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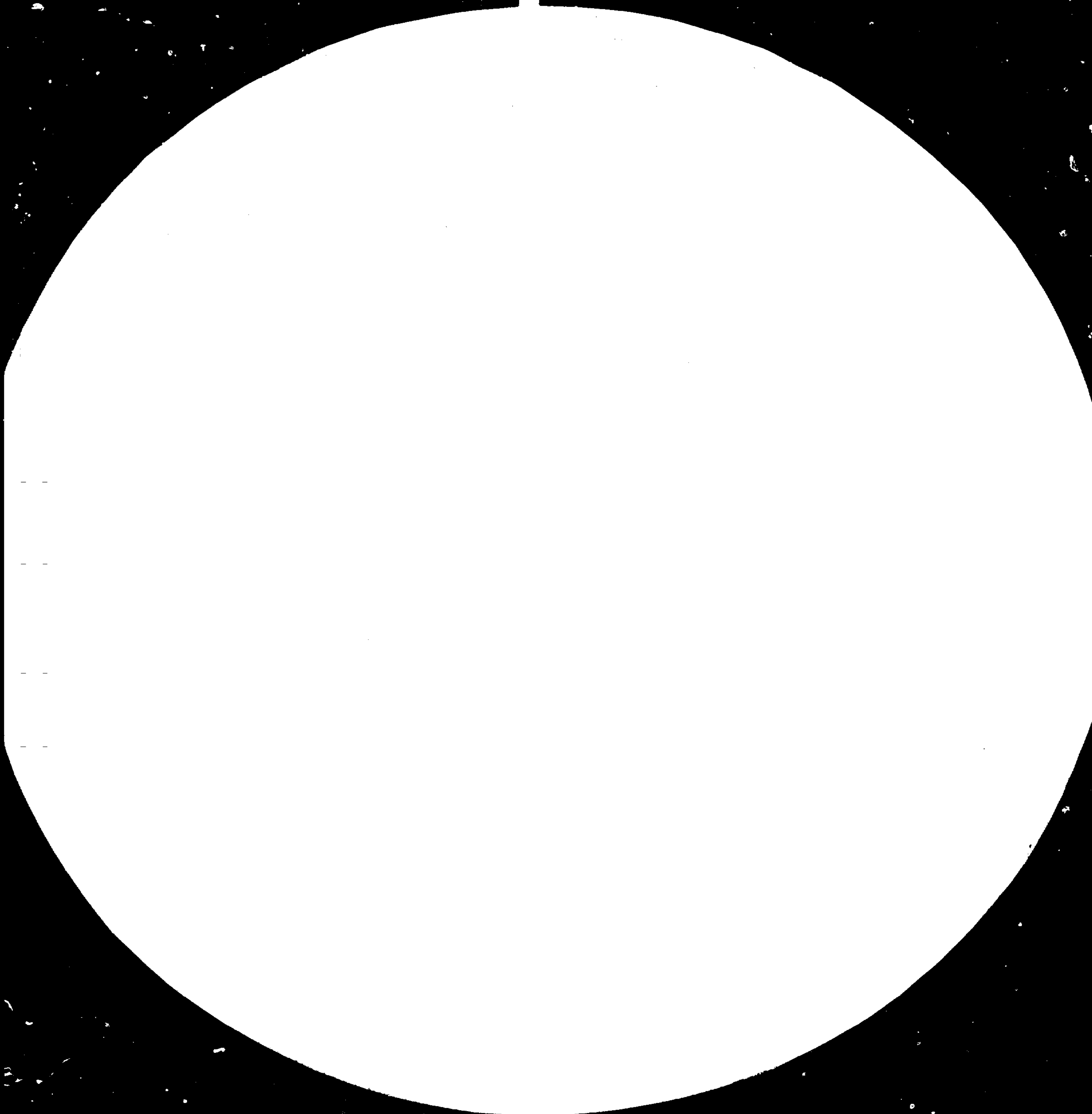

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11746

Distr.
LIMITED

UNIDO/PC.54
28 September 1982

ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

First Consultation on Industrial Financing

Madrid, Spain, 18-22 October 1982

INFORMATION PAPER

POLICIES OF EXPORT CREDIT AGENCIES IN FINANCING OF TRAINING COMPONENT IN INDUSTRIAL PROJECTS*

by

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003545

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V.82-30755

'There is no such thing as export credit policy that one can put one's finger on: it is made up of a lot of strands of views, aspects of policy, which have to be brought together from time to time in the context of a particular question.' This was said in 1978 by Mr Kenneth Cotterill, then Deputy Head of the Export Credits Guarantee Department (ECGD), the British export credit agency, in evidence to the Committee to Review the Functioning of Financial Institutions. The statement would be similarly true of export credit policy in other countries. Each country's export credit agency has at its disposal a range of instruments for supporting export credit. Official support is chiefly confined to medium- and long-term credit, which is used to finance exports of capital goods. These tend to be large, complex, one-off orders. Consequently, the provision of official export credit is often determined in the context of an individual transaction, on the basis of a number of policy considerations and the priority accorded to them. This is equally true of export credit for the training component in industrial projects. Exporting countries have not consciously devised policies in this area. In so far as training is distinguished at all from other components, its treatment reflects the importance assigned to it in relation to various policy objectives.

In the absence of explicit policies, this study tries to explain the factors which influence the way export credit for training components is dealt with. It begins by tracing the development of official support for export credit and describing the instruments which are now available. The supply and demand for industrial training are considered and the framework within which export credit agencies operate at the national and international levels is analysed. There follows an examination of the export credit systems of some major trading countries, with specific reference to their handling of training components. Lastly, the study discusses the prospects for changes in the conditions of export credit for training.

Official export credit facilities

Initially official support was given to export credit to prevent export orders being lost through lack of finance. Governments began to guarantee credits against types of risk, such as insolvency, which commercial insurers would normally cover but declined if they regarded the business as too hazardous, too large or too long; and against types of risk not normally covered by commercial insurers, such as transfer risk.

Changes in the international economy during the 1950s brought about changes in the demand for export credit. New markets were opening up in developing countries which, because they were short of capital and foreign exchange, relied heavily on export credit but also entailed greater uncertainty. Capital goods were becoming larger and accounting for a higher proportion of trade and since they were usually sold on credit this implied more and longer credit.

The banks were reluctant to take on additional risks and so official support increased. Governments expanded their insurance activities and became more directly involved in the provision of export finance. In some countries an official export bank made direct loans while in others the central bank refinanced export credit advanced by commercial banks. In response to importers' growing aversion to fluctuating interest rates countries arranged for their commercial banks to offer a fixed interest rate for export credit. Fixed interest rates were intended to remove uncertainty but not to reduce the cost of credit. During the 1970s, however, market rates of interest in some countries (notably Britain and France) rose steadily while their fixed rate was adjusted very little, with the result that their governments were substantially subsidizing the fixed rate.

The 1970s witnessed a general deterioration in the economic environment: high rates of inflation, volatile exchange rates and slack demand. At the same time exports of capital goods became larger and more complex. To ease some of the difficulties export credit agencies introduced new facilities, including cover for performance and other bonds, support for pre-shipment finance, exchange risk guarantees and cost-escalation schemes, which partly protect firms against inflation when they are exporting large capital goods with long manufacturing periods.

Since the 1950s the financing terms have become an important element in competition for exports of capital goods. Official export credit agencies, besides ensuring that finance was available for these exports, began to match the terms being offered by their opposite members in other countries. Although their original function was to remove impediments to exports, export credit facilities have increasingly been used to win export orders from competitors.

The supply and demand for industrial training

For many years exporters of capital goods saw their responsibility as ending with the delivery of a machine in proper working order. They would furnish the basic instruction needed to operate the machine as well as perhaps some after-sale service, but they did not reckon to see that the people manning the machine would be able to keep it running efficiently. As capital goods have become larger and more complex and as exports of whole projects (plants and factories), rather than individual items, have become more common, training has assumed more importance.

This development has been reinforced by the tougher competition among exporters that has resulted from the recession in the world economy. Training is now regarded by some as another element in an export deal which can be used to attract a customer away from a competitor. Furthermore, exporters appreciate that to supply plant or equipment which becomes inoperative within a short time does nothing to enhance their reputation so that it is in their interest to provide sufficient training to ensure that their exports perform satisfactorily. They are also aware that training familiarizes the recipients with their products and thus can help to obtain further business in the future.

