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THE USE OF MIXED CREDITS IN THE UNITED KINGDOM FOR  
THE FINANCING OF INDUSTRIAL TRAINING AND INFRASTRUCTURE\*

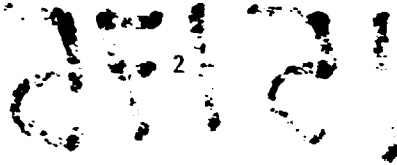
Prepared for the UNIDO secretariat

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THE USE OF MIXED CREDITS IN THE UNITED KINGDOM  
THE FINANCING OF INDUSTRIAL TRAINING AND INFRASTRUCTURE

ABSTRACT

The paper deals with the system of mixed credits for the financing of industrial training and infrastructure in the United Kingdom, and how applications for such credits are dealt with by the various authorities such as the Export Credit Guarantee Department, the Department of Trade and Industry, the Overseas Development Administration, the Treasury, the Commercial Banks and exporting companies. The system in the U.K. is also known as Aid and Trade Provision (ATP). The paper concentrates on the training component in projects approved for mixed credits and emphasises the need of identifying training needs and of catering for manpower development by both the applicants from developing countries, the aid donors, financiers and exporting companies, in the interest of implementing projects successfully for the benefit of all concerned. Suggestions are made on to how the system in the United Kingdom may be strengthened, in order to better accommodate projects including requests for training of industrial manpower by applicants from developing countries.

CONTENTS

		<u>Page</u>
	Glossary Terms	4
 <u>PART I: THE BACKGROUND</u>		
Section 1	Introduction	6
Section 2	Industrialization and Mixed Credits Finance	9
 <u>PART II: THE MIXED CREDITS SYSTEM</u>		
Section 3	The Role of Developing Countries	15
Section 4	The Role of the Exporting Companies	18
Section 5	The Role of the Commercial Banks	22
Section 6	The Role of the Export Credits Guarantee Department	27
Section 7	The Role of the Department of Trade and Industry	37
Section 8	The Role of the Overseas Development Administration	41
Section 9	The Role of the Treasury	49
Section 10	The Role of the Crown Agents	52
 <u>PART III: THE CASE STUDIES</u>		
Section 11	The Selection of the Case Studies	53
Section 12	Analysis of the Case Studies: Finance, Training and Infra-structure	55
 <u>PART IV: STRENGTHENING THE MIXED CREDITS SYSTEM</u>		
Section 13	Some General Observations	63
Section 14	The Developing Countries: Some Considerations in Industrialization	65
Section 15	The Exporting Companies: Promoting Buyer Satisfaction	72
Section 16	The Banks: Advising Developing Country Clients	76
Section 17	The Export Credits Guarantee Department: Reducing Credit Risks	82
Section 18	The Department of Trade and Industry: Stimulating Exports	86
Section 19	The Overseas Development Administration: Development Objectives and Mixed Credits	88
Section 20	The Treasury: A Different Approach	94
 <u>PART V: SOME ALTERNATIVE METHODS OF FINANCE</u>		
Section 21	Commercial Finance	99
Section 22	Government Finance	103
 <u>PART VI: CONCLUSIONS AND RECOMMENDATIONS</u>		
Section 23	Conclusions on the Terms of Reference	109
Section 24	Recommendations	114
Appendix A	DAC Guiding Principles for the Use of Aid in Association with Export Credits and other Market Funds	122
Appendix B	Some Services Provided by the Export Credits Guarantee Department	<del>122</del>
Appendix C	Risks Covered by the Export Credits Guarantee Department under a Specific Services Guarantee	<del>122</del>

GLOSSARY OF TERMS

ATP	Aid and Trade Provision; the allocation of funds in the United Kingdom Aid Programme used for mixed credits.
BRITISH COUNCIL	The cultural and, for developing countries in cooperation with ODA, the educational aid agency of the United Kingdom Government.
CAPITAL AID	see Financial Aid
CLEARING BANKS	The main commercial banks which provide a banking service to individuals and banks lending to industry in the United Kingdom.
COMMONWEALTH DEVELOPMENT CORPORATION	A statutory corporation which invests in and, where required, manages development projects on a commercial basis in developing countries. Most projects are in Commonwealth countries.
CONSENSUS	The International Arrangement concerning Guidelines for Officially-Supported Export Credits (the Consensus) adopted by the major trading nations of the OECD which provides the bench mark for officially-supported export credits of two years or more.
CONSOLIDATED FUND	see Exchequer
CROWN AGENTS	Agency which performs financial, professional, commercial and other services for many overseas governments, public authorities and international organisations. The ODA uses their services also.
DAC	Development Assistance Committee of OECD - the 17 main Western donor countries and the European Community.
DTI	Department of Trade and Industry (see Section 7)
EC	European Community
ECGD	Export Credits Guarantee Department (see Section 6)
EXCHEQUER	The Government account into which public revenues are paid and from which public expenditures are met. Also known as the Consolidated Fund. It is managed by the Treasury.
EXPORT CREDITS	Money advanced to meet the cost of exports repayable with interest over a fixed period of time by the buyer.
EXPORTING COMPANY	A United Kingdom company which sells its products - goods and/or services - overseas.

FINANCIAL AID	The provision of grants or loans on highly concessional terms to finance development projects in developing countries, sometimes described as capital aid. Also covers other forms of aid (e.g. food aid, disaster relief, budgetary aid) but not technical assistance (TC)
FCO	Foreign and Commonwealth Office
GUIDELINES	The agreement between DAC member countries providing guidelines on the use of aid in mixed credits and other forms of associated finance - see Appendix A
MERCHANT BANK	Specialist banks which are concerned with investment management, corporate finance, trade and some loan portfolios. They provide a service to governments, international organisations and companies.
MIXED CREDITS	A mixture of export credits on concessional aid to cover the cost of exports and soft terms.
NIC	Newly Industrialized Countries.
ODA	Overseas Development Administration - formerly Ministry of Overseas Development (see Section 8)
oda	Official development assistance; includes both financial aid and technical cooperation.
OECD	Organisation of Economic Cooperation and Development - a consultative body for Western developed countries.
SCAT	Sub-Committee on Aid and Trade - see paragraph 137 of Section 8.
TC	Technical cooperation - includes the provision of experts, small amounts of equipment which might be needed for them and training for the nationals of developing countries financed from the aid programme, including the ATP.
TETOC	Technical Education and Training, Operations and Consultancies - a specialist unit of the British Council. In the industrial training field it provides, <i>inter alia</i> , policy advice to the ODA and the British Council, assists in the definition of overseas needs, identifies potential projects for support from the United Kingdom aid programme and liaises with the appropriate British resources.
TURNKEY PROJECT	A project in which the exporting company contracts not only to supply the goods but to arrange proper installation.

PART I

THE BACKGROUND

SECTION 1

INTRODUCTION

1. This study was commissioned by the United Nations Industrial Development Organisation (UNIDO) in February 1984. It was decided to embark on the study as a further stage in the examination of the problems of financing industrial projects in developing countries which UNIDO has undertaken. Consultations have been organised as part of this quest on 16 industrial sectors and topics, including the training of industrial manpower and industrial financing. The study should be read in conjunction with the Information Paper "Policies of Export Credit Agencies in Financing of Training Component in Industrial Projects" by Joan Pearce (UNIDO/PC54).

2. The terms of reference required a selection of 10 case studies of industrial projects in developing countries financed through mixed credits in the United Kingdom. These case studies were intended to provide a focus on the practice of financial institutions, of export credit agencies, aid agencies and exporting companies, in order to assess:

(i) the use of mixed credits to finance:

- the training component of an industrial project;
- investment in infra-structure directly related to an industrial project, that is, within the primary limits: utilities, water, energy, waste disposal.

(ii) the extent to which investment in industrial projects is considered as an investment in social infrastructure, and

therefore eligible for financing on softer terms;

- (iii) the forms of financing which would be more suitable to cover investment in industrial training and infra-structure, from the viewpoint of the financial institutions, aid agencies and export companies covered by the case studies.

3. On the basis of the case studies undertaken, the consultant was required to contrast the policies of financial institutions, aid agencies and exporting companies with their actual practice with regard to paragraphs 2 (i) and (ii). Further, the consultant and UNIDO staff were required together to make an assessment of the possibilities of improving the conditions of financing industrial training and infra-structure in developing countries, taking into account the views expressed under paragraph 2 (iii).

4. So much in this field is decided on the basis of particular circumstances. What is acceptable in one case may be unacceptable in another. Circumstances change over time. A developing country with heavy debt liabilities today may become credit worthy tomorrow - for example, through the discovery of some hitherto hidden asset. The world economic climate may brighten or business become stagnant.

5. It is hard to define the policies against which to measure practices. Government departments respond to many considerations when deciding what to do about a particular project. No one can say with certainty what the response would be in a hypothetical case. Governments change and so do the priorities. Much the same policy adjustments operate in banks and companies. The best that can be done is to use the past as a guide and sound out the present climate and likely response, always remembering that sea changes occur.

6. Any implied criticism of the present policy towards and



arrangements for dealing with mixed credits are offered in a constructive spirit.

7. Other countries operate different systems often involving agencies which have no parallel in the United Kingdom - the Export-Import Bank in the United States, for example. Nevertheless, some of the suggestions for improving the mixed credits system in the United Kingdom may have some relevance to those countries also.

8. Read with these caveats, the report may play a modest part in the understanding of the United Kingdom approach to the use of mixed credits - particularly for industrial training and infra-structure.

9. The consultant is grateful for the time and constructive comments which so many people contributed during the course of the study. That they cannot be mentioned by name is solely due to the need to preserve anonymity. A number of the suggestions for changing the system were put forward by others during discussions but the consultant takes full responsibility for including them in the report. Looking through the ten case studies it is obvious that some of the suggested changes have been anticipated but there is still room for improvement across the board.

The case studies are not being reproduced in the Report in order to make it as succinct as possible. However, reference to them is made wherever it is necessary.

SECTION 2

INDUSTRIALIZATION AND MIXED CREDITS FINANCE

10. Developing countries have generally regarded industrialization as an essential element in their march towards a better life. They see the affluence of Western industrialized countries and the increasing economic power of the newly industrialized countries (NICs) as proof positive of the rightness of their approach. This is far too big a canvass to encompass in a limited study of this type but it does point up the importance attached to industrialization by developing countries in trying to reach their aspirations. It also explains in part the eagerness with which many launch on an industrial project without assessing all the inputs necessary for success and ensuring that they are provided in full measure.

11. There are several factors which go to make up a recipe for a successful industrial project. Pre-feasibility and feasibility studies, product research and development, costs of production and the availability of markets, both domestic and export, and so on. This study is going to concentrate on just two of these factors - finance for industrial training and infra-structure related to industrialization.

12. The study is primarily concerned with one of the possible sources of finance - mixed credits. There are others which are touched on in Part V later in the report. This section of the report outlines the background to the use of mixed credits in the United Kingdom.

13. There are at least two financial components in a mixed credits project. In most instances, one element is the finance provided by a commercial bank guaranteed by the Export Credits Guarantee Department

(see Sections 5 and 6). The other is official development assistance (oda) provided by the Overseas Development Administration from the United Kingdom aid programme (see Section 8). Mixed credits are intended primarily for large capital goods exports but can be used in certain circumstances for services.

14. Export credits are guaranteed by the Government because the commercial banks would be unable to finance the exports and carry the inherent risk themselves. Neither, in most cases, would the banks be likely to be able to obtain cover through commercial insurance. The reason for the Government's apparent generosity in underwriting the risk is that it recognises that it is vital for the finance to be provided for exports from the United Kingdom to countries overseas. It also accepts responsibility for meeting the difference between the fixed interest rate at which the export credits are provided by the banks and the commercial rates of interest which have to be paid to the lenders.

