relative importance of manufactured goods—largely textiles and chemical products but including also some metal products—is expected to increase from 21 to 31 per cent of aggregate exports over the plan period. [b]

3. In addition, many developing countries have come to realize that given the limited size of their domestic markets they must find other outlets for their industrial products if optimum production levels are to be attained. Consequently, they have been paying increasing attention to the opening up of new export markets as well as to the consolidation of existing ones, both within economic integration areas and outside of them. In their efforts to increase their export capacity and diversify their exports of such non-traditional goods as chemicals and light engineering products as well as transport equipment and other capital goods, developing countries must face harsh competition from traditional suppliers. As this competition is not confined to price, quality and delivery period but extends to the possibility of offering deferred payment, suppliers in developing countries are feeling an increasing need for financing facilities that will enable them to compete more readily with exporters in other countries as far as credit maturities are concerned.

[a] *World Economic Survey, 1963, I. Trade and Development: Trends, Needs and Policies* (United Nations publication, Sales No.: 64.II.C.1), p. 179.

[b] *World Economic Survey, 1964, Part I, Development Plans: Appraisal of Targets and Progress in Developing Countries* (United Nations publication, Sales No.: 65.II.C.1), chap. 4, p. 75.

The problem of export credit insurance

4. The experience of the developed countries has shown that the granting of export credits by suppliers and the financing of such credits by the banks are largely dependent upon the availability of export credit insurance. The protection provided by such insurance is of particular significance in the case of developing countries: the intensification of their industrialization means that many new traders, unfamiliar with export practices, will enter the export field, and many new lines of business and new markets will be developed. Moreover, since in most cases credits are granted on the basis of the exporter's financial standing rather than on the soundness of the export transaction, the provision of export credit insurance may result in a reduction in the cost of financing export credits, enable existing exporters to expand their export business and make it possible for other entrepreneurs—particularly small entrepreneurs—to whom financing facilities will be more readily available, to enter the export field. Hence, the increase in their capacity to export industrial products has led some developing countries to contemplate introducing export credit insurance, and such schemes have now been institutionalized by the Governments of Brazil, India, Israel, [c] Mexico and Pakistan.

5. The operation of an export credit insurance scheme in a developing country on a self-supporting basis presents special problems. The volume of exports which would be available for insurance is in most of the countries relatively small as yet. In these conditions an insurance scheme may have difficulty in securing an adequate spread of risks as well as in maintaining an effective credit information service and in covering its administrative costs. On the other hand, premiums cannot be too high, since the added cost might increase the sale price of the goods to an uncompetitive level, or, if the exporter should bear the cost himself in order to secure the order, reduce his margin of profit, which may already be dangerously small. If, over a certain period, premiums should fail to cover administrative costs and claims governments would be obliged to make up the deficit, with a resulting strain on their already limited financial resources.

6. These considerations, affecting both the potentialities and problems of export credit insurance in developing countries, indicate the need for systematic study of the actual and possible uses of such schemes—on a national as well as possibly on a multinational basis. The growing interest of the governments concerned in this subject has been manifested in a number of international bodies, including the United Nations Conference on Trade and Development, [d] and the Inter-American Development Bank. [e]

[c] The Israel export credit insurance scheme was established with United Nations technical assistance. *See* "Export credit risk insurance in Israel" (TAA/ISR/28, 1958).

[d] *Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report*, annex A.IV.14.

[e] *See* Inter-American Development Bank, *Credit Insurance and the Promotion of Latin American Exports* (Washington, D.C., March 1965), p. 3.

7. A working group of five experts convened by the Inter-American Development Bank from 21 October to 3 November 1964 to study these problems considered that

"Latin American exports [required] the establishment of export credit insurance [for the] benefit of producers" in the region, and, accordingly, recommended that the Inter-American Development Bank:

"With regard to commercial risks:

"Promote establishment of export insurance systems in the Latin American countries and supply the necessary technical assistance for this purpose;

"Promote formation of a regional association of such export credit insurance systems as may be established in the several Latin American countries; and

"Maintain close contact with the proposed association, with the objective of cooperating in the formation of a regional entity to insure and reinsure export credit, based on the experience obtained by the association of national systems.

"With regard to political risks:

"Promote establishment of systems to afford protection against political risks in the member countries, and provide appropriate technical assistance to such systems;

"Explore the possibility that the Latin American countries would mutually guarantee convertibility and transfer of payments for intra-regional trade operations; and

"Support efforts being made to obtain improved systems of compensatory financing from the international institutions responsible for supplying such financing". [f]

The problem of export credit financing

8. Although export credit insurance is frequently a prerequisite for bank financing of export credits, the provision of such financing depends in the first place on the availability of bank resources which can be mobilized for that purpose for the required maturity periods and at acceptable interest rates. The amounts of available banking resources in the developing countries may be considered to be more or less adequate to meet short-term export credit requirements for the present and the immediate future, but the high level of interest rates may impede their effective use.

9. In the case of transactions involving credits with maturities exceeding six months, an exporter in a developing country may have difficulty in securing financing even if he has insurance coverage. Such medium-term and long term credit facilities as exist are often devoted to the financing of high-cost housing at very high interest rates. In many cases exporters have had to secure medium-term funds through renewal of short-term credits, but this method will become increasingly inadequate as exports of durable goods expand and the need for lengthened deferred-payment commitments grows more intense.