Importing countries anxious to improve their industrial production have become aware, in general, that training, and notably on-the-job training, is essential to acquiring technology and, in particular, that imports of capital goods have sometimes failed to confer the expected benefits because of inadequate training. Hence the governments of some developing countries now seek from exporters training in the technical skills and know-how necessary to operate and maintain machinery and also in the managerial and commercial abilities needed to ensure that a production process runs smoothly and profitably.

Some years ago the 'turnkey' concept began to be adopted. This meant that a firm undertook to deliver plant and equipment to the importer ready to go into production, which entailed not only exporting goods but also seeing that they were properly installed. More recently there has been further evolution with 'product-in-hand' projects, in which the exporter remains involved until output is being produced. In some cases the exporter is directly responsible for the entire project, in others the later stages may be sub-contracted to a consulting engineer or there may be a completely separate contract. On occasion aid agencies participate, providing financial or technical assistance.

The cost of export credit

All the OECD countries except Iceland and Turkey offer some measure of official support, and so do some non-OECD countries (including Argentina, Hong Kong, India, Iran, Israel, Korea, Pakistan and South Africa). Some 85% of the export credit supported by OECD countries comes from five countries: France, the Federal Republic of Germany (FRG), Jan, the United Kingdom and the United States; and some 70% is for exports to developing countries.

Official support for export credit comprises several instruments. Exporting countries have somewhat different arrangements for each of these instruments and offer them in various combinations. At the least, the export credit agency provides an official guarantee for a commercial loan. In addition it may permit an export credit to be advanced at a lower rate of interest or for a longer term than would be available for a commercial loan. This the export credit agency can do by making a direct loan, refinancing a commercial loan or subsidising the interest rate on a commercial loan. Financing of local costs associated with an export, such as the costs of installing a factory, may also be subsidised. Some countries provide mixed credit, in which export credit is supplemented by aid funds (either a grant or a cheap loan). The aid funds are used to cover the down payment or local costs, to lower the rate of interest or draw out the maturity still further, or to insert a grace period before the repayments have to begin. Other facilities which are sometimes subsidised include insurance premiums, pre-shipment finance, cost-escalation insurance and foreign-exchange guarantees.

Export credit agencies work closely with the commercial banks which arrange export credit on behalf of the exporter, or in some cases the importer. Given governments' readiness to guarantee export credit and often to refinance it, so satisfying banks' concerns about security or liquidity, the banks regard export credit as high-quality business. Not only is it virtually risk-free,but once an agreement is completed it generates very few costs. Banks can also benefit from associated business, such as foreign-exchange transactions and commercial loans to cover the down payment or local costs. In recent years, however, increased competition for export credit business has tended to depress the fees banks receive from borrowers for negotiating and managing contracts.

There are two main aspects of official support for export credit: guarantees and finance. In some countries these are handled by a single organization and in others by separate organizations. In any event, while export credit policy is administered through these agencies it is formulated in consultation with several government departments. These typically include the ministries of finance, trade industry, employment, foreign affairs and development, as well as the central bank. They are involved in decisions both on individual export credits and on general policy, such as the introduction of a new facility.

The basic decision is whether to guarantee a particular piece of business. Although export credit agencies take on business that would not be acceptable to commercial insurers, they are generally expected not to make a loss on their activities, which means that they cannot take on unusually risky business. In the case of countries which provide subsidized finance, the granting of a government guarantee automatically gives the borrower access to official finance. Most export credit agencies retain some discretion, however, as to the extent of the subsidy. They normally provide finance on terms less favourable than those allowed by international agreement. This gives them the possibility of improving on the norm in certain cases, by offering to finance a larger proportion of an export credit, to lower the interest rate or to extend the maturity. In exceptional circumstances an export credit agency may decide to exceed the agreed limits. Official financing imposes a direct cost on public expenditure and may impose indirect costs if it distorts the financial market.

In reaching a decision as to whether to guarantee an export credit or how much subsidy to provide, those responsible are setting the cost of assuming the risk or providing the subsidy against the economic and other benefits that the export is expected to confer. The predominant policy considerations are usually the balance of payments and employment. Contracts that are thought likely to lead to further export orders or to generate employment in the exporting country are favourably regarded. Sectoral arguments also play a part. Some branches of the capital goods industry are particularly dependent on exports because their most efficient scale of production exceeds the requirements of the domestic market. Some branches are active in the development of new technology, which benefits the rest of the economy but may be difficult to establish in export markets.

Although the main considerations relate to the impact of an export on the economy of the exporting country, some account may be taken of the effect on the importing country if it is a developing country. This aspect may be given more weight in the case of a mixed credit. Attention is also paid to foreign policy. The principal recipients of official export credit are governments, state entities or development banks so that it is often akin to government-to-government loans.

A further stage of decision-making is to assess what terms are appropriate to meet competition from exporters in other countries. The closer offers are in other respects (price, quality, design, technical specifications, compatibility with existing installations, reputation, compliance with delivery dates, after-sales service), the greater is the pressure to make the financial terms more favourable. Some countries are more prepared than others to intervene in this way. The FRG has in the field of export credit inclined to a free-market approach, subsidizing only in specific cases, such as shipbuilding because it was a crisis sector and the Airbus because it was a new product. By contrast, France has subsidised extensively, in some cases it has seemed with the object of establishing a monopoly position.

Differences among exporting countries in the ways they organize and appraise official export credit mean that an importer may be offered a diversity of financial terms for a transaction. The proportion of official finance, insurance premium, length of the credit, interest rate and fees can all vary (see table). In addition, there may be

official support for local costs and an aid element may be included. To complicate matters further, the offers are usually in different currencies. The borrower needs to calculate not only the current cost of a credit, but to make a judgment of how exchange rates will move during the period of repayment. A lower interest rate can be more than offset by currency appreciation.

Effective Cost to Borrower of Officially Supported Export Credit[1]

(per cent per annum)

	Britain	France	FRG	Japan	United States[2]
Interest rate	7.50[a]	7.50[b]	7.50	7.50[b]	8.40
Fee	n.a.	n.a.	0.10	0.10	0.10
Insurance premium	0.60	0.85	0.80	0.30	n.a.
Total cost[3]	8.30[a]	8.55	8.40	8.00	9.30

n.a. not applicable

[1] These are typical interest rates on direct credits with a repayment term of more than five years, extended or supported by official agencies for a 'relatively poor' borrower in the first half of 1979.

[2] This is the 'standard' rate. Eximbank also quotes an 'exceptional' rate of 8.10, with a fee of 0.20, and total cost of 8.30.

[3] Includes bank fees, and for the FRG and the United States, also the effect of a proportion of commercial bank finance at a rate that is different from the official rate.

[a] Rate for US-dollar credits. For sterling credit rate is 0.25 higher.

[b] This rate varies, so that when private funds are included, the 'blended' rate for the whole credit is the minimum interest rate specified in the Arrangement.

Source: Export-Import Bank of the United States, Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States (Washington, DC, January 1980) pp.15-18.

Importers can seek to turn to their advantage disparities among export-finance packages. They may press an exporter to include in his package a more favourable element being offered by a competitor. The exporter may then try to persuade his export credit agency to improve on the package. Some exporters are able to operate out of more than one country. These are large multinationals or, more often, firms such as consultant engineers which are selling know-how rather than goods. With offices in several countries they can choose from which one to bid for a particular contract. They are assisted by international banks which approach the relevant export credit agencies to establish what terms are available. The extent to which exporters can play off one export credit agency against another is limited by international agreement on export credit terms and arrangements for exchange of information between agencies.

The international framework

During the 1970s official export credit was seen by exporting countries as being increasingly wasteful. The growing subsidy was imposing a greater burden on public expenditure, while international demand for capital goods had slackened. The purpose of the subsidy was to promote exports. This meant either increasing total world exports, which was difficult in the prevailing economic climate, or increasing a country's share of the existing market. It was evident that if one country's subsidy was matched by a subsidy from another, they each lost the cost of their respective subsidy but gained nothing because their relative competitive position was unchanged.

In 1974 a gentlemen's agreement on minimal rules for official export credit was signed by the five major exporting countries, Italy and Canada. This was superseded in 1976 by a more comprehensive international consensus, which was in turn replaced by an international arrangement in 1978. The Arrangement was essentially the same as the Consensus, but was more formal, more extensive and more stringent. Recently it has been substantially revised.

The Arrangement on Guidelines for Officially Supported Export Credits was signed by all the 22 OECD countries which had facilities for financing or guaranteeing export credit. It set guidelines

establishing minimum down payments, maximum repayment periods and minimum interest rates, which varied according to the length of the credit and whether the country of the borrower was classified as relatively rich, relatively poor or intermediate. Participants undertook either to observe the guidelines or to notify other participants that they intended not to.