15. Naturally, the Government does not accept the insurance risks for nothing. It charges premium rates for the export credits guarantee and it also charges for other services which it provides to support exports. It is the aim of the Government to see that the charges for these services meet the costs, whether they be normal running expenses or the covering of bad debts.

16. The provision of mixed credits puts the United Kingdom Government on the horns of a double dilemma regarding its public expenditure commitments. They are not, of course, alone, although the mixed credits mechanisms in other countries may operate differently.

17. The first of the Government's dilemma arises when there is a higher than average run of debt problems. It has then to make a judgement as to whether to reduce its exposure and run the risk of losing export

orders or to continue underwriting to the same extent as hitherto in order to compete for those orders, realising that it could thereby increase the size of the potential losses which might eventually have to be met from the public purse.

18. Such difficulties are usually met through a concerted international effort to re-schedule debt. Nevertheless, the contingent liability arising from guaranteed debt remains as a constant concern of the Treasury and affects their policy towards export credits and mixed credits.

19. Aid forms the other element of the mixed credits package. It provides the second of the Government's dilemmas. Successive Governments have partly justified the aid programme by the benefit it brings in the form of the export of United Kingdom goods and services. The present Government has placed even greater emphasis than some of its predecessors on the use of aid to encourage United Kingdom trade interests. It might be thought, therefore, that the mixed credits technique would find a ready response in such a climate.

20. However, mixed credits have consistently been out of favour with the Treasury in the United Kingdom. (The ODA have reservations also - see paragraphs 286-289 in Section 19). This is because they see the use of aid in this way as a hidden subsidy to win export orders (not necessarily a bad thing in itself providing it is not carried to excess) which can only lead to similar or greater subsidies by the United Kingdom's competitors and an escalation in the soft funds provided for this purpose. The dilemma is that whilst they would like the United Kingdom companies to win the orders, they do not wish to see the terms progressively softened if this is likely to lead, as it inevitably must, to a demand for more concessional aid to be provided from the public purse for mixed credits.

21. It was partly because they did not wish to participate in such a race that the United Kingdom Government resisted until 1977 the adoption of mixed credits. Since that time, they have worked consistently in the Financial Services Sub-Committee of the Development Assistance Committee of the Organisation for Economic Co-operation and Development to control the terms on which mixed credits may be provided.

22. However, the strategic deployment of official development assistance to support exports to developing countries has become an established feature of the world market. Mixing of highly concessional aid funds with commercial export credits to offer softer financial terms for orders placed with specified exporters is now used by almost every major industrial country. Offers of soft finance are not infrequently a condition of tender compliance.

23. Commercial benefits can of course be secured by the supply of capital goods and services financed entirely by oda under ordinary bilateral aid programmes. The use of mixed credits, by enabling the aid element to go further offers potentially greater returns to the exporting country and by the same token offers greater concern from its competitors.

24. When the United Kingdom finally entered the mixed credits field, it was in order to counter, and thereby discourage, their use by other countries. The intention was to match the competitive edge enjoyed by other exporting countries by matching the softer credit terms they were able to offer through the use of the mixed credits technique.

25. As part of the fight to control the use of mixed credits, lengthy discussions in the Development Assistance Committee finally produced an agreement between member states setting out the rules under which they would operate. The agreement is reproduced at Appendix A. Its most

important provision in financial terms is that there is now a minimum grant element. Formerly, it was possible for the exporting country to decide how much or how little oda or other concessional funds to put into a package; in other words, the grant element could be anything above zero. Now it has been agreed that the minimum grant element has to be 20%.

26. The agreement is not, however, binding. It has been described as new guidelines. It has much the same status as the Arrangements on Guidelines for Officially Supported Export Credits and with much the same aim. The United Kingdom Government pressed strongly for the agreement because of the danger of such export financing packages distorting fair trade competition and the allocation of aid funds as well as leading to a subsidised credit race.

27. Not every member of the OECD considers that the agreement goes far enough. For example, the United States Government has made it clear that they are not satisfied with the present arrangements because they believe that some other Governments are still distorting fair trade competition by their use of mixed credits. They have said that they wish to see the minimum grant element raised to 50%. In the meantime they have indicated their own intention of increasing substantially the concessional funds available to support their exporters in mixed credits deals with the object of undermining the position of those competitors who are thought to have produced the distortions.

28. Publicly, the United Kingdom Government has not yet endorsed the United States position. However, given past reluctance to indulge in mixed credits and the philosophical justification for changing tack - that it was to counter and discourage the use of mixed credits by other countries - it seems likely that their sympathies will lie with the

United States' aims.

29. There are however, very strong traditions in some countries - in France for example - of using mixed credits in furtherance of trade with and development in developing countries. Such practices are not likely to change quickly or easily. Each exporting country will be assessing its own interests in mixed credits. Competition with the products of the Newly Industrialized Countries are also likely to play a part in the deliberations of the OECD members.

30. The outcome is not easy to predict. What is clear is that any raising of the grant element is likely, in the short term, to lead either to an increase in the amount of concessional funds used in mixed credits at the expense of ordinary bilateral aid projects or, if the proportion of concessional funds devoted to mixed credits remains the same, to a fall in the number of mixed credits projects or a diminution in their size.

31. So far as the United Kingdom is concerned, it seems likely that mixed credits will remain as a charge on the Aid Programme as long as most competitors continue to offer such terms.

32. The next section of the report examines the role of the various participants in the process of organising a mixed credits project financed from the United Kingdom.

PART II

THE MIXED CREDITS SYSTEM

SECTION 3

THE ROLE OF DEVELOPING COUNTRIES

33. Mixed credits projects by definition include an element of official development assistance - aid in common parlance. United Kingdom aid is provided on a government to government basis. It follows that any mixed credits project involving British aid has to be approved by the Government of the developing country concerned because the aid element will be offered to that Government, not to the British exporter or the company or corporation in the developing country responsible for the project.

34. The ultimate customer is therefore the Government of the developing country. Detailed negotiations about the project, including the financial package, training and the provision of directly related infra-structure are usually the concern of state organisations. They may be the manufacturing company or corporation with considerable autonomy or they may be under the close control of the relevant Ministries in the Government. Since financial obligations have to be assumed by the Government it is natural to expect that the Ministry of Finance or equivalent organization will take a close interest in what is arranged.

35. An essential prerequisite for a mixed credits project is the credit-worthiness of the country concerned. This is because the undertaking of a guarantee by the ECGD to underwrite the loans made by the commercial banks depends on an assessment of the risk of default. If the debt ratio has risen to a level where the borrowing country has



taken on more debt than it appears likely that it can service, it is unlikely that an export credits guarantee will be offered, however good the mixed credits project might otherwise appear to be (see paragraphs 72 and 76-79 of Section 6)

36. In an era of high interest rates, credit-worthiness is a condition which is not so easily maintained. Nevertheless, it is an important consideration which the developing country Government has to bear in mind when assessing whether finance is likely to be forthcoming for a mixed credits project.

37. Assuming that credit-worthiness is assured, the developing country has to identify projects for which it needs foreign credit and then to decide which of these projects has a prior claim on the financial resources which it is likely to command. If it is contemplating a mixed credits financial package, the project must rank as a high priority in the country's economic development in order to attract ODA support for a United Kingdom financed bid (see paragraph 136 of Section 8)

38. Other factors include the availability of the raw materials for production, identification and provision of the appropriate infra-structural needs, and the identification of markets and the distribution of the product to them. Every project will command some local resources and their availability or otherwise is bound to have an influence on the ultimate choice.

39. Trained manpower must figure high on the list of inputs to achieve industrial development. Whatever organization is responsible for an industrial project, it should, with the backing of the Government, pay close attention to this requirement and make whatever dispositions are necessary to see that the need is met. The training inputs which will be required from overseas companies should be clearly indicated in

the invitation to tender.

40. Once the details of the project have been decided, the customer, which may be the developing country Government itself or more likely a statutory organization, although private enterprises with Government approval are also acceptable, can issue an invitation to tender for the contract. When the bids have been received and opened, the customer may wish to enter a period of negotiation with promising bidders.

41. Mixed credits projects, where different mixes are on offer from competitors, require evaluation and often involve a lengthy time before the customer is considered to have extracted the best deal possible from the exporting company and the contract is awarded. Delay does, however, carry some risk. The mixed credits package is usually on offer for a limited period only. Interest rates may change whilst the bids are under discussion and, if they rise, this could have two results. Firstly, the increased servicing of existing debt may adversely affect the creditworthiness of the importing country. Secondly, the interest rates on the commercial loan element of the mixed credits package may have to be adjusted upwards if the period for considering the offer expires.

42. Once the successful tenderer has been chosen and the financial arrangements settled, the customer and the exporting company enter into a contract for the supply of the goods and services. An aid agreement is signed between the United Kingdom Government and developing country Government covering the oda element of the mixed credits. There may also be agreements involving the commercial finance as described in Sections 5 and 6.

SECTION 4

THE ROLE OF THE EXPORTING COMPANIES

43. The exporting companies in Britain are concerned to see that:
- (a) they are aware of the opportunities to gain orders from developing countries;
  - (b) tender documents are obtained if the potential orders interest them;
  - (c) bids are submitted to meet the requirements of the customer, including training and infra-structure where called for, and priced to include an acceptable profit margin;
  - (d) they can marshal the necessary finance for the contract;
  - (e) if the contract is awarded to them, they fulfil the requirements specified in it, subject to such modifications as may be mutually agreed between the customer and themselves;
  - (f) they are paid for the goods and services provided.
44. Exporting companies obtain information about potential orders from a number of sources. It may come from a local representative or agent or the company may send a visiting representative to the developing country. Commercial sections of the British Embassy or High Commission in a developing country may report export opportunities to the Department of Trade and Industry in London which, through their information network, publicise the details. Contacts with international organisations may also be a source of information about forthcoming projects. If they are

interested in a project, exporting companies will ask to be put on the list of firms invited to tender. Applicants are not always successful.

45. After receiving the tender documents, the exporting company decides whether to put in a bid, i.e. they judge whether they can fulfil the customer's requirements and still make a profit. In many, perhaps most cases, the bid will involve a number of different companies making components to fulfil the order. Training will often require inputs from companies other than the main contractor. For example, relevant operational training is not often available where the machinery is being manufactured. Users of the equipment have to be found who would be willing to provide such training. Maintenance training may be partly provided at the manufacturers, but to provide practical experience under operating conditions, users of the equipment can provide the most realistic conditions.

46. At a very early stage when considering whether to put in a bid, an exporting company will wish to assure itself that export finance will be available. If it considers it is necessary to offer mixed credits to be competitive because it believes competitors from other countries will be doing likewise, it will take three steps. It will:

- (a) invite a bank to finance the export credits;
- (b) approach ECGD in conjunction with the bank with a request that they underwrite the export credits;
- (c) approach the DTI with a case to justify use of the ATP.

47. Assuming that the financial and the goods and services packages have been agreed in principle, the exporting company is then in a position to put forward its bid to the customer. Negotiations between the customer

and the various bidders may take place after the tenders have been opened.

48. If the exporting company is successful, a contract is drawn up between the developing country organisation seeking the product and the exporting company. The contract will specify the goods and services, including any training, to be provided by the exporting company. Financial terms will be finalised and the necessary agreements entered into.

49. Thereafter the exporting company has to see that it delivers the goods and services contracted for, unless the customer and the company mutually agree to modify that agreement. Not infrequently the time-scale for the delivery of the goods and services has to be modified. This can be due to a number of reasons - delays in the production of parts by the main contractor or the sub-contractors, shipping problems, inability of the customer to fulfil on time the necessary local inputs because of physical or financial constraints, and so on.