10. In an attempt to remedy this situation, the Governments of some developing countries (including Argentina, Brazil, Chile, India, Mexico, Nicaragua and Peru) have initiated medium-term export credit financing schemes. Since developing countries, however, are severely limited in the amounts of long-term funds they can lend abroad, there is a real question as to what extent they can thus enable their exporters to compete in credit maturities and rates with those of the industrialized countries. In response to this problem, the Inter-American Development Bank (IDB) has initiated a programme for the refinancing of intra-Latin American exports, whose main features are briefly referred to below. This is a novel experiment which should be of special interest to other developing regions.

[f] *Ibid.*, annex, p. 9.

THE REFINANCING OF INTRAREGIONAL EXPORTS IN LATIN AMERICA BY THE INTER-AMERICAN DEVELOPMENT BANK

11. In 1963 the Board of Governors of the Inter-American Development Bank set up a programme for the refinancing of medium-term export credits for intraregional exports of capital goods. The programme (which does not encompass export credit insurance) came into operation on 1 January 1964. Its fundamental objective is "to stimulate the development of Latin American basic industry through an expansion of intra-regional trade". [g]

12. An initial sum of $30 million has been earmarked for the programme. Under the governing regulations, [h] the maturity periods of the export credits to be financed vary between six months and five years, according to the type of goods involved, their unit value and the total value of the transaction. The five-year limit may be exceeded in exceptional cases in order to enable exporters to meet international competition. Only capital goods considered as such in international trade practice and normally subject to medium-term financing may be financed under the programme. The IDB issues a list of eligible goods which is open and subject to periodic amendment, especially in the light of newly developed export capacities of member countries. Specifically, goods must originate in Latin American member countries of the IDB, that is, they must be produced in a Latin American member country from raw materials or parts originating in that country or other Latin American member countries. Goods containing components not manufactured in such countries are eligible if the final process which substantially transforms the goods has taken place in a Latin American country and if the c.i.f. value of the imported components is less than 50 per cent of the f.o.b value of the finished product.

13. The programme operates through national agencies specially designated for that purpose by the member countries. These agencies supervise compliance with the regulations at the national level, particularly with regard to the nature of the goods exported, their origin, the maturity period of the transaction and the legality and validity of the export credit documents. The agencies are also expected to bear the financing burden for a certain portion of the credit (*see* below) and to guarantee all the instruments they submit to the IDB for financing. The Inter-American Development Bank carries out its financing operations by granting credit lines to national agencies; the latter, in turn, issue promissory notes to the order of the Inter-American Development Bank on the basis of the credit instruments issued by the importer and discounted or rediscounted by the national agencies in the exporting country.

14. The IDB credit lines may be used to refinance up to 70 per cent of the invoice value; unless more favourable conditions are offered by competitors, the importer must make a down payment of at least 20 per cent of the invoice value, the remainder being financed by the exporter (out of his own funds or through parallel financing) and/or by the national agencies. The rate of interest charged by the IDB for refinancing is never less than that charged for other operations financed from its ordinary capital resources.

15. The volume of business carried out under the IDB programme is shown in table 9.

[g] Inter-American Development Bank, *Program for the Financing of Intraregional Exports of Capital Goods* (Washington, D.C., March 1964), p. 14.

[h] Adopted on 30 September 1963 by the Board of Governors of the IDB. For text, see *Program for the Financing of Intraregional Exports of Capital Goods*, page 18.

TABLE 9. INTER-AMERICAN DEVELOPMENT BANK REFINANCING PROGRAMME: MOVEMENT OF FUNDS AS OF 30 SEPTEMBER 1966

(*Millions of dollars*)

National agency	*Credit line*	*Disbursement*	*Repayment*
Banco Central de la República Argentina	3.0	1.5	0.3
Banco do Brasil	3.0	1.5	0.2
Banco Central de Chile	2.0	—	—
Nacional Financiera de México	5.0	3.2	0.2
Banco Nacional de Nicaragua	1.0	—	—
Banco Industrial del Perú	1.0	0.3	—
TOTAL	15.0	6.5	0.7

16. A wide variety of capital goods has been exported under the programme. For example, Argentina has exported farm machinery, textile machinery, telecommunications equipment, metal-working machinery, tools and equipment to Chile, Colombia and Mexico; Brazil has exported vehicles to Central America and steel matrices for stamping car bodies to Argentina; Mexico has exported machinery for the manufacture of structural steel to El Salvador and steel pipe, distillation towers and columns, pressure tanks, storage tanks and metal structures to Argentina; Peru has exported fishing vessels to Panama.

17. The Bank is currently endeavouring to assist other member countries in setting up the necessary machinery for participation in this scheme.

PROPOSALS FOR ACTION

18. While export credit insurance and export credit financing schemes have undoubtedly proved to be effective tools in the export promotion programmes of the developed countries, the considerations outlined above tend to show that the introduction of similar schemes in developing countries is a more complex undertaking. As indicated, there is a growing need for and interest in systematic study of the problems and possibilities of such schemes, with emphasis on their possible contribution to the promotion of exports from the developing countries. Since a number of developing countries have already established export credit and export credit insurance schemes, such study may well start from an analysis of the methods and effectiveness of these schemes, as a basis for their possible improvement and their adaptation to other developing countries.

19. The experience which the Inter-American Development Bank is acquiring in the field might similarly provide a starting point for an enquiry into the role which might be played also by the African and Asian Development Banks in assisting their member countries in establishing export credit insurance and financing programmes.

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