Certain categories of export were excluded: military equipment, agricultural commodities, aircraft, nuclear power plants, and those ships covered by the OECD Understanding on Export Credits for Ships. For aircraft and power plants less formal 'standstill' agreements had been concluded previously. Conventional power plants and ground satellite communication stations were subject to the Arrangement, except that for the last two, maximum repayment terms of 12 and 8 years respectively applied.

There was already a separate OECD agreement on local costs, but the Arrangement prohibited official financing of them for relatively rich countries, though it permitted officially supported insurance and guarantees. For the other two groups of countries, signatories to the Arrangement could not finance or insure credit for more than 100 per cent of the value of the goods and services exported, which meant that the amount of local costs supported on official credit terms could not exceed the cash payments.

Within six months of the Arrangement coming into effect market interest rates in all the major trading countries began to rise steadily. The amount of subsidy implied by the minimum rates fixed in the Arrangement rose commensurately. The United States was particularly concerned at the increased subsidy and pressed for an increase in the minimum rates. A small increase was implemented in July 1980 and a larger one in November 1981. These only partly closed the gap that had opened up between the minimum rates and prevailing market rates so the subsidy remained larger than when the Arrangement had been introduced.

The United States continued to urge that minimum rates should be raised. Following the imposition of martial law in Poland it also pressed for the terms of export credit to the Soviet Union to be tightened. One measure proposed by the US was to move the USSR from the intermediate category to the relatively rich category of countries. This would have the effect of raising the interest rates and shortening

the repayment period for export credit to the Soviet Union. Japan and the non-NATO European countries opposed the singling out of the USSR, but there was general sympathy for a broader reclassification of countries. After further deliberation agreement was reached on new criteria based on countries' per capita GNP in 1979: those over US$4,000 would be classified as relatively rich: those below US$730 as relatively poor (equivalent to the World Bank's category of least developed countries); and others as intermediate. This means that the Soviet Union, Czechoslovakia, German Democratic Republic (GDR), Israel and Spain have passed from the intermediate to the relatively rich category, while some forty countries have passed from the relatively poor to the intermediate category.* For the second group there is a transition period, so that they will not become fully subject to the conditions of the intermediate category until January 1983.

Since those countries which have been reclassified will in any case have to pay higher interest rates, the EEC resisted US proposals for a sizeable overall rise in rates. Eventually the participants compromised on increases of 1.15% for rich countries and 0.35% for intermediate countries, to be applied from 6 July, and no change for poor countries. At the same time the US agreed, with effect from 15 October, to cease offering credits with maturities of more than 10 years. A special exception has been made for Japan, where market rates are well below the Arrangement minimum rates. Japan is now able to offer on official export credit an interest rate not less than 0.3% above its long-term prime rate, which is currently about 8.5%.

The minimum rates are now higher than were market rates when the Arrangement began to operate. If market rates descend towards their former levels the subsidy will decline, though there might be pressure to reduce minimum rates. In the past France has been particularly

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* The countries moved to the intermediate category include: Albania, Algeria, Antigua, Belize, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Falkland Islands, Fiji, Guatemala, Ivory Coast, Jamaica, Jordan, Kiribati, North Korea, South Korea, Lebanon, Leeward Islands, Macao, Malaysia, Mauritania, Mexico, Mongolia, Morocco, Nigeria, Papua New Guinea, Paraguay, Peru, St Helena, St Kitts, Seychelles, Suriname, Syria, Taiwan, Tunisia, Turkey, Uruguay, Windward Islands

anxious to subsidize interest rates because it could not match the long maturities offered by the US. With a 10-year ceiling on US maturities France should be less worried. There is also concern about countries outside the Arrangement. If they continue to subsidize interest rates some participants in the Arrangement will probably want to lower the minimum rates.

Another substantial change that has been agreed is the establishment of a buffer zone between export credit and mixed credit. Previously there was a continuum of different types of finance ranging from commercial loans through export credit, mixed credit and aid to grants. In future mixed credit with a grant element below 20% will not be permitted. (The grant element measures the extent to which a loan is more concessionary than a commercial loan.) Since the grant element of export credit is very much less than 20% this change means there is now a clear break between export credit and mixed credit. The possibility of using mixed credit as a slightly more generous version of export credit will no longer exist; mixed credit will be confined to being an ungenerous form of aid.

Also important is the revision of the prior commitments clause in the Arrangement. This permitted lines of credit agreed before July 1976 to continue to be offered on the same terms until they lapsed. Following each of the subsequent increases in minimum rates existing lines of credit were allowed to continue unchanged. The Arrangement has now been altered, however, so that the terms of prior commitments can apply for only six months after a change in the minimum rates. The overall discipline of the Arrangement has also been made tighter. Whereas before participants were allowed to step outside the guidelines provided they notified other participants and gave them a chance to do likewise, now departures from the guidelines are ruled out altogether.

To date there have been comparatively few outright derogations from the Arrangement. Derogations justified by a prior commitment or by the need to match have been far more frequent, as have permissible deviations - digressions which a participant is required to notify to the others. Whether the closing of loopholes in the Arrangement will result in significantly harder terms for export credit or in increased

evasion remains to be seen. It will very much depend on the participants since the Arrangement is a gentleman's agreement and there are no penalties for infringements.

Export Credit Arrangement: Interest Rates from 6 July 1982

Category of borrower	Length of loan (years) 2 – 5	over 5	Maximum credit term (years)	Minimum down payment
Relatively rich	12.15%	12.4%	5*	15%
Intermediate	10.85%	11.35%	8½	15%
Relatively poor	10.0%	10.0%	10	15%

* 8½ exceptionally

Policies of some major exporting countries

a) France

During the past two decades France has made great efforts to expand its industrial power, and consequently its exports of capital goods. French industry is dominated by nine or ten groups comprising about two dozen companies in all. Many of these were nationalized by the socialist government which came to power in 1981 but they were already extensively subsidized and closely consulted by government. French companies have undertaken comparatively little direct foreign investment which may make their export activities that much more important.

As a relative latecomer France has had to be particularly diligent in seeking out markets for its capital goods. More than most the French government has been willing to support exporters financially and with practical assistance, and to identify and respond to the requirements of specific overseas markets. Because French industry is dominated by large companies and because efforts to promote French exports have been more successful in developing countries than elsewhere, French capital goods exports depend heavily on large contracts from developing countries and a large proportion of their financing is accounted for by official export credit. In 1981, for example, of Alsthom's exports 62% were financed by official export credits including 7% by mixed credits. Whereas France is keen to increase its exports of goods, there is much less concern for the contribution that exports of services can make to the balance of payments.

French companies have tended to regard training as a function separate from production, and as one for which the state is largely responsible. This view has altered somewhat since 1971 when a law was passed requiring companies to allocate 1% of their salary bill to training. There remains, however, much indifference to the provisionof industrial training. It is, for example, often difficult to place trainees from overseas in French industry.

Some companies are beginning to appreciate the relevance of training to exports. They are aware that their reputation can suffer if a plant is not competently operated, and that while in the short run training involves them in extra cost and complications it can help to establish them in a market and so bring benefits in the long run. French companies

accept that a company which offers training has a competitive advantage, but do not conclude that a company which does not is at a disadvantage. They are often preoccupied with offering the lowest price and will not offer training unless it is requested, on the grounds that the importer will not realize that it is included in the price. Sometimes a company offers alternative tenders, one with and one without a training element. Training is supplied when it is an essential element of a project, and when a company is in danger of losing a contract if it does not include training. In cases where training is offered often tenders are imprecise and the details of training are not considered at a sufficiently early stage in a project. Following the 1971 legislation a number of firms were set up to provide industrial training, which subsequently began to offer industrial training as an export. Many French companies, however, are not sufficiently interested to call on one of these firms.

The official attitude towards training in export projects parallels that of industry. Training is seen as a significant element of competition, especially in very large projects and in particular sectors, but this perception results in only limited action. If there were definite evidence that the absence of training in French contracts was prejudicing the French presence in a market, there would be a vigorous reaction.

In another area of official policy, aid, there are indications that policy is being oriented more towards providing industrial manpower training. Whereas in the past technical assistance reflected what France could readily supply, now the intention is to gear it more to the needs of recipient countries. Industrial manpower training has been identified as an important gap. While the aid programme has supported academic training and exporting companies have trained people for specific posts, there has been no overall policy of industrial manpower training. Efforts are now being made to concentrate technical assistance on industrial training in various sectors as well as general machinery and maintenance. Preference will be given to aid projects which include training. The minister responsible for the aid programme has suggested that France should expect to see returns on its technical assistance after five years. Over time these changes should influence other areas of policy and also the thinking of companies. French aid is provided through funds administered by the Ministry of Cooperation and through the Caisse Centrale de Coopération Economique (CCCE), which is a development bank. Particularly in the

case of countries that are not ex-colonies and of financing by the CCCE, aid has a role in promoting French exports. Projects financed by the CCCE include industrial and infrastructure projects, and it provides the aid element in mixed credit. Hence shifts in aid policy have implications for exports of capital goods.