50. Where machinery is concerned, the contract often specifies a commissioning period during which the exporting company is required to have a team on site to see that the equipment is working satisfactorily to full operating standards. Commissioning periods vary but 2-3 months is common. If the manufacturing processes are complex or unfamiliar, the exporting company often undertakes to station its own personnel on site for a considerable time after the commissioning and if this is done both the contract and the price paid by the customer will allow for this arrangement.

51. Where the contract specifies the provision of training, details of what is required are not always spelt out. The exporting company has to discuss this subsequently with the overseas customer. In many instances,

arrangements cannot be finalised until any language problem has been identified, the basic skills and knowledge of potential trainees have been assessed and the sub-contractors, if any, involved in the training process identified.

52. Contractual obligations do not usually require an exporting company to monitor the progress of a project once the commissioning period and any immediate follow up contractual obligations are completed. Nevertheless, some exporting countries make a practice of continuing to keep in touch with their customers which can be beneficial to both sides.

SECTION 5

THE ROLE OF THE COMMERCIAL BANKS

53. A full description of the banking network based in the United Kingdom and the range of services they offer would require a separate report of its own. For the purpose of this report, however, it is sufficient to sketch in the main framework and then describe how it operates in respect of mixed credits.

54. The first group is the London clearing banks, i.e. Barclays, Lloyds, Midland, National Westminster and Williams & Glyn's\* (the Scottish clearing banks are associated with these banks also). Each of these groups has an international banking arm with headquarters in London. They are all concerned with export credits and with organising project finance. Each of these banking groups has subsidiary or associated banks or representatives based in both developing and developed countries around the world. These links with other banks and financial institutions make it possible for them to marshal financial resources for overseas projects.

55. Certain of these banks, together with the Grindlays Bank Group and the Standard Chartered Bank Group provide domestic banking facilities overseas. They have extensive networks in many parts of the world, including Latin America, the Far East, the Middle East and Africa. They are thus well placed to offer financial support in respect of export projects in the countries in which their networks extend.

56. Another group of United Kingdom based banks are the merchant banks, of which there are about a dozen. They do not provide ordinary banking facilities to the general public. Their role is to provide a

\* Williams and Glyn's has now amalgamated with The Royal Bank of Scotland and operates under that name.

variety of banking facilities, such as public issues of shares, investment advice, etc. and some of them also specialise in organising finance for international trade. Like the clearing banks, they have agents in various world trading centres and provide information about industries and commodities, trade conditions and the standing of firms.

57. As London is one of the major financial centres in the world, there are many foreign-based banks with branches or subsidiaries there. Providing they are recognised by the Bank of England -the Government-owned reserve bank- under the Bank Act 1979 and are acceptable to ECGD, they are also eligible to act as sole lenders or syndicate lenders for fixed-rate export finance. Licensed deposit takers may also, with ECGD's approval, participate in lending syndicates.

58. The major commercial banks are in the business of borrowing and lending money. They have to cover their costs - the services they provide to their clients, including the costs of staff, accommodation, computers and other overheads - and they have to make a profit to carry on the business. The lending banks earn income both from fees and from interest on the money they have lent. Merchant banks generally, by comparison, have to rely more on fees for the organisation of loans and the provision of services in putting together financial packages, although they also have loan portfolios of their own. They have been described as "financial engineers".

59. Banks can provide:-

- (a) advice and general guidance for their clients on financial and aid matters.
- (b) funds for financing international trade, either supported by ECGD or without such support. Such funds can be in sterling or in other major currencies, acceptable for export credits guarantee purposes



(c) in most major project cases, a package of finance has to be put together which might consist of ECGD supported funds, aid, and funds raised in the market. In the latter case, the credit rating of the client must be sufficiently high for the banks to be prepared to lend on their own account.

60. Banks like to spread their risks and that means spreading their investments. They exercise prudence in their exposure to each country; every bank makes its own judgement as to what the limit should be in a particular country. Where export credits are concerned, if the bank can obtain a guarantee from ECGD it is likely to be willing to provide the finance even where the country's credit-rating is presently low. But under ordinary export credits arrangements, ECGD will not guarantee more than 80%-85% of the finance for the contract. So the bank either has to carry the remaining 15%-20% within its country credit ceiling or look for finance elsewhere - probably from the overseas client or in the form of a syndicated Eurocurrency loan.

61. In approved mixed credits projects, the problem does not usually arise because the aid element is these days not less than 25% and the export credits element does not therefore exceed 75%. In principle, it could therefore be fully covered by ECGD. However, if the aid element in a mixed credits project is the subject of a separate, though related, agreement, the commercially financed contract may have to stand on its own. In that case, ECGD would not be able to cover more than 85% of the commercial loan. (See Section 6 for a fuller description of ECGD guarantees).

62. "Export credits" is the simple term used to describe the arrangements whereby a bank loans money to finance the cost of exporting goods and services until the buyer settles the account. Much of this

trade is of a repetitive kind, in standard or near standard goods, with credit usually extended over short periods, and is not the subject of this study. There are, however, projects and large capital goods business of a non-repetitive nature, usually of high value and often involving lengthy credit terms. This is the type of business for which export credit finance is provided as part of a mixed credits project.

63. There are two ways in which such longer term export credits of two years or more may be arranged. The bank loans money either to the exporting company - known as supplier credit finance - or to the overseas borrower - known as buyer credit finance - to pay for the goods and services provided by the exporting company. The arrangements for supplier credit finance are that the exporting company sells its product to the overseas customer on deferred payment terms, borrowing from a bank in the United Kingdom to finance the cost of supplying the goods and services from the time they are provided (shipped in the case of goods) until the final payment is received from the customer. Buyer credit, on the other hand, involves the bank loaning money to the overseas customer to enable prompt payment to be made to the exporting company for the goods and services it is supplying.

64. In the case of supplier credit, repayments to the bank are the responsibility of the exporting company which, in turn, looks to the overseas customer to make agreed payments to it, as stipulated under the contract of sale. The repayment period and interest charges will vary according to the terms under which the exporter has contracted with his overseas buyer. However, arrangements can also be made for ECGD to guarantee the bank in respect of the credit it extends to the exporter.

65. Buyer credit does not involve the exporting company in the loan arrangement directly, although the contract to supply the goods and

services is intimately associated with the terms of the loan. Interest rates and the repayment period for the loan will be specified in an agreement between the bank and the overseas customer. The exporting company will have an interest in the negotiation of these terms because they may well play a crucial part in whether it wins the contract.

SECTION 6

THE ROLE OF THE EXPORT CREDITS GUARANTEE DEPARTMENT

66. A most succinct description of the functions of the Department is given in its own booklet describing its services: "ECGD, which is a department of the Government, assists exporters both of goods and services in the following ways. Firstly it insures them against the risk of not being paid - whether through the default of the buyer or through other causes, such as restrictions on the transfer of currency, cancellation of valid import licences, etc. Secondly, it furnishes guarantees of 100 per cent repayment to banks. On this security banks provide finance for the support of export contracts at favourable interest rates. ECGD insures new investment overseas against the risks of war, expropriation and the restriction of remittances. ECGD also .... supports the issue of performance bonds, and guarantees contracts expressed in acceptable international currencies as well as sterling, including cover against fluctuations in exchange rates adversely affecting exporters' tender price in a foreign currency".

67. ECGD is a government department operating as a business, balancing income and outgoings over the years. Applying normal insurance principles it offers a full export credits insurance service against payment of premiums. Exporting companies pay the premiums for this insurance which are adjusted from time to time by ECGD to take into account the risks of not being paid.

68. About 90% of ECGD business is handled on the commercial basis described in the previous paragraph. However, there is a facility to do business not compatible with a purely commercial approach; this is done as a public service in the national interest. The same broad underwriting

principles are, however, applied to cover given in the national interest, and the solvency of these operations has also to be maintained.

69. Some of the various supplementary services provided by ECGD in conjunction with export credit generally are described in the UNIDO Information Paper "Policies of Export Credit Agencies in Financing of Training Component in Industrial Projects" by Joan Pearce (UNIDO/PC5-1 of 28 September 1982). Brief descriptions of those services currently available and of some others are given in Appendix C.

70. The main task of ECGD is to underwrite the risks:

- (a) to exporting companies and banks, in the case of supplier's credit, that payments will not be made on the due dates specified in the contract for the goods and services exported from the United Kingdom; or
- (b) to banks, in the case of buyer's credit, that they will not receive interest or capital repayments on the due dates in accordance with the loan agreement.

These insurance arrangements apply to both developing and developed countries.

71. The "supplier" and "buyer" forms of export credits finance have already been described in paragraphs 62 to 65. ECGD's support for both forms of finance enables banks to provide loans at fixed preferential interest rates for longer term credits (except for EC countries) on up to 85% of the value of the contract.

72. To be eligible for an export credits guarantee, the overseas customer must be considered a reasonable risk. That is to say the country is expected to be able to meet its debt commitments and the organisation placing the order is expected to be able to meet both capital and interest payments on time. ECGD is able to gather information

from many sources, both about the state of each individual overseas market, the economic risks associated with it and the credit verification of overseas buyers. On certain markets, where demands for cover exceed the available resources, ECGD has to limit the overall amount of potential liability which it can accept. A continuous watch is kept so that limits may be adjusted as soon as conditions alter.

73. ECGD does not directly provide finance for export credits but the insurance cover it offers facilitates this form of lending by the banks. It also influences the terms on which banks will provide guaranteed export credits finance. However, ECGD does subsidise interest rates from public funds on export credits of 2 years or more; i.e. the fixed preferential interest rates described in paragraph 71 - see also paragraphs 95-97.

74. Whilst they negotiate the best terms they can for their clients, it is in the interests of the banks to ensure that the money they lend is as secure as possible. The export credits finance they provide is therefore dependant on the underwriting limits and conditions set by the Department.

75. This limitation affects export credits finance in a number of ways. Present ECGD practice is as follows:

- (a) major capital goods projects enjoy longer repayment periods than services projects. The former often extends for ten years - in exceptional cases longer - whilst the latter is limited to a maximum of five years;
- (b) a minimum down payment of 15% is required;
- (c) not more than 15% of the export credits finance may be used for local or other non-UK costs. (Special rules apply to EC costs). Within that limitation, the sum allowed would be decided on a case by case basis.

76. So far as ECGD is concerned, there are two main tests to be applied before they will consider underwriting export credits, whether they be for industrial training, infra-structure or any other form of goods and services. The general considerations are:

(a) whether the country concerned is an acceptable risk or not;

(b) the credit-worthiness of the borrower, guarantor, etc.

Other Government departments - the DFI and Treasury, for example - may take into account different considerations.

77. So far as the first consideration of ECGD is concerned, many developing countries are at present experiencing great difficulty in meeting their financial obligations. The world recession and high interest rates have combined to put them in a bear-hug. A slackening in demand for their exports limits their opportunity to earn foreign exchange. High interest rates on foreign borrowings result in a drain on the reduced foreign earnings. Inevitably, in present circumstances, the number of developing countries which will be classified as an acceptable risk is likely to be less than in more prosperous times. Shortage of foreign exchange is one reason why this difficulty could occur.

78. Regarding ECGD's second consideration, the credit-worthiness of the borrower, guarantor, etc. refers to the ability of the organisation concerned to repay the export credits. Situations have arisen where the borrower is viable enough to meet the repayment obligations but the money is not remitted to the United Kingdom or the remittance takes a long time to arrive through no fault of the borrower.

79. As with other export credits guarantees, the export credits element of a mixed credits project has to be measured against the normal criteria described above. Where export credits have reached or are

nearing the credit ceiling, it may not be possible to accommodate all or any of the commercial element in such a project. There is no automaticity about the provision of an export credits facility even though an ATP proposal has been accepted under the developmental criteria (see Section 8).

80. However, if the mixed credits project is acceptable against the ECGD criteria, the usual arrangement is that 25% or more of the cost of the contract is met from the aid programme. The remaining 75% financed from commercial sources would be eligible, in principle, for full ECGD cover as it falls within the maximum guarantee of 85%

81. But if the aid element in a mixed credits project is the subject of a separate - though related - agreement (say a separate training package specifically financed from aid), then the position could change. The commercially financed contract may have to stand on its own, in which case ECGD guaranteed export credits could not exceed 85% and the balance would have to be found in other ways.

82. For capital goods on longer term credit, i.e. for 2 years or more, cover for supplier credit is available from ECGD for both the exporting company and the bank. The Department has to be approached before negotiations between buyer and seller are complete if these specific guarantees are being sought. Agreements between all three parties have to be drawn up and signed after ECGD has considered the terms of the contract and the deferred payment terms arranged with the buyer.

83. Guarantees for buyer credit financing of exports can also be offered by ECGD where the buyer is to be financed direct by a United Kingdom bank. Exporting companies often ask banks to arrange such loans for overseas buyers or borrowers; contracts have to be for UK goods and services of £1M or more. It is essential to approach ECGD early.



Four separate agreements have to be concluded at about the same time.

- (i) a supply contract between the British supplier and the overseas buyer, for the supply of plant and equipment and possibly for construction of the project
- (ii) a loan agreement between the financing bank and an overseas borrower to provide finance for the bulk of the payments under the supply contract or contracts
- (iii) a guarantee given by ECGD to the financing bank to cover the risk of non-payment of principal or interest
- (iv) a premium agreement between the British supplier and ECGD.

84. As paragraph 75 makes clear, the minimum down payment required with an export order is 15%; the remaining 85% is the maximum which can be financed under ECGD export credits guarantee arrangements. But ECGD do not always underwrite the maximum percentage - 80% is quite common and lesser percentages may be offered depending on particular circumstances.

85. In the event of a default on payment under supplier credit insurance, the exporting company would have to bear part of the loss itself. This is customary for all insurers. The percentage of cover varies but it is never more than 90% of the sum guaranteed (except in a very few specific instances where up to 95% is allowed). If additionally the exporting company has paid for an ECGD guarantee to the bank, then in certain circumstances it may not have to bear any share of the loss on the guaranteed sum.

86. Where a default occurs under ECGD buyer's credit guarantees and it is clear that the exporting company has fulfilled all its obligations, including those set out in the supply contract with the buyer, the company would not have to bear any share of the loss on the

guaranteed amount.

87. In the case of mixed credits projects, only the commercial finance used for export credits is guaranteed. There is no insurance cover for the aid element. This conforms to normal practice because the United Kingdom Government does not take out insurance cover on its own activities.

88. A training project which is not part of a capital goods project is not likely to attract export credits finance. The same situation would apply to a feasibility study to assess what training was required. ECGD would expect these to be cash transactions between the overseas buyer and the supplier. However, the Department could consider offering a Specific Services Guarantee which covers all earnings under the individual service contract. The risks normally covered are set out at Appendix D and the percentage cover of any loss is 90% of the sum guaranteed. Where the amount of business is sufficient, a company or consultancy may find it advantageous to apply for a Comprehensive Services Guarantee which offer slightly more cover at a little less cost.

89. If the project to be underwritten is primarily for the supply of capital goods, the conditions described earlier are likely to be more easily satisfied. ECGD is not concerned if training is included in such a contract providing it does not form a high proportion of the export package. As capital goods orders attract a longer repayment period, as instanced by the case studies, training financed as part of such a contract also benefits from the increased spread of repayments.

90. The provision of export credits for infra-structure projects would first be tested against the conditions set out in paragraph 76. If the outcome of the assessment was favourable, the amount of export credits guarantee offered would depend, in the first instance, on the export content.

91. If for example, the British equipment and personnel being provided was half of the cost of a road, then the guaranteed export credits could go up to 85% of that half share. Housing would not be ruled out but usually domestic accommodation has a high local content. It follows that in most cases only a small proportion of the total cost of such a project is likely to be eligible for export credits. If fully prefabricated housing made in the United Kingdom is exported, however, then the guarantee could be a much higher proportion of the total cost since the export component would be larger and up to 85% of that component might be underwritten by ECGD.

92. Where the housing is a small part of a capital goods project, the situation may be more favourable even though the local content of the housing is still high. Up to 85% of the whole package might be guaranteed, including the housing. The major part of the export package would have to consist of United Kingdom machinery and equipment and the overall size of the non-British element in the project financed from guaranteed export credits would be limited to a maximum of 15%. If there was no other non-British goods or services paid for from the export credits, the amount of housing related to the project might reach 15%. Conversely, the higher the non-British element in the project, the lower the amount of housing which could be accommodated. If British made windows, doors, and other components were used for the housing, then the export content would improve, and the amount of housing provided could increase. Each case is treated on its merits. Provision of a non-British element in an export credits guarantee is not automatic and in many cases no provision at all is allowed.

93. Infra-structure for power and similar services is in a better position to attract export credits guarantees. This is because the

export content for the machinery and equipment is a high proportion of the total cost of the project. Service support from the United Kingdom for installation and commissioning could also be included in the guarantee.

94. A mixed credits project will be treated in the same manner in so far as the export credits element is concerned. However, if there is any non-British content in it, this adversely affects the ratio of British goods and services exported for a given subsidy from the ATP. As will be clear from paragraph 102 of Section 7 and paragraphs 149 and 150 of Section 9, this is contrary to the intended purpose of the ATP, unless there are compensating advantages in a particular instance.

95. Major trading nations have adopted various guidelines setting minimum payments by delivery and minimum interest rates and maximum credit periods for officially supported export credits on terms of two years or more. The guidelines divide countries into three broad categories, essentially on the basis of their per capita income; Relatively Rich; Intermediate; Relatively Poor. Developing countries are divided between the last two categories.

96. The latest guidelines on export credit terms under the international consensus between major trading nations which would apply to developing countries are:

<u>Guidelines as at July 1984</u>	<u>Intermediate</u>	<u>Relatively Poor</u>
Minimum payments by delivery	15%	15%
Minimum interest rates for credits between 2 and 5 years inclusive	11.55%	10.7%
Over 5 years	11.9%	10.7%
Maximum Credit Periods	8½ years in some cases; 10 years in others	10 years

ECGD subscribes to these guidelines but in exceptional cases it may adjust its offers to meet a particular situation e.g. where foreign competition may have already gone beyond the guidelines.

97. The interest rates are adjusted automatically at six monthly intervals against a matrix of world interest rates so that changes - up or down - are reflected in the interest rates charged for any new export credits finance. ECGD pays the banks the difference between these internationally agreed concessionary rates and an agreed commercial rate of return.

98. Under the international consensus, loans may be allowed for export credits in certain foreign currencies. Where the interest rates are low enough, this may be more advantageous than a sterling loan.

SECTION 7

THE ROLE OF THE DEPARTMENT OF TRADE AND INDUSTRY

99. The DTI has described its central aims as:

"To encourage, assist, and ensure the proper regulation of British trade, industry and commerce, to increase the growth of world trade and the national production of wealth"

This study concentrates on the part played by the Department in the encouragement and assistance of British trade, industry and commerce in one small area - mixed credits projects.

100. It should be said at the outset that the Secretary of State for Trade and Industry and other Ministers in the Department have overall responsibility for ECGD. However, whilst officials in the DTI work closely with those in ECGD, the latter have their own criteria on whether to extend insurance cover, be it for ordinary export credits or for mixed credits cases (see paragraphs 76-79 of Section 6). The Treasury are also concerned in this process, as described later (see Section 9).

101. Although ODA provide the "soft" money in the mixed credits mix - that is, the Aid and Trade Provision - and have the responsibility of accounting for it, the entry point for an application by an exporting company to use an allocation from this source is through the DTI.

102. The ATP scheme is essentially intended to enable the United Kingdom to match aid-assisted foreign credit facilities. The Department's objective is to maximise worthwhile exports from the United Kingdom. "Worthwhile" usually means exports with a longer-term national value greater than the immediate return to the British firms.

This can arise from opening up or protecting future commercial openings or establishing new capabilities in the United Kingdom and thereby enhancing the prospects of future orders.

103. Another national interest consideration is the effect on employment. The possibility of an order for goods or services likely to result in the retention of sizeable numbers of jobs or the creation of new employment opportunities could have an influence on the decision of the DTI on whether or not to proceed with processing a proposal.

104. Economic considerations affecting the United Kingdom can only be considered on a case by case basis. For example, in the case of a country with a higher than normal risk factor, a judgement might have to be made on whether the longer term opportunities for exports or job retentions in the United Kingdom outweigh the risk involved. Such decisions are not taken solely by the DTI - other Government departments involved in ATP projects have to consider their stance.

105. There are two primary conditions which limit applications for support from the ATP. Firstly, the GNP of the developing country concerned must not exceed US \$3,000 per head at 1981 prices. Secondly, the use of the ATP is confined to non-Communist developing countries.

106. In publicising the ATP arrangements, the DTI state that each proposal is considered on its merits, but the criteria used in its evaluation includes:

- (a) Commercial
  - (i) There should be prospects of substantial follow-up orders on normal commercial terms;
  - (ii) There should normally be evidence of foreign competition officially supported by a measure of funds on aid or other unusually generous terms.

(b) Industrial            The importance of the contract in relation to the United Kingdom company, e.g. the effect on production capacity, product development, marketing strategy and employment.

107.        The scheme specifically excludes:

- (a) luxury goods and military equipment;
- (b) business which could reasonably be expected to be won on normal commercial terms.

108.        Paragraphs 105-107 above, together with paragraph 136 of Section 8, summarize the considerations which should apply when exporting companies decide whether or not to put in an application to the DTI. All United Kingdom firms, whether consultants, manufacturers or contractors, wishing to export capital goods or services to a developing country may seek ATP support for their export bids within these criteria.

109.        The exporting company normally establishes contact through the officials dealing with trade to the developing country concerned or through the officials concerned with the industrial sector to which the manufacturing company belongs. In the case of large capital goods projects, the company may deal direct with the Projects and Export Policy Division (PEP). Responsibility for DTI policy and co-ordination concerning ATP proposals rests with part of PEP; all ATP proposals are eventually channelled through that section.

110.        Providing the business meets the criteria laid down by the DTI described earlier and the development criteria, the following proposals can be considered for assistance from the ATP:

- (i) capital projects;
- (ii) sale of capital goods;
- (iii) technical cooperation, e.g. training;



- (iv) consultancies;
- (v) feasibility studies.

Normally, the provision of (iii), (iv) or (v) under the ATP would only arise when included in a substantial capital goods project but there is some flexibility as described under Section 8 - see paragraph 132 and 133, for example.

111. By no means do all applications prove worthwhile on this basis. The requirement to husband scarce resources so that they can make the greatest impact means that many are turned down.

112. It is also the practice of the DFI to sieve the applications against the developmental criteria and also to consider whether the application is likely to command sufficient support in the inter-departmental committee (SCAT). The developmental and other considerations and the composition of SCAT are described in Section 8. Those proposals which seem likely to meet the developmental criteria are sent forward to ODA; they are then considered simultaneously within both the DFI and the ODA.

113. Only about ten per cent of the applications pass the DFI tests and are sent forward for consideration by the committee. This amounts to some 40-50 cases each year. The majority of those eventually result in ATP offers. However, experience shows that only about one third actually result in the award of a contract.

114. Once the application has attracted DFI support, it is passed to SCAT for consideration against developmental and other policy criteria.