The importance which France attaches to exports of capital goods is evident in the array of official export credit facilities which are available. There is close cooperation between the commercial banks, the Compagnie Française d'Assurance du Commerce Extérieur (Coface), which is a semi-public company, the Banque de France and the Banque Française du Commerce Extérieur (BFCE), which operates partly as a commercial bank and partly as the official French export bank.

Credit insurance is the responsibility of Coface which is liable on its own account for business relating to commercial risk for credit of up to three years and takes on for the government 'national interest' business. This is commercial risk of more than three years, all political risk, and insurance of military equipment. 'National interest' insurance business has to be approved by the Commission des Garanties, a committee chaired by the Direction des Relations Economiques Extérieures of the Ministry of Finance, whose fifteen members include representatives from the Banque de France, BFCE, Coface, the Ministry of Industry and the Trésor (another section of the Ministry of Finance).

All credits of more than two years that have obtained a guarantee from Coface automatically have access to official export financing. Credits of seven years or less are provided through the commercial banking system, the exporter's bank financing about 30% of a credit at the prime rate and refinancing the balance with the Banque de F[illegible]. The overall rate (<u>taux de sortie</u>) for the credit as a whole [illegible] for the duration of the credit at the minimum rate set by the i[illegible]ional Arrangement for the particular category of business. For long-term credits, the part of the credit in excess of seven years is refinanced (in the case of a supplier's credit) or lent directly (in the case of a buyer's credit) by the BFCE at the minimum rate set by the Arrangement.

Besides these basic facilities a wide range of insurance and financing for capital goods exports benefits from official support. The cost-escalation scheme provides cover against unavoidable increases in costs during the manufacturing period for exports of capital goods and large contracts. Guarantees against unjustified calling of bonds are available on the same terms as standard insurance. French exporters can also obtain cover against exchange risks. The high premiums charged for

the facility make it costly, however, and it is in any case available only in those instances where the forward market is inadequate. Modest support is given to pre-shipment finance. The BFCE, on behalf of the Trésor, makes available loans at a fixed interest rate (just under 9% in 1979) for large exports with long manufacturing periods. Financing of local costs is forthcoming only in exceptional cases but Coface insurance of local costs is more generally available. Foreign-currency financing is permitted but rarely used, mainly because French banks and exporters are unfamiliar with it.

France was the originator of mixed credit which amounts to about 10% of French export credit. This is a much higher proportion than for most other countries which do not regard mixed credit as a standard instrument for financing exports of capital goods. The aid portion which at most amounts to 50% of the total credit, is often used to cover a down payment or local costs. It is usually for a term of 20 to 30 years, at interest of 3% to 3½%, and sometimes with a grace period. Since the 1970s mixed credit has been directed increasingly to new markets which have been identified as fast-growing, financially sound economies that are likely to generate demand for sophisticated technology, such as telecommunications and power stations. These include Mexico, Brazil, Colombia, Malaysia and several countries in the Middle East. Mixed credit is mostly provided for specific capital goods or turnkey projects, though it also includes some general-purpose lines of credit.

The French export credit agencies adopt a cautious approach to training. There is no difficulty when training is an integral part of an export project taking place before the export is finally handed over. In this case there is usually a single financing package covering all the elements of the export including training, which may account for between 5% and 20%. Hence the insurance premium, down payment, interest rate and repayment period for training are the same as for the goods with which it is associated.

For separate exports of training the position is different. Not until 1977, in response to pressure chiefly from companies which specialized in exporting training, did the French export credit authorities agree to insure and finance exports other than goods. Exports of training are dealt with case by case. The administration takes into consideration the interest of a project for the French economy and whether it will assist

French industry in a particular market. It supported, for example, training of pilots for helicopters to be exported to Libya. Support for training is not provided when there is only a possibility that it will lead to exports of goods.

Once a training project is approved, officially supported insurance and financing are available on the same terms as for goods except that the repayment period is limited to three years, or five years if it is a very large or very important project. An alternative in the case of post-installation training for turnkey projects is for exporters to obtain commercial financing which Coface will then guarantee. Coface has justified its circumspection regarding training on the grounds that exports of training entail greater risks than exports of goods. The BFCE has a similar attitude. It is very much attached to having collateral security for loans. Consequently it is unenthusiastic about exports of services and has done little to develop policy in this direction. When training is part of a large export project, such reservations do not prevent financing being made available. There is unlikely to be a change in policy unless French companies press for innovation. At present, however, few other than specialist companies consider it necessary to export training.

When aid funds are involved training may be financed on more favourable terms than goods. In a mixed credit training may be financed by a disproportionately large amount of the aid element. Sometimes a separate training project is provided which is financed by aid funds or a government subsidized loan. The rationale given for this is that since training is not directly profitable to the exporting company it should be able to offer financing at a lower rate of interest.

b) Federal Republic of Germany

The FRG has an extensive and highly developed industrial sector which includes a number of large companies but also many small and medium enterprises. Several of the larger companies have sizeable direct overseas investments, and the sector as a whole is very much involved in export activity. There is substantial public ownership of industry by the federal and the state governments but relatively little government intervention in the economy in the form of regulation or subsidies. Both government and industry generally express a preference for keeping their respective

roles distinct. Some government action has been aimed at fostering small and medium enterprises.

For many years the FRG has succeeded in maintaining a high level of exports including a large proportion of capital goods. It has long-established markets in the OECD countries and in Eastern Europe, and more recently has built up markets in developing countries, particularly in the Middle East. In line with overall policy, exports of capital goods have received only limited official support. In competing for orders exporters have relied on the reputation they have themselves created for technological achievement, quality, promptness and service. They also benefit from a close relationship with the commercial banking sector which is highly competent and sophisticated. The FRG is aware that the contribution made to the balance of payments by exports of services has been less marked than that of goods.

There is a long tradition of on-the-job training in the FRG. The dual system of occupational training entails chiefly training on the job, supplemented by courses at a vocational school. At any one time there are about 1 1/4 million trainees at some stage in what is usually a three-year programme. The training is provided by some 300,000 enterprises, many of them small firms which may pool facilities. To ensure consistency the standards are set by the government but the programmes are supervised and administered entirely by the chambers of industry and commerce and similar organizations. Schools are financed by local authorities or by companies. Training is regarded as vital to maintaining the reputation of FRG products.

West German companies consider training essential in exports of large capital goods. They appreciate that if their technologically complex products are to be operated satisfactorily they will have to provide training, and that the personal contacts developed in the course of training can lead to further orders. They also believe that training is an important element of competitiveness, particularly in exports to the OPEC countries. At least with regard to the newly industrializing countries they are sympathetic with developing countries' aspirations to expand the training of industrial manpower. Most of the training they provide is of a technical nature and very little for commercial or managerial functions. Companies may undertake training themselves or may sub-contract it to another company in the FRG or overseas. Small and medium firms are sometimes reluctant to supply training with their exports. This reflects

the fact that in a small project the cost of training may be disproportionately large and that these companies often do not have the appropriate personnel and are in any case more averse to risk than larger companies. There are, however, indications that their attitude is changing.

Those companies which do supply training identify two major areas of difficulty. First, partly because contracts are not sufficiently precise, expectations are often too optimistic with the result that one or both sides are disappointed with the outcome. Second, the cost of training is underestimated so that at best the exporting company can reckon to cover the cost and at worst it is unable to tender for a contract because it cannot supply the amount of training stipulated at a price acceptable to the purchaser. One way to alleviate this problem in countries where several firms have export projects might be to set up a central workshop to provide training for all the FRG export projects, which the FRG government could be asked to support.

The predominantly free-market approach of the FRG government extends to overseas aid which for the most part recipients are not obliged to spend on FRG products, though usually they do. The Ministry of Cooperation is reluctant to depart from the principle of untied aid and also argues that the provision of training in connection with export projects should be left to the exporting companies because competition among them benefits the importer. Aid agencies are, however, aware that since on-the-job training by exporting companies may be subject to constraints of time, money and expertise it sometimes results in the transfer of low-level technical skills rather than know-how.