SECTION 8

THE ROLE OF THE OVERSEAS DEVELOPMENT ADMINISTRATION

115. The Overseas Development Administration - formerly the Ministry of Overseas Development - is the development aid agency of the United Kingdom Government. It is the source of the aid element of Government finance for mixed credits, called the Aid and Trade Provision. (ECGD does not provide finance when a mixed credits project is approved - that is done by the banks - though it can subsidise interest on the export credits element. Finance would only need to be provided by ECGD if an overseas customer was unable to pay and the guarantee had to be invoked). An annual allocation for the ATP is made from the Aid Programme. A short description of the way the Aid Programme works and how the ATP fits into it follows.

116. There are two sources of finance for the Aid Programme. By far the biggest is the annual allocation made by the Government from its own resources, i.e. taxation, borrowing, etc. The size of the allocation depends on two factors - the Government's view of the amount of money which it believes proper to use for public expenditure and, against the competing claims of other public expenditure programmes, the proportion of public funds it considers appropriate to allocate to the aid programme. The second source of funds derives from the repayment of capital - not interest - from aid loans made in the past to developing countries. The amount involved has been considerably reduced following the decision some years ago to forego payment on most of the outstanding loans to the poorest countries.

117. It may happen that a developing country is unable to service

past aid loans due to an inability to generate sufficient foreign exchange to meet its debt burden. In these circumstances, the recycling process (i.e. the second source of funds for the aid programme) is reduced and the total aid available is less than it would have been until that situation eases through debt re-scheduling.

118. Although Government makes annual allocations for the aid programme, as for other public expenditure programmes, it also operates a rolling 5 year plan for all public expenditure programmes. Based on this 5 year public expenditure plan, ODA draws up more detailed plans for expenditure from the aid programme over a rolling 4 year period - this is known as the aid framework. Within that framework, room has to be found for expenditure on all existing and foreseeable commitments as well as leaving room for new initiatives. Both the annual aid programme and the four year aid framework are drawn up on the basis of estimated expenditure, not commitments. This is important because it achieves greater flexibility. Some virement is possible under the present system.

119. Forecast expenditure for the aid programme/framework is divided in several ways. Firstly, there is a division between expenditure used for multi-lateral and bilateral purposes. In 1980, multi-lateral aid represented 27% of the gross public expenditure on aid; leaving 73% for bilateral aid; by 1983 it had risen to 41% whilst bilateral aid had dropped to 59%. In cash terms, there was a small drop in bilateral aid of £10M between the two years - from £703M to £693M - but this was out of a considerably larger total for aid - £967M in 1980 compared to £1170 in 1983.

120. Within the bilateral aid section, provision is made for financial aid - for example, project and programme aid, debt cancellations, CDC project loans - and technical cooperation - the majority allocated by

country but a sizeable amount provided for the British Council budget, research and development and other centralised expenditure. Separate budgeting provision is made for administration costs.

121. As described earlier, for many years the British Government resisted the temptation to offer mixed credits. But in 1977, it was decided to make arrangements to match offers of mixed credits made by other countries. Accordingly, an allocation of funds within the bilateral aid programme was made for this purpose - the Aid and Trade Provision. This is the source of the "soft" money provided for mixed credits projects by the United Kingdom.

122. In 1980, expenditure on the ATP was £22M out of a total provision for bilateral aid of £703M and a total gross aid programme of £967M. This represented 3.13% of the former and 2.28% of the latter. By 1982, ATP expenditure had reached £63M out of £674M bilateral aid and out of a total gross aid programme of £1,085M. The percentage of the bilateral aid programme spent on the ATP had risen to 9.35% and to 5.81% of the total gross aid programme. These figures suggest a growth trend in the ATP over the last few years but because disbursements from both the ATP, bilateral aid and the total aid programme can fluctuate depending on the identification and processing of suitable projects, the rate of draw-downs and other factors, the amounts and percentages can vary from year to year. This is illustrated very well in the 1983 figures. ATP expenditure was £33M out of £693M in bilateral aid and a total gross aid programme of £1,170M. The ATP had dropped to 4.76% of bilateral aid and 2.82% of total gross aid. Yet there was no change in policy.

123. Applications which are supported and sent forward by the DFI are processed initially in ODA by the Aid Policy Department - a department staffed jointly with the Foreign and Commonwealth Office. If a worthwhile

proposal is received, an allocation would be considered, providing the ODA developmental criteria are met and sufficient funds are available. Occasionally, applications to use the ATP do not follow the usual pattern described in paragraphs 101, 109 and 112 of Section 7 - small technical cooperation proposals, for example - in which case the ODA has to associate the DTI with the proposal as soon as possible.

124. The ATP is usually made available for specific projects although exceptionally a few country lines of credit have been given. The aid element of a financial package is now normally provided in grant form; as explained earlier, the major share of financing is provided by the banks usually under ECGD guarantee. The aid offer is conditional upon a specific contract being placed with a United Kingdom company.

125. Lines of credit are agreements with developing countries which provide a framework for using ATP funds which have been earmarked for a particular country. Projects eligible for consideration for funding under the line of credit are identified usually by a mission, including representatives of ODA, DTI and sometimes ECGD, visiting the country. Although it is agreed that these funds will generally be used in association with guaranteed export credits, the availability of the latter depends on ECGD's normal requirements and procedures set out in Section 6. As such, lines of credit do not guarantee the availability of export credits either generally to that country (e.g. if the country limit is exhausted) or to any specific project.

126. Whilst the procedures for handling mixed credits under ATP lines of credit may be different, the criteria for accepting a particular project remain the same. Finance for exporting capital goods and services would still be based on a mix of commercial loans guaranteed by ECGD and aid. As with all other offers under the ATP, the aid is

conditional upon the placing of a contract with a United Kingdom company.

127. All ATP proposals are referred to the economists for the normal project analysis and cost/benefit examination. The British Embassy or High Commission will normally be consulted. Where there is time and it is appropriate, the proposal is referred out to the relevant ODA Development Division. There are Development Divisions based in the Caribbean, East Africa, Southern Africa, South East Asia and the Pacific.

128. Apart from the economic analysis, the aid administrators are expected to consult the relevant in-house advisers. In the case of industrial projects, these would usually be the engineering advisers and industrial training advisers (the latter based in TETOC); where appropriate, the mining adviser and the management training adviser would be brought in.

129. Policy regarding the use of the ATP is being developed in the light of experience and following the recent new "Guiding Principles for the Use of Aid in association with Export Credit and Other Market Funds" issued by the DAC. These are set out at Appendix A.

130. What the Guiding Principles state is that there should be a minimum amount of aid to be offered - whether for technical cooperation or capital aid - as part of a mixed credits package. This is backed up by the OECD consensus on mixed credits. The Guiding Principles call for a minimum oda content (the grant element) of over 20%. Because the United Kingdom believes that mixed credits should be expensive in concessional aid, it aims for a grant element of over 25%.

131. The calculation of the grant element is very simple at present. In the case of the United Kingdom, it is the percentage of the total United Kingdom supported mixed credits package provided by way of ATP grant. (The grant element in an aid loan may be calculated according to

the recognised formula). OECD have agreed that any subsidies inherent in the consensus rates for export credits (e.g. interest subsidies) will be zero rated, i.e. they will not be counted in assessing the grant element under the Guiding Principles.

132. The Guiding Principles allow an exception. On de minimis grounds, providing technical cooperation is less than 3% or less than \$1M of the contract, whichever is the lower, they will be disregarded by the DAC. Normally, such proposals would provide for 100% of the UK cost of the project or of the technical cooperation component in question of a larger project.

133. The type of proposal which might be considered under these special arrangements would still need to be commercially oriented. It could include small inputs of equipment, training or consultancy services. It may include the provision of UK personnel under technical cooperation. It could cover any or all of these forms of assistance within the financial limits described. Whilst the proposal may not have a link to a specific commercial project, it will have to have specific export opportunities from the UK as its aim.

134. A particularly interesting development is the financing of technical assistance from the ATP as a back-up to projects financed from multi-lateral sources where the contract to supply goods has been awarded under normal tender arrangements to United Kingdom exporting companies. This is particularly appropriate for industrial training.

135. Training packages which exceed the limits given in paragraph 132 are not excluded. They do, however, have to meet the more stringent requirements laid down in the Guiding Principles.

136. Any ATP proposal has to meet the development criteria as follows:

- (a) it has to be regarded as a high priority in the development plans of the developing country concerned;
- (b) it should help to create industry and jobs abroad without producing over-capacity;
- (c) the technology involved should be appropriate to the country concerned;
- (d) it has to be sound in concept; and
- (e) it has to offer good value for money.

The ODA is answerable to Parliament and the Treasury for the proper use of aid funds, including the ATP, so it has to ensure that aid money is used to fulfil the purposes for which the money is provided.

137. Most ATP proposals which are sponsored by DTI are presented to an official inter-departmental committee - the Sub-Committee on Aid and Trade (SCAT) - chaired and serviced by ODA on which the DTI, ECGD, Treasury, Bank of England and the Foreign and Commonwealth Office have representatives. The roles of most of the participants are set out in the report elsewhere. Bank of England interests centre around the general economic effects which any proposal might have on the United Kingdom. The Foreign and Commonwealth Office will be concerned with the political implications, taking into account also the views of the relevant United Kingdom diplomatic missions. If the proposal is found by ODA to meet the developmental criteria and it is supported by SCAT, it then goes to the Minister for Overseas Development or to a senior ODA official for approval, depending upon the size of the project.

138. The exporting company is informed of the decision by the DTI. If the application is successful, the ODA offers the overseas Government through the British High Commission or Embassy, a grant in support of the UK exporting company's bid. If accepted, negotiations between the



United Kingdom exporting company and the overseas buyer proceed. A successful tender by the exporting company requires a contract between it and the overseas client supported by an agreement between the British Government and the overseas Government covering the aid allocation to the mixed credits project. It also requires commercial finance - either suppliers or buyers credit - guaranteed by ECGD as described in Sections 5 and 6.

139. If the British exporting company wins the contract, perhaps after further negotiation between the overseas clients and the most competitive bidders, the commercial contract is drawn up and signed. Parallel with this action, the ODA sends the British High Commission or Embassy a government to government agreement for signature covering the aid element of the project.

140. The Crown Agents are usually given the task of making payments under the aid agreement. These are normally made to the exporting company as the goods and services are supplied or as down payments on the contract.

141. Thereafter the ODA require the exporting company to make periodical - usually quarterly - reports on the progress of the project until it is completed. If it should appear that the project is running into difficulties, then ODA would have to consider with the overseas government what action could be taken to ensure satisfactory completion.

SECTION 9

THE ROLE OF THE TREASURY

142. Treasury involvement in the mixed credits field occurs in several ways.

143. As the Government department responsible for the budget and for the overall allocation and control of public expenditure, the Treasury is the "ministry of finance" in the United Kingdom Government. The allocations made to the various public expenditure programmes are decided, in the first instance, by the Treasury and are subsequently presented to the Cabinet and Parliament for approval or modification.

144. It is the Treasury, therefore, who have a decisive influence on the size of the aid programme, subject to Cabinet and Parliamentary control. They also have a say in deciding the amount within the aid programme which will be allocated to the ATP.

145. Since the United Kingdom Government is the ultimate guarantor of ECGD activities, the Treasury (in conjunction with the DTI) are concerned with the policy of providing export credits guarantees. They are also concerned with the strain on the reserves of ECGD arising from credit defaults because when the reserves are exhausted the Exchequer has to take on the burden of honouring the guarantees.