Regular consultations on training for developing countries take place between the government and organizations representing the private sector. There is growing consensus that more industrial manpower training should be provided for developing countries, especially since capital goods account for such a sizeable part of FRG exports. Direct government support for industrial manpower training by companies, however, is largely confined to those which have invested in developing countries, and contacts between exporting companies and government agencies remain limited. The Deutsche Gesellschaft für Technische Zusammenarbeit, which coordinates technical cooperation on behalf of the government, occasionally arranges training facilities when an FRG company wins an export contract. Small and medium firms sometimes call on the services of the Carl Duisberg Gesellschaft, which is a government-financed training organization.

Recent shifts in aid policy could alter this situation.

Increased concern for training is evident in aid policy, which is now insisting more on transferring know-how as well as materials. The official development bank, the Kreditanstalt für Wiederaufbau (KfW), has stressed training in the past but since the beginning of 1982 the emphasis has been intensified. For all new projects the KfW requires that a certain proportion of the funds should be devoted to training and that it should nominate the agencies to supply the training. Moreover, it will now participate in mixed credit comprising export finance for goods and aid finance for training. Aid agencies acknowledge that at present the cost to developing countries of obtaining information and advice on what training is available is too high and that they could take on the role of offering such advice.

Official support for export credit in West Germany is comparatively small. It is channelled through three entities: the Hermes Kreditversicherungs-Aktiengesellschaft (Hermes), the KfW and the Ausfurhkredit-Gesellschaft mbH (AKA). Hermes is a private company which, in consortium with an auditing firm, Treuarbeit, issues all export-credit insurance entirely for the account of the authorities. Some of these transactions are undertaken in the 'national interest', chiefly for political reasons. All regulations and policy decisions regarding official support for export-credit insurance are made by the government through an interdepartmental committee which meets fortnightly in Bonn. This is the Interministerieller Ausschuss (IMA), which is chaired by the Ministry of Economics, and includes representatives of the Ministries of Foreign Affairs, Finance and Economic Cooperation; the Ministry of Finance is able to exercise a veto. The IMA is advised by Hermes, Treuarbeit and industrial, banking and commercial interests in the private sector.

The KfW has several functions which include long-term financing of overseas trade and operating the overseas aid programme. Policy is determined by a Board of Directors, whose membership reflects the broad scope of the KfW, including representatives from the Ministries of Finance, Foreign Affairs, Economics, Economic Cooperation, Agriculture and Transport, the state governments, the municipalities, the Bundesbank, trade unions and trade associations. The KfW makes available external financing chiefly for export credit for purchases of capital goods by developing countries and for purchases of ships and aircraft, by any country. Export credits from the KfW are usually for at least seven

years, and cover not more than half the value of the contract, up to a maximum of DM 85m. These limitations tend to mean that KfW financing is used more by smaller firms than by larger ones. Small and medium-size firms may also be able to obtain credits for shorter periods and a larger proportion of the value. The fixed interest rates charged for KfW export financing are the minimum rates set by the international Arrangement.

The AKA is a syndicate of some sixty FRG banks set up in 1952 to facilitate the financing of export credits of more than one year by pooling the resources of its members. It has a special refinancing facility with the Bundesbank which is used almost exclusively for financing exports of capital goods, other than military equipment, to developing countries and Eastern Europe, over periods of one to four years, for amounts up to DM 50m. The supplier must finance 30% of an export transaction, and a further 15% is covered by the down payment from the buyer. The remaining 55% is refinanced at the official discount rate of the Bundesbank, and lent at the discount rate plus 1.5%. Hence the rate varies with changes in the discount rate.

Cover from Hermes is always required for export financing from the KfW and almost invariably for AKA credit. Large or controversial contracts are referred to the IMA. Hermes and the IMA together establish the limits for each country, though the IMA may decide, for political or economic reasons, to waive the limit in a particular case. Hermes is not allowed to insure credit of more than five years, unless this is necessary to match foreign competition. Besides a commitment from Hermes, financing from the KfW must have the approval of the KfW's Board of Management, and in some cases the Economics Ministry. Applications for funds from the special refinancing facility are evaluated by a committee of bankers from the AKA's member institutions.

Hermes also provides limited exchange-risk cover and insurance against unfair calling of bonds due to a political factor. Financing in foreign currency is not available from the KfW nor from the AKA special facility and credits insured by Hermes have to be denominated in Deutschmarks. Officially supported insurance and finance for local costs are readily available for exports to developing countries, particularly in the case of turnkey projects, up to the limits set by the Arrangement. The FRG offers limited mixed credit which is used to supplement aid funds rather than export credit facilities. When there are insufficient funds to complete an aid project which an FRG firm

has been commissioned to carry out export credit funds may be provided. The grant element is always above 25%.

Only about 10% of FRG exports receive Hermes cover, and of those, fewer than 10% are financed through the special facility and 3%-4% by the KfW. Hence the great bulk of FRG export credit is financed by the commercial banking system at floating interest rates without official support. This set-up is facilitated by the strength of the banking sector and the close relationship between it and industry. A further factor is the relatively low level of nominal interest rates in the FRG which has usually made it possible to offer commercial credit for rates at or below those set by the Arrangement.

Provision of official export credit facilities does not differentiate between goods and services. This reflects partly the prevailing free-trade philosophy and partly the wish to increase exports of services. As with other exporting countries training is often part of a single contract for which there is a comprehensive financial package. Some evidence exists to suggest that the proportion of the total financing which appears under the heading of training tends to be smaller in the case of FRG companies than others, though the quantity and quality of their training is not inferior. The explanation seems to be that FRG companies allocate some of the costs of training to other headings because payments for training are made at a relatively late stage. If they can in effect be brought forward this improves the exporter's cash flow and reduces the loss he incurs if the importer decides in the course of the project that he wants to take less training.

In the case of separate exports of training, insurance can be sought from Hermes and financing from the KfW in the same way as for exports of goods. FRG companies do not in general encounter difficulties in financing exports of training. The aspect which concerns them most is performance bonds. These introduce a particularly uncertain element because it is sometimes difficult to assess whether performance standards with respect to training have been achieved and because failure to achieve them may be due to circumstances over which the exporter has little influence, such as being expected to train personnel whose basic education is inadequate or inappropriate. FRG exporters regard the problems as less serious in the case of turnkey projects, in which performance depends chiefly on their own expertise, than product-in-hand projects, in which there are more factors beyond their control. The high cost to an exporter of providing performance bonds is passed on in the price tendered to the importer.

Although financing of training associated with export projects is occasionally supported from aid funds, government efforts have concentrated on assisting firms with direct investment, on the grounds that investing is riskier than exporting and represents a greater commitment to a developing country's economy. For about a decade there has been a scheme to encourage firms to provide apprenticeships of 18 months to three years with a clearly defined curriculum in a particular industrial sector of a developing country. A firm can obtain from aid funds up to DM 400 per person per month on condition that it provides places beyond its own requirements and that apprentices are not obliged to work for it subsequently. Usually the firms have to be small or medium enterprises, since they are considered to be more vulnerable to the risks of overseas investment, but they need not have more than a minority share. The scheme attempts to implant the dual system of occupational training, but take-up has been low possibly because the dual system needs modifying for developing countries or because it is restricted to smaller companies. There are plans to revise it to make it more appropriate to the developmental needs of the host country and perhaps to encompass large enterprises, but changes are unlikely to be implemented for some time.

c) Japan

As a result of rapid development over the past three decades Japan has become a highly industrialised country. A major feature of the economy is extensive government intervention, which encompasses picking out individual branches for particular encouragement, providing a range of subsidies and selectively protecting industry from external or internal competition. Intervention is facilitated by close consultation between government and industry and its operation is sufficiently flexible that it can help forward changes, for example, in technology.

Concern about its paucity of raw materials, large population and balance-of-payments constraints has prompted Japan to great efforts to expand exports of industrial goods. To compensate for its late arrival in world industrial trade Japan has promoted exports vigorously. Particularly for exports by new industries there is a range of government aids, including support for expenditure on research and development, tax concessions and loans for working capital. Export promotion policy appears to place a higher priority on the objectives of full employment and maintaining or increasing Japan's share in overseas markets than on ensuring profitability.

Japanese companies attach great importance to training and expect their more senior employees to have obtained an academic education in a relevant subject and training in technical skills, the latter often being provided by the companies themselves. Perhaps because Japanese industry initially had to draw heavily for its labour force on immigrants from rural areas with no experience in manufacturing production, its organisation often relies on a relatively small group with a high degree of skill and expertise supported by an industrious and methodical work force with good basic education but no specialized skills. An illustrative anecdote from the early post-war period concerns Mitsui's trading company which when it decided to set up a machinery department bought a company with a large financial deficit because it employed 300 to 400 graduates with technical competence.