146. So far as the policy is concerned, the Treasury in conjunction with the DTI have been considering for some time the justification for continuing to provide export credits under the present arrangements. One consideration has been that the interest subsidy largely benefits only one exporting sector of the economy - the capital goods industry. Another preoccupation has been with the future arrangements for providing

export credits guarantees - whether the present ECGD should continue as the vehicle to perform this service or whether an alternative organisation - a public corporation, for example - might appear more suitable.

147. The running down of ECGD reserves has been recorded in the annual reports. Hitherto, the Department has operated on a self-financing basis for export credits guarantees. However, in 1982/83, claims exceeded premiums and interest by £146M; cash balances invested in the Consolidated Fund dropped during the same period by £200.6M from £481.3M to £280.7M. For 1983/84, the incidence of new claims has risen again; they exceeded premiums and interest by £443M. Cash balances have been completely drawn down and the Department has had to borrow some £39M from the Exchequer to meet outstanding claims. This trend is expected to continue for a while yet.

148. Formally, all ECGD operations require the consent of the Treasury, although in practice ECGD have delegated authority to deal with most cases. Specific consent is needed for the occasional case; for example, the Treasury would need to be consulted where a proposal involved new principles or where it is proposed to underwrite large amounts on lengthy repayment terms in a difficult market.

149. The Treasury are also involved in the overall policy to be adopted in the case of mixed credits. They are concerned to see that the use of the ATP maximises the economic benefits to the United Kingdom. A further concern is that they wish to ensure that the scheme does not work to contradict efforts to constrain the international use of mixed credits.

150. In the first regard, the Treasury require that the implied subsidy levels of ATP support (which is different from the OECD grant element) are kept to the minimum compatible with making a realistic bid. Furthermore, to justify the significant subsidy levels involved, the

industrial and commercial arguments have to be strong enough to win their support.

151. In the second regard, as explained earlier, the United Kingdom entered the mixed credits field reluctantly in order to match the offers by other exporting countries of credit on softer terms through the medium of mixed credits. The underlying consideration was to counter, and thereby discourage, the use of mixed credits by other countries.

152. The Treasury also have to take account of wider implications. Some of the "national interest" considerations have been mentioned in paragraphs 102 and 103. Exports are an important part of the United Kingdom economy. Whilst, therefore, they have a strong predilection towards measures which limit the cost to public funds of assisting exports - the financial constraint - the Treasury also have to balance this natural "watchdog" tendency with another "national interest" concern - the need to stimulate exports as part of its efforts to promote economic growth.

153. A further concern is the political perspective overseas. The FCO are the primary source of this pressure. But a number of participants in SCAT also have such considerations in mind - more perhaps for the economic consequences against a particular political backcloth than for any direct political interests.

154. Developmental considerations are the concern of the ODA. Nevertheless, the Treasury are well aware of the Government's aid policy. The Minister for Overseas Development stated recently that it was intended "to help the poorest countries with an eye to effectiveness .... and also with an eye to British political and commercial interests".

SECTION 10

THE ROLE OF THE CROWN AGENTS

155. The Crown Agents are used extensively as agents to pay claims on the aid programme. It is common practice for them to pay United Kingdom exporters for goods and services provided under "pure" aid arrangements. For ATP projects, the arrangements have been extended to cover the payments met from the aid programme. Payments from the commercial loans are a matter for the exporting company, the banks and the ECGD.

PART III

THE CASE STUDIES

SECTION 11

THE SELECTION OF THE CASE STUDIES

156. As explained earlier, mixed credits projects have only been introduced in the United Kingdom since 1977. Of the 60 or so projects completed or in hand since that time, most are concerned with infrastructure of one sort or another. Power and transport projects have frequently been financed in this way. Only a handful of mixed credits projects have so far been concerned directly with industry as such but building up or modernizing the infra-structure does itself provide an essential base for successful industrialization.

157. About a third of the mixed credits projects have been concerned with power. Coal-fired, hydro-electric, gas turbine and even wood-fired power generation have all been financed in this way. Ancillary equipment and power lines have also been provided. Another third of the projects have been concerned with transport - land, water and air. Some have included aircraft or back-up maintenance facilities; others have included both railway and road transport vehicles and equipment. Both sea-going and inland waterway vessels have figured in the projects.

158. Other mixed credits projects have included telecommunications equipment, mining and irrigation as well as the four manufacturing projects. There have also been a small number of studies which were expected to lead to capital goods projects; not all of these projects have materialised.

159. Apart from the type of projects which had been financed from mixed credits, there were other constraints on the choice. It was

desirable to obtain the maximum cooperation from the Government departments, the exporting companies and the banks. Some projects which might otherwise have been selected were therefore ruled out because of reservations expressed by one or other of the parties involved. In practice, this has not proved to be a major handicap although the geographical spread might have been a little more balanced had complete freedom of choice been possible. A few projects were excluded because the inclusion of a formal training element could not have been expected.

SECTION 12

ANALYSIS OF THE CASE STUDIES: FINANCE;  
TRAINING AND INFRA-STRUCTURE

160. Ten case studies involving mixed credits were selected. Four of these case studies concerned manufacturing industry, two the mining industry, two the public transport industry and two power generation industry. Five were projects in Africa, three in Asia, and two in Latin America.

161. Specifically the selected case studies dealt with:

1. complete Steel plate mill
2. rod and wire mill
3. complete jute carpet backing factory
4. rehabilitation and expansion of jute mill
5. mechanization of existing coal mine
6. expansion of open cast phosphate mine
7. supply of bus chassis (bodies to be built locally)
8. supply of bus chassis and knocked-down bus bodies
9. supply of small/medium hydro-electric plants (including identification of suitable sites)
10. supply of steam-powered turbine generators for new power station.

162. The analysis of the ten case studies concentrates on the financial, training and infra-structural contents.

163. Financial details have been collected from more than one source and the figures provided did not always correspond with each other; a choice had to be made in such instances. They are broadly correct but there could be small discrepancies, especially in relation to on-going projects which may also be the subject of more substantial change as they proceed. The terms on which existing finance has been provided are, however, settled.

164. Training and infra-structure are dealt with together later in this Section.

FINANCE

165. So far as finance is concerned, the case studies illustrate a number of points.

166. Firstly, for completed projects the grant element has been calculated on the present basis; for those still continuing the grant elements specified in the aid agreements have been used. On this basis, there are four cases in which the aid agreements have been used. On this basis, there are four cases in which the grant element is less than 25% and they all pre-date the 1983 DAC Guidelines on mixed credits (Appendix A). Some cases are considerably higher than the 25% minimum and one reaches 100% on the technicality that it is a completely separate though related contract.

167. Secondly, one of the case studies includes an aid loan. Present aid policy is to normally offer grants for mixed credits projects.

168. Thirdly, although training in varying degrees figures in all the case studies, aid has been tied to this element of the project in only two of them.



169. Fourthly, the scale of the finance varies considerably between the case studies. This is broadly representative of the mixed credits projects to date as a whole.

170. Fifthly, buyers credits were arranged for seven of the projects and suppliers credits for the remainder. It is not clear what factors were involved in arriving at the decision to use one rather than the other form of export credits. The size of the credits and the type of exports involved may well have played a part.

171. Sixthly, the terms of the export credits loans vary. This reflects various factors such as the amount and toughness of competition being faced, the importance of the project to United Kingdom exports and the interest rates and repayment periods which could be offered under the consensus at the time. In some instances, non-sterling loans were raised for export credits where this facility provided more advantageous terms for the buyer.

172. Lastly, financial arrangements for two of the larger projects included the raising by the banks of ordinary commercial loans to help meet costs which were not covered by the mixed credits.

#### TRAINING AND INFRASTRUCTURE

173. Training figures in all ten of the case studies. Many of the case studies are themselves infra-structure projects related to industrial development - even buses provide transport for industrial workers between homes and work places - as well as providing industrial training opportunities. Some cases fall squarely within the terms of reference with infra-structure as part of the industrial project.

The Steel Projects

174. Both steel projects provide for a sizeable training input. Case No. 1 is still in its early stages and the training programme is still being fleshed out. What is evident is that the exporting company is concentrating on management and supervisory training - apart from a few key operators in the advanced technical processing plant where highly trained personnel are vital - but this is against a background where several steel plants already exist in the country and certain types of steel products are already being produced under Stage I of the development of the new steel complex. The division of the management training and control into four systems ensures that all aspects of the running of the plant are covered. Much of the training is planned to take place abroad, including training at a suitable steel making plant in a developing country. It was the customer who decided the extent of the training to be provided under the contract.

175. Language may be a problem. This will depend in part on the language capabilities of the chosen trainees and those of the instructors who are to work on site. During Stage I of the project, the instructors were given a course in the national language. A similar solution may be adopted again although for those trainees sent abroad, command of the language of the country where they are to be trained will be an important prerequisite if the arrangements are to have the maximum benefit.

176. The circumstances in Case No. 2 contrasts with that described above. The size of the plant is clearly smaller; there is virtually no trained work force to draw on; and the production processes, though modern, are less complex.

Although the reasons for initially limiting the project to rod and wire mill were economic, it does provide a breathing space to build up experience and train a skilled work-force at all levels before moving on to the fully integrated stage.

177. In this case, language was clearly a problem in arranging training. Given the sparsity of relevant skills, the provision of a training team for a lengthy period was an essential requirement. Training for over 10% of the work-force was also provided overseas. Back-up by a team from the exporting company for an eighteen months period following commissioning should help to ensure that teething troubles can be successfully overcome.

178. In both cases buildings and equipment have been provided for training needs. So have infra-structure needs directly associated with the mills. A small amount of housing has been provided in Case No. 2.

179. Another facet of these two cases is that the finance arranged as part of the deal included loan money which was not part of the mixed credits project itself. The use of this money was not, therefore, tied to the purchase of United Kingdom goods and services. It follows that in such circumstances there is greater flexibility available for financing both third country and local costs.

#### The Jute Projects

180. Case No. 3 illustrates a situation where the customer provided the down payment. Detailed training arrangements were settled and written into the contract. This was possible because the operational and maintenance training could be provided by the exporting company at its own jute mill where carpet backing is also produced and sold commercially.

181. Management and supervisors were the key personnel chosen for the overseas training courses. Apart from the small team sent out to

instal the machinery and equipment, the company provided two senior personnel for the two months commissioning period and the first six months of operating the factory. This was against the background that jute milling had been practised for many years in the developing country concerned.

182. Language was not mentioned as a problem. Neither was infrastructure although steel framework for the factory building and ancillary equipment was provided under the mixed credits project.

183. In Case No. 4 there is an interesting example of both the purchase of new capital goods and the rehabilitation of existing machinery. Considerable experience of jute milling already existed in the country and the exporting company, which had supplied some of the original machinery at the mill, had maintained a good relationship with the customer over many years. It had assisted, where possible, with the provision of spares when foreign exchange constraints in the developing country had made purchases difficult.

184. No overseas training was considered necessary because it was simply a case of up-dating the production, operating and maintenance techniques of experienced staff. Language was not mentioned as a problem. Neither was infra-structure.

#### The Mining Projects

185. Training formed an essential prerequisite laid down by the developing country when calling for tenders in Case No. 5. The introduction of mechanised mining underground clearly called for a thorough grounding of the work-force in the new techniques and this was recognised in principle from the outset.

186. However, the original proposals concentrated on the training of new entrants. Discussions between the exporting company, the sub-contracted

mining consultants, the developing country clients and an ODA industrial training adviser resulted in a training package being devised which should provide more effective training for the same cost.

187. An important outcome of these discussions was the concentration of training on the managers/engineers, middle level management and skilled operators. Trainers were also included so that knowledge would not be lost.

188. Language was a problem and provision was made for English language training for the trainees. No infra-structure is being provided under the contract.