Industrial manpower training in developing countries is provided chiefly by Japanese companies with direct investments but also by exporters. In both cases government financial support is available through the

Export-Import Bank of Japan (Eximbank of Japan). Only in recent years have Japanese companies begun to pay serious attention to supplying training in connection with their exports of capital goods to developing countries. Consultant engineers able to undertake training contracts are a relatively new phenomenon in Japan.

Official support for credit insurance is channeled through the Export Insurance Division (EID) of the Ministry for International Trade and Industry, and for export finance through the Eximbank of Japan. On credit insurance policy the Minister of International Trade and Industry is advised by the Export Insurance Council which comprises the Minister and eleven other members, appointed by him, from government agencies dealing with foreign trade, finance and insurance, and others with expertise in these areas. The Eximbank is an independent government financial institution over which the Ministry of Finance exercises general surveillance. Besides export credit it also provides finance for imports and funds for Japanese investment abroad.

There is access to fixed-rate finance from the Eximbank of Japan for virtually all credits of more than two years. For credits of up to five years the Eximbank usually provides 70% and a commercial bank 30% of the financed portion (typically 85% of the total credit); for credits of up to ten years the proportions are 60% and 40%. The commercial bank charges a fixed market rate of interest and the Eximbank sets its rate of interest so that the overall rate for the financing is at least the minimum set by the international Arrangement for Japan (since 6 July 1982 this has been 0.3 of a percentage point above the long-term prime rate).

The first step towards obtaining financing from the Eximbank of Japan is to seek approval for an export from the MITI. Approval is rarely refused; the procedure is used more as a means of monitoring export activity. The exporter has then to obtain insurance from the EID. This is not forthcoming for exports to countries which are regarded as high risks or where a default has already occurred. The final stage is to approach the Eximbank for financing. In most cases this is given almost automatically, though the Eximbank does not like it to be taken for granted.

There is close coordination among all the agencies involved, the commercial banks and the business community. Overall export credit policy

is overseen by the MITI, with the Ministry of Finance taking a keen, and sometimes conflicting, interest. The insurance authorities and the Eximbank of Japan are particularly concerned with the financial soundness of an individual project, and have formal channels for discussing this. If a large amount of credit has already been given to a country that could be regarded as risky, and more credit is being sought, the bank and the MITI consult one another in an effort to decide which exports to support. In such a context, the importance of the contract to the Japanese exporter would be given particular consideration. For very large projects, especially if they entail international cooperation or are of a political nature, all the government departments that have an interest are informed, and are given an opportunity to express their views. The private sector may also contribute information on technical and financial aspects. Unless all those involved are agreeable, such a project does not materialize.

In its additional instruments of official support for export credit Japan caters particularly for large capital goods exports. The EID provides cover against unfair calling of bonds and also a limited exchange-risk guarantee. Official financing of local costs is generally available for turnkey projects up to the limits stipulated in the Arrangement. This generous treatment reflects the Japanese view that local costs are an integral part of the financing of a project, particularly in a developing country. Foreign-currency financing, nearly always in US dollars, is used for almost one third of medium- and long-term export credit. Japan has no formal scheme of mixed credit but in practice it sometime mixes aid and export credit in financing major projects in developing countries. While the export credit element of such credits is used to finance goods, the aid element is linked to infrastructure which may include training, depending on the project.

For a number of years the Eximbank of Japan was reluctant to support financing for training except where this was incorporated in a single financing package for an export of equipment or a turnkey project. There were only a few rare instances of financing for post-installation training for turnkey projects. In 1978 the Eximbank was asked to finance a training contract for a product-in-hand project in Algeria. After initially hesitating the Eximbank agreed. As the demand for training

has risen and as Japanese firms have become more interested in supplying it, the Eximbank has become more willing to support it and now makes finance available for training contracts on the same terms as for supply contracts. Nonetheless, the training it supports is mostly confined to large projects in newly industrialising countries.

d) United Kingdom

The United Kingdom was the first industrial power, earning for itself the title of 'the workshop of the world', and for most of the nineteenth century this status went unchallenged. During the twentieth century, however, UK industry has undergone a relative decline, though it has been more evident at some periods than at others. Governments have sought to arrest this decline by intervening in numerous ways but they have lacked a consistent approach and have tended to pursue short-term relief rather than lasting remedies. Consequently, while a variety of instruments has been accumulated no systematic industrial strategy has been applied.

Exports of industrial goods have continued to be of major importance to the UK economy and strenuous efforts have been made to promote them. Nonetheless, British exporters have suggested that liaison among the different elements of export promotion has been less effectively organized by the UK than by some of its competitors. The present government is eager to increase exports of large capital goods projects, because it is one of the few areas in which international demand is growing and because expansion in capital goods generates activity in other parts of industry. Two years ago it set up a Projects and Export Policy Division within the Department of Trade. This was designed to coordinate official support in the form of export credit, aid, investment and other assistance, as well as political intercession, to help private sector companies win more orders for projects.

Official support for export credit is administered by the Export Credits Guarantee Department (ECGD) which is an independent government department operating as a trading organization and responsible to the Secretary for Trade. It consults the Department of Trade regularly, both on overall trade policy and on details such as conditions in a specific overseas market. There is a statutory requirement that Treasury consent should be obtained for all ECGD activities though this is generally waived for short-term business under Section 1.

ECGD's principal function is that of a credit insurance organization but it also gives support to financing. There are two categories of insurance business undertaken by ECGD: on Section 1 business the Export Guarantees Advisory Council, which is appointed by the Secretary of State for Trade from among leading bankers and businessmen, advises the ECGD using criteria

of commercial acceptability; Section 2 is business that is unacceptable to the Advisory Council because of, for example, the spread of risk or the size or horizon of risk, or the experimental nature of the facility, but for which ECGD can give guarantees 'in the national interest'. Exports of capital goods to developing countries almost invariably fall into Section 2.

Policy is made largely in the Export Credit Guarantee Committee, an interdepartmental committee chaired by the Treasury. Depending on the agenda, virtually any Whitehall department, or the Bank of England, could be represented on the Committee, but those most often involved, besides the Treasury, are the Departments of Trade, Industry and Employment, and the Foreign Office. One of the Committee's functions is to determine what the 'national interest' is in particular cases. This frequently means setting short-term considerations of credit risk against long-term trading interests, domestic factors or foreign-policy objectives. In recent years employment has been of paramount concern.

Export finance is provided by the commercial banks though until 1980 ECGD refinanced a proportion of it. ECGD continues to contribute directly to the cost of export finance by making up the difference between the fixed rate of interest at which the banks advance export credit and a rate of return related to market rates, calculated in accordance with a formula agreed with the banks. Fixed-rate export finance is made available on a non-discriminatory basis in that all credit with a term of more than two years which has obtained an ECGD guarantee qualifies. The precise forms of particular export credits are decided by the Export Credit Guarantee Committee. They are usually less generous than the most favourable permitted by the international Arrangement and the OECD agreement on local costs. This allows the authorities some discretion: they might, for example, agree to reduce an interest rate or to subsidize a larger proportion of local costs up to the agreed limits. There are also occasions when a decision has to be taken on whether to match terms offered by a competitor that are more generous than those in the international Arrangement.

Among the additional insurance facilities which ECGD offers is a cost escalation scheme which gives exporters limited protection against increased costs for capital goods projects with long manufacturing periods. It also provides cover against unfair calling of performance and other bonds. Two

unusual facilities are projects participants insolvency cover and joint and several cover which insure exporters involved in large projects with several contractors against repercussions from the shortcomings of other participants. There is no general programme of insurance against foreign-exchange risks since exporters are expected to take precautions in the forward exchange market. ECGD does, however, provide cover for foreign-exchange commitments which an exporter who provides supplier credit may be left with if the buyer defaults. In addition, tender-to-contract cover affords some protection against adverse exchange-rate movements in the period between making a tender and signing a contract for large capital goods contracts denominated in dollars or Deutschmarks.

Since 1977 official support for export credit financed in foreign currency (principally dollars and Deutschmarks) has been placed on virtually the same footing as for sterling export credit. Indeed, for a time ECGD discouraged and even prevented the use of officially supported sterling finance for certain types of export credit. The attraction of foreign-currency financing for the authorities was that it alleviated the burden of export credit both on public spending and on the balance of payments. Exporters too have benefited from the wider choice which they are able to offer buyers.

Since 1978 the United Kingdom has allocated 5% of its aid budget to an Aid and Trade Provision (ATP). This is used to provide mixed credit and also to finance consultancy fees and exports which are not eligible for fixed-rate credit but are considered important in terms of the particular industry or market. The ATP is coordinated by an interdepartmental committee chaired by the Overseas Development Administration (ODA), in which the Departments of Trade and Industry also participate actively. In mixed credit ATP funds and export credit are combined to result in a grant element close to 25%. To qualify for mixed credit an export credit has to be approved by ODA as 'developmentally sound'. It must also be commercially attractive and generate more export revenue than would have been obtained without it. In 1981 a fund with an allocation of £6m over two years was set up from which ECGD could as a defensive measure assist exporters to counter offers of 'soft' credit from foreign competitors by lowering the effective interest rate to buyers. This fund was intended solely for ECGD to respond rapidly in matching offers from other export credit authorities and following the recent changes in the Arrangement should have become redundant.

British exporters are able to draw on the wide range of facilities supplied by ECGD and on the resources of London as a major financial centre. They, the ECGD and the Department of Trade are all convinced that official support for export credit is essential to the competitiveness of British exports of capital goods. The fact that ECGD is above all an insurance organization and, except for fixed-rate credit, cost escalation insurance and the matching fund, is expected to operate at no net cost to public funds, including administration expenses, means that it is concerned to keep credit as short as possible and is inclined to assess buyers in terms of risk rather than as customers with preferences to be catered for.

ECGD is generally less accommodating in supporting export credit for services alone than for goods or goods and services. Because it has reservations regarding the lack of collateral security it seeks to keep the length of credit exposure for service exports fairly short. A special feature of training is that it is a service which may not be finished at the point of completion of a contract. The United Kingdom's history of a weak balance of payments has made ECGD reluctant to delay the start of repayments beyond the commissioning of a project despite the fact that training may not yet have been carried out in full.

An export of training in connection with a plant being installed by the same company or by another British company may be incorporated into the same financial package as the export of goods or may be arranged under a separate contract. In the case of a small amount of training in a large project the terms of export credit for the training element would probably be the same as for the goods whether or not the contracts were separate. Otherwise a separate contract would provide credit of five or possibly ten years for training. The precise terms would be determined by the importance the export credit authorities attached to the product with which the training was associated and to the buyer as a market for that product. This and the fact that ECGD rarely supports exports of training that are independent of exports of goods reflect ECGD's preoccupation with physical products and the creation of employment. Funds have been made available for independent exports of training, sometimes for almost 100% of the financing, from the ATP on occasions when the provision of training was thought likely to secure the contract for a major project.

e) <u>United States</u>

The United States for many years felt neither the need nor the desire to make an effort to promote its exports. This was considered unnecessary partly because the US economy was by far the largest in the world and to a great extent self-sufficient in resources and in markets, and partly because technological expertise and the skill of its work force gave the USA a comparative advantage in manufactured goods, of which it was the world's major exporter. Government intervention in the economy has generally been deprecated unless there have been clear arguments in its favour. At the international level this view has been evidenced by an adherence to free trade as an objective which could and should be realized.

Although the US is still the world's leading economy it has ceased to be pre-eminent as other countries have developed their productive capacity. Furthermore, its external sector has received more attention. The once solid balance of payments showed a series of deficits in the 1970s, mainly due to the rise in the price of oil. US manufacturing industry has grown increasingly dependent on exports: a recent study shows that almost four out of five new jobs in this sector in the late 1970s were linked to exports, and that export-related employment as a proportion of total employment was 18.5% in non-electrical machinery, 12% in electric and electronic equipment and 11.2% in transportation equipment. As exports have become more important, both for balance-of-payments and for employment reasons, more consideration has been given to promoting them. While government intervention continues to be regarded with suspicion in the US, increased economic interdependence has heightened awareness of intervention in other countries and made the US more inclined to retaliate.

The historical attitude towards exports as well as later developments are reflected, and sometimes give rise to inconsistencies, in the export credit policy of the United States. Official support for export finance is channeled through the Export-Import Bank (Eximbank) whose objective is to contribute 'to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States'. The Eximbank is expected to be self-sufficient though it is helped in two respects: it can raise funds on US government terms and with a US government guarantee; and it has capital of US $1 billion on which it usually pays the Treasury a dividend of

US $ 50 million a year but no interest. All the same, the Eximbank has to make a small profit, which implies lending at a higher rate of interest than it borrows. Hence though its rates are lower than market rates they follow a similar trend and have risen in recent years.

Other constraints on the Eximbank, set by the Congress, are the ceiling decided each year for direct loan authorizations and, of less significance, the limit decided every five years for the total amount of loans, guarantees and insurance which the Eximbank may have outstanding at any one time. While maintaining these constraints the Congress has insisted increasingly on the need for the Eximbank to match the facilities of other export credit agencies. A proposal for a US $1 billion fund to be used for selectively subsidizing export credit has received particular support from senators and congressmen who represent areas where there are capital goods industries which rely heavily on exports.

A related but different shift has occurred in the outlook of the executive branch, whose orientation is generally more international and less protectionist than that of the Congress. In the early 1970s the US government resisted an OECD scheme for international consultation on the terms of export credit on the grounds that restrictions on credit were in principle undesirable and that credit terms were an element of competition comparable to cheaper labour or higher productivity. By 1974 the US government was sufficiently perturbed by competition from countries offering sizeable subsidies on interest rates that it was ready to support an international agreement on controlling export credit and has since become the driving force in efforts to raise minimum interest rates for export credit. It was, however, reluctant to accept limitations on the length of credit. The ability to offer long maturities is the strong point of the USA's export credit and derives partly from its historically robust balance of payments and low rate of inflation which meant that extended repayment of credit did not in the past cause problems, and also from its well-developed commercial banking sector which has been accustomed to give relatively long credit.

In recent years the US has on occasion competed with offers of low interest rates from other countries by making exceptionally long maturities available. This was intended to put pressure on other countries to agree to higher minimum interest rates. As a result when the Arrangement was revised this summer the US conceded a limit of ten years on maturities in

return for higher interest rates. The Eximbank has declared its satisfaction with the outcome since it is now able to offer rates that are about one percentage point higher than the minimum rates and so has regained its competitive position.

The Eximbank's major activity is long-term export financing under its direct credit programme, through which buyer credits are provided for export transactions with a contract value of at least US $5 million involving long manufacturing or construction periods. The foreign buyer applies direct to the Eximbank and is required to make a down payment of at least 15%. Eximbank covers up to 85% of the balance, the rest being financed by commercial banks at market rates. All or part of the private loan may be guaranteed by Eximbank. The percentage financed by Eximbank depends on the extent to which commercial banks are willing to participate, the degree of competition in the sector, the repayment period, and offers from other official export-credit agencies. These last two factors also influence the fixed interest rate charged by Eximbank. These loans are used principally to finance turnkey projects, such as manufacturing, electric power and petrochemical plants, and large mining and construction operations, as well as large single items such as commercial aircraft, locomotives, and other heavy capital equipment.

Besides making direct loans, the Eximbank also refinances medium-term fixed-rate loans by commercial banks and provides bank guarantees for medium- and long-term credit advanced by commercial banks. Few special facilities are made available by Eximbank. It occasionally supports local costs or arranges a mixed credit if this is considered necessary to match a competitor. Eximbank will insure or guarantee but does not itself offer foreign-currency financing though the possibility has been discussed. Another US government agency, the Overseas Private Investment Corporation, offers cover for performance and other bonds posted by US construction and service contractors overseas.

Two private entities collaborate closely with the Eximbank: the Foreign Credit Insurance Association (FCIA), a group of some fifty major insurance companies, cooperates in insuring short-and medium-term export transactions against certain political and commercial risks; and the Private Export Funding Corporation, which is owned by some sixty major US banks and large

exporters, participates with commercial banks in long-term export loans at fixed rates with Eximbank's guarantee.

There is extensive cooperation between Eximbank and other government departments at various levels. Some proposals for direct loans are submitted for comment to an interagency body, the National Advisory Council on International Monetary and Financial Policies (NAC), which is chaired by the Treasury, and comprises representatives of the Departments of State, and Commerce, the Federal Reserve Board and the Eximbank. The NAC reviews individual transactions in the light of each agency's concern, and bearing in mind the overall foreign-policy implications. It also considers export credit policy as a whole, including negotiations on the Arrangement. As indicated above, the Congress takes a more active interest in export credit policy than do legislatures in other countries.