189. The arrangements under Case No. 6, which is in its early stages, is unusual in two respects. First the initiative for financing the project under mixed credits came from the ODA. It was complementary to an on-going project for the up-grading of a super-phosphate fertilizer factory which was already being financed under the aid programme. Secondly, the exporting company had been engaged previously as consultants under technical cooperation arrangements. They are now the managers of the mixed credits project in conjunction with the local state owned fertilizer company.

190. Equipment is being supplied by sub-contractors who share the training with the exporting company. Long term training of senior staff and foremen in the United Kingdom is to be organised by the exporting company; short term training will be arranged by the equipment manufacturers, mainly in the United Kingdom. There will be a certain amount of "on the job" training locally and some local personnel are already familiar with drag-line equipment.

191. Language has not been identified as a problem and no provision has been made for language training. The contract includes the provision

of infra-structure directly related to the project but it does not provide for housing or other social amenities.

#### The Bus Projects

192. Cases No. 7 and 8 are both concerned with public transport - the provision of buses to state-owned companies. In Case No. 7, the training element appears to be low although this may be due to the assistance already being given in the running of the company's workshop from another source. Also, it was one of the first of the mixed credits projects.

193. Case No. 8 is much larger. There are four times the number of bus chassis and 50 bus bodies which have to be assembled locally under the supervision of a United Kingdom sub-contractor. There is a definitely identified training package, which forms a separate but related contract, in the mixed credits project. The ten man support team for the project also provides training and there are periodical visits by specialist trainers from the United Kingdom. Apart from this training in workshop maintenance, there is also a request for support in the administrative and management operational fields.

194. Language training has not been provided in either case - it may have been needed in one instance but not in the other. These are both infra-structure projects in their own right.

#### The Power Projects

195. As hydro-electric generation is used in other power stations in the country, the necessity for training under Case No. 9 might have seemed minimal. However, the developing country requested the exporting company to arrange some training for engineers and technicians in the United Kingdom. Plans have yet to be finalised but tentative arrangements are for six such staff to come for 3-6 months. In addition, the exporting

company intend to send some 6 specialists to commission the several rural hydro-electric stations. They, and the local staff trained in the United Kingdom, will train other local staff.

196. Language training has not been provided and, for senior staff at any rate, may not be needed. The project will itself be part of the country's infra-structure and it may help in the development of rural industry.

197. The final project studied in Case No. 10 - a coal fired power station - grew partly as a result of the opening of a new copper-nickel mine and the building of a new town primarily for its work-force. Demand is clearly outstripping supply and the decision to build a new coal-fired power station adjacent to the coal mine and link the two major sources of power by overhead power lines safeguards and encourages industrial development in both the north and the south of the country.

198. This mixed credits project is part of a much larger international financing arrangement which includes some of the development banks and agencies and the Commonwealth Development Corporation. One spin-off is the provision of hotel accommodation which will be used by the contractors but will eventually be available for general use.

199. Although the contract for the mixed credits project provides for training, no details are given. These are still to be discussed with the customer; the present expectation is that such training is likely to be for operators and maintenance staff and to be "on the job". Given the complex financing and equipment supply arrangements, it may be that a separate training contract is envisaged by the state power corporation.

200. Language is not likely to be a problem - except possibly for technical terms at some levels. The project is itself infra-structural and partly orientated to industrial development needs.

PART IV

STRENGTHENING THE MIXED CREDITS SYSTEM

SECTION 13

SOME GENERAL OBSERVATIONS

201. Part IV looks at the way in which the mixed credits system might be improved. Whilst recognising some of the difficulties, suggestions are made which could result in a more effective role for each of the participants identified in Part II (except the Crown Agents).

202. The terms of reference concentrated on industrial training and infra-structure. Although some broader policy considerations are mentioned, the comments in this Part are mainly directed at the support which can be marshalled through mixed credits for these two aspects of industrial development in developing countries.

203. Industrialized countries attach great importance to training, both in the formal educational system and in industry. New technologies call for new training and retraining. It is those developed countries where the organisation of effective training has been given the highest priority that are likely to achieve the greatest success. This conclusion applies no less to developing countries.

204. Arguments are advanced in the remainder of this Part to explain why it is in the interests of each of the participants to support actively the provision of the appropriate industrial training in mixed credits projects. (The same is, of course, true of industrial projects financed by other means). No apology is offered, therefore, for constantly reiterating the importance of industrial training. What the case studies show is that training can be provided if it is requested. Discussions



with the various participants in the United Kingdom suggest that some appreciate more readily than others the advantages of a positive approach. However, there is a greater realisation now than perhaps may have been evident in the early days of mixed credits in the United Kingdom that provision for training is the norm. Failure to provide or under-provide this element could mean that an export order is lost.

205. There are no shortages of examples in the case studies of infra-structure financed from mixed credits. The primary consideration is that the credits are used to purchase United Kingdom capital goods for export, although some services can be provided and, in appropriate cases, a modicum of assistance towards meeting local costs. The main limitation on using this source of finance for building up the infra-structure is that most such projects have a medium to high local content and, as stated earlier, export credits are not available to cover much, if any, of these costs.

SECTION 14

THE DEVELOPING COUNTRIES : SOME CONSIDERATIONS IN  
INDUSTRIALIZATION

206. A vital element in any project is the supply of trained manpower. From the simplest manufacturing to the most technologically advanced projects, the chances of success are heavily dependant on such an input. The reservoir of skilled labour varies between countries as does the history and experience of using mechanical and electrical equipment.

207. In many cases, the skilled personnel will not be available, either because they will already be absorbed into the economy in an important job or because they simply will not exist. Another factor is that trained personnel are attracted to another country where their skills are in demand and the rewards for their labour are much higher. What is required in the first instance, therefore, is advice on the skilled manpower needed for the project - managerial, supervisory, operating and maintenance personnel - together with an assessment of the likelihood of such skills being drawn from the existing manpower pool.

208. Developing countries will vary in the local resources they can command to carry out such an assignment. In some instances, where industrialization has reached an advanced stage, the capability to assess the training needs may already exist. However, where the project involves a new industrial sector or the introduction of new production techniques, even those countries may still require external advice. Where industrialization is at a less advanced stage, the engagement of outside assistance to establish how much and what kind of industrial training is necessary can be vital to the success of a project.

209. Outside expertise to assess the industrial training needs is usually best provided in the first instance from sources independent from a manufacturing company. There are many consultants in the United Kingdom who can provide such advice and there is also the possibility of obtaining help from the international organisations. It is important that the source chosen for the advice can draw on practical rather than simply theoretical experience. Such outside expertise may also be used at a later stage to check that the costs for the training, as well as its scope, is realistic.

210. UNIDO would be well placed to arrange such assistance. Staff members may themselves be able to advise although resources are limited. However, it has contacts with organisations in the United Kingdom on which it could draw to provide such a service to developing countries, if requested.

211. It is for the developing country to decide in the light of this assessment, what training it requires. Once that decision has been taken, the training requirements should be specified in the tender documents. If the developing country Government or organisation responsible for the project states that the award of a contract is conditional on the provision of training up to a certain minimum level, then all exporters will tender on an equal footing. They will not be tempted to reduce the training provision and thereby cut the prices they quote when tendering so as to gain the order. Such an approach is being followed by a number of developing countries.

212. Whether the training should be organised by the exporting company or by independent consultants is probably best decided in accordance with the circumstances of the particular project and the size and type of the identified training need. If the requirements have been

properly assessed before the bids are called for and the tender let, it should not be too difficult, with independent evaluation where necessary, to establish which is the best course to follow.

213. Exporting companies do not themselves always have the right facilities available to carry out the appropriate training. However, they may be able to arrange such training with those who can provide the normal working environment. The aim should be to avoid a situation where a reluctant contractor is pressed into providing training in a piecemeal, unco-ordinated fashion.

214. In looking for a suitable training pattern, developing countries should be considering the following areas:

- (a) Management
- (b) Supervisors
- (c) Foremen
- (d) Operators
- (e) Maintenance Personnel
- (f) Stores Personnel
- (g) Training Personnel
- (h) Selling/marketing the product of the plant

Which of these groups are readily available, which could be trained locally and which should be sent overseas can only be decided in each specific case. In some types of projects, little or no overseas training will be required because the necessary know-how exists locally and can be adapted to handle the new equipment.

215. But there are pitfalls to be avoided here. On the one hand there may be a reluctance to admit that there is a genuine lack of trained and experienced personnel in the country to execute the project successfully. On the other hand, such personnel may exist, but the reluctance is in putting their knowledge and experience to the test preferring instead to rely on outside expertise. The former is likely

to have more harmful results because it could undermine the whole success of the project. The latter is wasteful and will make the project more expensive and possibly uneconomic.

216. The purchase of know-how (including training overseas) should be considered in the same way as the purchase of machinery and equipment. If it is needed for the success of the project, then it should be accepted as a necessary input.

217. There is, of course, a great temptation when costs for the capital goods and other elements in the project escalate to meet these increases by cutting back on the provision of training. Such a course could prove a recipe for disaster. Without trained personnel, a project will be sadly handicapped from the start. Training costs money but it is as important a part of the investment as the machinery or the buildings.

218. Infra-structure for an industrial project may take several forms. There may be a need for transport, power, water, effluent disposal, housing and social amenities.

219. Developing countries ought to consider the requirements for each of these components when considering the project as a whole. They should be identified at an early stage. Pre-feasibility and feasibility studies would take these needs into account providing the terms of reference are drawn up so as to include them.

220. It has to be borne in mind that the infra-structure is heavily dependant on local inputs. This is because constructional projects involve a high labour content and the use of indigenous material to a far greater extent than is likely to be the case with capital goods projects.

221. In the case of road construction, engineering design and supervision may be imported together with a limited amount of heavy

equipment. The base material for the roads, cement, brickwork - even the final surface in some instances - and the bulk of the labour input will be locally provided.

222. Much the same situation would apply for railway development although here the steel rails and any locomotive and carriages or trucks needed for the line may have to be imported. However, many developing countries are able to build carriages and trucks on imported chassis, some can produce steel rail and a few have the capability to manufacture locomotives and other complex railway equipment.

223. Generating stations, water treatment plants, etc. still involve the importation of specialised machinery. The off-shore costs are usually a higher proportion of the project and are thus more suitable for mixed credits finance.

224. Housing and other social needs, which may be as essential an element to the success of an industrial project as the imported machinery and industrial training, do not usually have much off-shore content. For this reason, as explained in paragraphs 91 and 92 of Section 6, they may have little chance of attracting export credits finance or mixed credits to any substantial degree.

225. Nevertheless, the provision of proper housing and amenities can prove essential to industrial projects, particularly where they are to be the focus of new urban and regional growth centres. Much the same can be said of communication links with the rest of the country. Failure to recognise these requirements and to provide acceptable conditions could easily result in an unstable population and a turnover of the workforce which could undermine the objectives of the project. Manpower, especially if trained, will be reluctant to remain for long in a newly developing centre if the basic conditions of family housing, schooling, hospital and

and other social amenities and ready access are not provided with all due speed.

226. This is why it is so desirable to approach the planning of a project with such care and to see that finance will be available for all foreseeable aspects of it. Where the infra-structure need is not suitable for mixed credits or export credits, some other form of finance has to be identified. If local financial resources are not available in sufficient quantity, it may be possible to use aid from various quarters or look to other financial institutions. In some countries where the Commonwealth Development Corporation operates, for example, the organisation has helped to finance low cost housing. It is not the only such institution. Where the country concerned has a sufficiently high credit rating, banks may be in a position to help with raising a general loan to finance such development. These and other alternative sources of finance are discussed in Part V.

227. Mixed credits projects may themselves allow for some contribution to local costs which form a part of the project but this would not normally exceed 15% of the export credits element of the project. The amount available is not likely to cover much of the local cost element in most such projects.