The Eximbank is charged with the role of fostering the expansion of exports of services as well as goods. Service exports are of great importance to the United States. It has a highly developed service sector and its service exports have lately been growing twice as fast as its exports of goods. For several reasons the Eximbank is less prone than export credit agencies elsewhere to discriminate between goods and services. One is that Eximbank is more disposed to assess a project on the basis of its expected productive life and the income it is likely to generate rather than the existence of collateral security. Another is Eximbank's comparatively liberal attitude towards extended repayment, which is relevant when a service is rendered after completion of a project, as tends to happen with training. Consequently, when training is included in an export project it receives the same treatment as the rest of the project, provided it is of US origin. Like other exports of services, training which is not directly related to exports of capital goods from the USA is supported through FCIA insurance and medium-term commercial bank guarantees. In some cases, however, the Eximbank may authorise direct loans to meet foreign competition.

Prospects

As the preceding sections of this study have shown, exporting countries are keen to promote exports of capital goods. To this end they provide substantial official support for export credit which enables exporters to offer their customers more financing on more favourable terms than would be possible if they had to depend entirely on the commercial banks. In broad terms support can be divided into official guarantees, entailing a potential cost which varies according to how risky the business is, and official financing, which imposes an actual cost on public expenditure. In determining whether and on what terms to offer export credit for a particular transaction the authorities in the exporting countries weigh these costs against the, chiefly economic, benefits which they expect to derive and the amount of support that competitors are likely to offer.

For some years training was regarded as an optional extra in exports of capital goods, something which could serve as an additional inducement to purchase a product rather than a vital factor in its successful performance. As capital goods exports became larger and more complex, as developing countries became more aware that they would not function satisfactorily unless they were operated by people with adequate training, and as exporters realized that by supplying training they could secure their reputation, improve their competitive position and pave the way for further orders, more attention was focused on associating industrial manpower training with exports of capital goods. The experience of aid agencies showed that the vocational training which they provided sometimes did not match the needs of developing countries, and that projects which they supported sometimes miscarried through lack of appropriate training.

The increased importance of training in exports of capital goods has required export credit agencies to give some consideration to the financing of training. In the majority of cases training is one component in a project financed by a single package, of which training may account for about 10%.* When training is financed independently it is sometimes treated differently from the goods to which it relates. Some export credit agencies are less willing to finance training or offer financing on less favourable terms. Occasionally financing for training is made available from aid funds and so is cheaper than normal export credit.

* No data have been presented in this study since none are readily available. To gather significant data would require extensive survey work and would encounter at least two problems: confidentiality and cross-country comparison.

There is little evidence of clearly defined policies towards official financing of training, apart from a few instances of specific limitations, such as those set by Coface for the repayment period. Like export credit policy as a whole, the question of how to treat financing of training crops up from time to time in various contexts. Whereas policy on the basic issues of export credit has had a number of years to develop so that there are certain habits and precedents to guide decisions, financing of training is a relatively new area in which those responsible for export credit policy are less experienced. Furthermore, separate training contracts occur most frequently in connection with larger projects, which tend to be considered case by case. In the absence of specific procedures export credit authorities apply to financing of training the same criteria as for financing of goods, chiefly the risk of non-payment, the returns to the economy and the terms being offered by competing exporters. By these criteria the case for treating training favourably may be doubtful: training is regarded as comparatively risky because the scope for dispute is greater and recourse in the event of non-payment is more limited; it contributes little to domestic employment, a major objective of export credit policy; and, unless there is a particular incentive, the general tendency to approach financing for training cautiously dampens competition among export credit agencies in this field. With regard to partly financing an export out of aid funds, for example in a mixed credit, on the grounds that it will contribute to the importing country's economy, the justification is usually stronger for training than for goods alone.

This appraisal of the determinants of policy towards the financing of training in capital goods exports suggests that developing countries could adopt three lines of approach in seeking to improve the terms on which they obtain this financing. First, they can try to turn the existing system more to their advantage; second, they can press for an increased amount of aid funds to be used; and third, they can endeavour to bring about a change in the attitude of export credit agencies. The emphasis of these efforts will vary according to which developing countries are dealing with which exporting countries. The previous sections of this study indicated the differences among exporting countries in providing financing for training. The main factor affecting the position of developing countries as recipients of this financing is their market power.

Countries which are large purchasers of capital goods and are considered reasonably creditworthy are much better placed to extract more favourable terms from export credit agencies than are countries which generate very few orders and have a credit rating so low that they are effectively barred from international financial markets. These countries may have more to gain from appealing to aid agencies.

As a first step towards strengthening their position developing countries should be better equipped than at present to assemble and evaluate information about training and financing. In this they will need assistance which could be provided by national aid agencies but since it involves comparing what is available in different countries it might more appropriately be a role for international institutions. Some newly industrializing countries have begun directly approaching consultant engineers and commercial banks. Although the advice of these enterprises may be more costly, they have much relevant experience and are able to operate internationally. To the extent that the price of an export covers the fees paid by the exporter, the buyer is already paying for the services of consultants and banks. If the bank handling an export credit were nominated by the buyer rather than by the exporter the overall cost to the buyer would probably be no greater and the buyer would have direct access to the bank's expertise (see below). A clearer understanding of training and financing would permit developing countries to reap greater benefit from what is available. They would also be able to express their requirements more precisely, which would reinforce their bargaining position and reduce uncertainty.

To use more aid funds in the financing of training associated with capital goods exports may appear an obvious and satisfactory solution but it has several drawbacks. Countries allot only a limited sum of money to their aid budgets. When an exporting country provides aid funds to finance an export of training, the amount of aid for other purposes is lowered. Past experience with mixed credit shows that when aid is used as an instrument of export promotion it tends to be directed to those countries which represent the most attractive markets and where competition is toughest. Developing countries ought to consider how far it is in their interest that industrial manpower training should be financed from aid funds. It imposes constraints, bureaucratic procedures have to be followed and if the results of training are unsatisfactory, a developing country has little recourse.

Furthermore, the less training is regarded as a commercial activity, the less competitively it is likely to be supplied, and the less inclined export credit agencies will be to treat it on a par with other exports.

It is important to recognize the distinction between aid policy and export credit policy. Official export credit appears as aid in some statistical series and is seen by a few exporting countries, notably France, as a channel for development assistance. In practice it effects a transfer from a developed to a developing country, and, unlike commercial credit, its terms are more favourable for poorer countries though they are higher credit risks. Nonetheless, whereas aid policy is directed, albeit imperfectly, to the needs of developing countries, export credit policy aims to advance the interests of the exporting country by promoting its exports. Buyers' interests are given a low priority and the policy changes which occur are usually a response to pressure from exporters. Developing countries should, as they have in the past, exert influence through exporters to bring about adjustments to policy which they consider desirable but they should also make their increasing market power felt more directly.

Export credit agencies are by nature conservative and sometimes operate by rules of thumb which were established under different circumstances from those prevailing today. Early on their function was to support credit advanced by an exporter (supplier credit). Many still prefer to deal solely with the exporter and a bank nominated by him though, especially in the case of long-term credit, much export credit is now advanced by a bank directly to the buyer (buyer credit). A developing country should when appropriate insist that an export credit agency accept the bank which it nominates. This would help to ensure that finance was arranged in a way that suited the buyer and would give the buyer access to the sort of advice discussed above. It would also make export credit agencies more responsive to the interests of developing countries in setting their policy priorities. While buyers would benefit generally from being directly represented in negotiations with export credit agencies by an international bank with relevant expertise, this would be of particular value in difficult and unfamiliar types of credit such as financing of training.

As well as using the leverage at their disposal to persuade export credit authorities to take more account of their concerns, importing countries should take action to alleviate the apprehensions which contribute

to the guarded attitude of these authorities towards financing of training. The relatively high risk attributed to training derives in part from the fact that historically training was included in capital goods exports almost as an afterthought and still is often only summarily covered in contracts. Particular difficulties have arisen from performance bonds which some developing countries are thought to have abused by setting unreasonable standards for the results of training. To avoid problems the training clauses of contracts should be drafted in greater detail, specifying precisely what the supplier is to accomplish and providing for resort to arbitration if this becomes the subject of dispute. A clearer appreciation of what training involves, advocated above, would also help.

Another reservation that export credit agencies have about training is that it generates very little employment in the domestic economy. Training can, however, help secure export orders which do generate employment. It also has a high added value and earns foreign exchange. Most important at a time when world trade is in a serious recession, training is a product for which demand is growing. Developing countries and the firms that supply training should endeavour to convince export credit agencies that financing of training is an area in which they can assist in creating new business, rather than merely winning orders from competitors, and so carry out the function for which they were originally intended.