228. In their own interests, developing countries should ensure at the preliminary stage that they have available the local inputs for the project. If the contract has to be delayed once it has been signed, financial penalties are incurred. Two obvious examples are the payment of extra interest on the export credits loans to cover the longer borrowing period and the raising of additional loans because the cost of the goods and services will have risen over the extended supply period.

229. Recurrent costs arise in all projects. For a manufacturing

project, adequate working capital should include provision for the continuance of training for personnel at all levels and spares for the capital goods. Eventually machinery and equipment will need replacement and finance may also be needed for further development. Interest payments and capital repayments will form part of the continuing costs in the early years.

230. For infra-structure projects, much the same range of recurrent costs arise if they provide services, e.g. transport, electricity, water, and sewerage projects. Although the same general principles apply to housing and other social amenities, most of the investment will be in buildings with a longer life span than that of most capital goods. The main difficulty to be faced is how to finance housing and other public utilities for the lower income families without absorbing a disproportionate amount of their resources.



SECTION 15

THE EXPORTING COMPANIES : PROMOTING BUYER SATISFACTION

231. It is obviously in the long term interests of the exporting companies to see that a customer is satisfied with their product. But if a company does not price its product competitively compared to rivals, it may lose the order - unless it can demonstrate that the package offered is better than that of competing companies, even if it is more costly.

232. As stated in the previous Section, training needs should always be assessed by the developing country and where required they ought to be written into the call for tenders. If this is done, rival bidders start off on an equal footing and there is less chance of the training element being sacrificed in order to provide a lower quotation. Where training is not mentioned in the tender invitation, there is merit in discussing this aspect with the customer. It may be decided to award a contract only if suitable training arrangements are outlined in the bid.

233. However, whether the tender documents specify the minimum training required or not, training should not be neglected. The provision of suitable training for local staff should be regarded as of equal importance to the proper manufacture, installation and commissioning of the plant. If any one of these areas is neglected, the efficiency of the project will suffer and the exporting company's product may be given a bad name. Further orders are likely to be placed elsewhere.

234. Conversely, given an effective training package as part of the bid as well as a high standard product, an order may well be secured although the quotation may not be the lowest. There are instances in

the case studies where, in the view of the exporting company, the training offered undoubtedly had a beneficial influence on the award of the contract to them.

235. The range and scale of the training which should be offered will vary from country to country and from project to project. Both the stage of industrial development reached and the complexity of the industrial process involved will have an influence on the training needs. In some instances, the desirable range of training may go beyond that which is directly relevant to the capital goods being exported.

236. Provision of training has always been one of the prime aims of aid programmes for developing countries. Mixed credits projects are, therefore, particularly well suited to provide for training. By including a proper industrial training provision in a mixed credits proposal, exporting companies go some way to establishing a credible development criteria.

237. In deciding what training is necessary, an important consideration at the outset is the language problem. There may be occasions when the training personnel have a sufficient knowledge of the local lingua franca to be able to impart their knowledge successfully. In most cases, however, the medium of instruction will be English and it is vital that the trainees have a good command of it so as to be able to understand what they are being taught. Teaching the English language may therefore be the first stage in the training programme which the exporting company has to organise. The local British Council Representative can advise and may be able to arrange a suitable course on repayment.

238. It often happens that the exporting company itself is not in a position to offer the most appropriate training. The company may decide that this is best arranged by each of the sub-contractors manufacturing

the equipment. Whilst this form of training may be useful for maintenance personnel, operational personnel should be given training and experience in conditions as close as possible to those experienced in normal working conditions. Such experience may only be possible by attachment to a suitable manufacturing firm or organisation or service industry providing the end product or a training organisation which specialises in reproducing the usual working environment. Consultants may be needed for this purpose.

239. Training overseas may involve bringing a number of people to Britain for varying periods. In some of the larger projects, they may range from managers to supervisors; foremen to operating and maintenance personnel. However, where the basic technology is familiar, the training may be confined to a handful of senior staff who can familiarise themselves with the new equipment for 2-3 months and on their return pass on their knowledge to the operating and maintenance personnel.

240. On occasion, the appropriate operational training may not be readily available in Britain. If this situation arises, exporting companies have arranged for trainees to be attached to production units in other developed or developing countries.

241. In larger projects, teams of trainers are sent from the UK to organise local instruction. Local facilities are essential to make the most effective use of the instructors. Exporting companies should explain the requirements to their customers and, as far as possible, ensure that they are met before the team arrives.

242. Many exporting companies will resort to "on the job" training during the constructional and commissioning period. Such instruction may be valuable if the local personnel are already familiar with the basic techniques of operating and maintaining similar equipment. It may be

insufficient where this is not the case. Contractors' personnel are likely to be under great pressure, particularly during the construction period, and the commissioning period does not usually extend beyond two or three months.

243. The organisation and storing of spare parts should not be neglected. Whilst other constraints e.g. foreign exchange, may limit the quantity which can be carried, the importance of replacing broken or worn parts with spares from stock in order to ensure the greatest efficiency in the operation of capital goods should be stressed. Exporting companies can do a great deal to emphasise this point.

244. After-sales contact and service is also an important part of the exporting scene as many companies recognise. Most exporting companies take a continuing interest in the running of the plant they have supplied. They do this for three reasons. Firstly, they expect to receive orders for spares as parts of the plant wear out and need replacing. Secondly, they hope to win replacement orders if the equipment performs well. Thirdly, the goodwill thereby engendered should stand them in good stead when competing for further orders in the developing country concerned.

245. Helping the buyer to identify the inputs for the project at an early stage, including the training requirements, can avoid misunderstandings. The delivery of good quality goods and services on time builds confidence, though slippage is not always within the control of the exporting company. After-sales contact creates good-will which can only be beneficial to both sides of the transaction.

SECTION 16

THE BANKS: ADVISING DEVELOPING COUNTRY CLIENTS

246. Banks may become involved in the provision of export credits in several ways. They may be employed as advisers to the overseas customer and in this role they may be asked to marshal the finance needed for a project. The bank can also identify exporting companies who may be interested in supplying the goods and services and, if requested, they may use that knowledge to put the customer in touch with those companies. These services may not be so widely known as is desirable in developing countries. If these contacts result in an order, the bank concerned is likely to be asked to organise the finance needed to pay for the order.

247. Another route which bank involvement can take is in cases where pre-feasibility and feasibility studies have been undertaken with bank support. If these studies result in a project proposal, the bank concerned may be asked to organise the necessary export credits. It is possible that the bank's contacts with exporting companies may also be used but since consultants are likely to be involved in the initial studies, they may be engaged to deal with that aspect of the project.

248. A common pattern is the situation where the exporting company hears of an invitation to tender for the supply of goods and/or services. In these circumstances, the company approaches the bank to establish, in principle, whether it will provide export credits if the overseas customer decides to award the company the contract.

249. Whichever of the several approaches is used, if the bank expresses its willingness to provide the money, it is then likely to take a part, perhaps the leading part, in negotiations on the terms under

which the finance is provided. Such negotiations would involve the exporting company, the overseas client and the ECGD. It may, on occasion, involve the Treasury. If it is a mixed credits project, contact may be established by the bank with both the DTI and the ODA but usually it is the exporting company which take responsibility for making the running in those quarters.

250. Banks are concerned with the security of their investment and that the interest and repayment terms are likely to be met. In most instances, although they have a broad idea of the goods and services to be provided by the exporting company, their present policy is not to concern themselves with the details of the use to which the export credits are to be put. For example, they do not, as a general rule, consider it is their business to discover whether industrial training is being or should be provided under the project. They generally take the view that the exporting company and the customer should be left to decide between them what should be provided under the contract. There are exceptions to this approach.

251. It may be argued that by thus distancing themselves from the inputs to a project which could spell the difference between success or failure, the banks are not shouldering their responsibility. As they are providing so much of the money, it might seem surprising that they take so little interest in seeing that it is used in a manner which results in an efficient and profitable enterprise.

252. There are at least three reasons given by the banks for their attitude. One is that they believe that the client would regard any comments they make, for example about the need for and the scale of industrial training, as unnecessary interference - even infringement of sovereignty in the case of some countries - in matters which should not

concern the banks. Another is that the banks do not possess the appropriate expertise or have the necessary resources themselves to provide the detailed assessment which would be required to involve themselves in a project in such detail. Lastly, a bank has most, if not all, of its investment secured when export credits are underwritten by ECGD.

253. Despite the arguments advanced in the previous paragraph, there are reasons why such a stance may be counter-productive. It is understandable that a bank may feel inhibited from exercising any judgement on the training requirements for or other inputs into a project where it has been engaged by a client solely to marshal the finance for a guaranteed export credit. Such reticence may be expected by the client and be good for business in the short term.

254. However, taking a longer term view, a bank is unlikely to harm its image with the client if it draws attention in a diplomatic way to the desirability of ensuring adequate provision for training. Where a bank has been engaged to guide and advise the client, the opportunity for tendering such advice is even greater. On the other hand, failure to warn the client about the need for a training provision in the planning stage might, in time, lead to loss of confidence in the bank and possibly loss of custom if the project ultimately proved a failure.

255. This is not to suggest that a bank is itself in a position to give any detailed indication of what is required. Such advice can be obtained by the client elsewhere. The bank's duty would end once it has drawn attention to the strong desirability of obtaining such advice or once it has satisfied itself that such advice has been or is being obtained.

256. Some check on the training provision is already written into the procedures for mixed credits projects - see paragraph 128 of Section 8.

But as aid is the junior partner in the financial package, comments from ODA advisers may have less impact on the details of the proposal than in the case of a project financed purely from aid. The banks, as the major source of finance, do have the opportunity in such projects to influence the content in the long term interests of all concerned.

257. It may be desirable to cultivate closer liaison between the banks and the ODA when a mixed credits proposal is being evaluated. This could result in a similar feed back to the applicant from both sources of finance. If it appeared that an adjustment in the content of a proposal would be beneficial all round and increase the chances of success, the applicant might be persuaded more easily to follow that advice - see paragraphs 297 and 298 of Section 19.

258. What is clear from discussions with a number of banks in London, and is borne out by the evidence in the case studies at Appendix B, is that the banks are willing to consider financing the off-shore costs of industrial training as part of a guaranteed export credits package for a capital goods project. They are also willing to consider financing the off-shore costs of an infra-structure project; the case studies confirm this also. Financing an industrial training project on its own is likely to attract less support because the banks can see no tangible assets. But with the increase in the importance of the service industries in the United Kingdom economy they can be expected to play a greater part in exports. Banks ought, therefore, to review their position to see whether the element of risk is greater for service contracts than for capital goods.

259. One of the usual conditions for offering mixed credits from the United Kingdom for a project is that the export credits have to be guaranteed by ECGD. It follows that, once this condition is fulfilled, the banks would be unlikely to see any difficulty in offering the



necessary commercial finance. ECGD do not normally offer a guarantee for export credits for export services on their own, such as a training package. Banks should consider pressing for the extension of the guarantee to make good this omission.

260. Banks may be able to assist in raising finance to meet part of the local costs arising from a capital goods project in which they are involved in appropriate circumstances e.g. through Euroloans or Eurobonds. The extent to which this is possible will depend very much on the credit rating of the overseas client and the developing country concerned.

261. If a bank is invited to invest in a project on the basis of its viability - that is where the profitability of the project is the justification for the investment - and the investment is therefore speculative and not covered by a guarantee, then the position would be different than in the case of ordinary export credits or mixed credits. Before committing itself to supporting the project, the bank would wish to satisfy itself about all aspects of the proposal including the provision of trained industrial manpower and the necessary supporting infra-structure. It may decide to commission its own independent feasibility study if it was sufficiently impressed as to the likelihood of success by the project presentation of the client.

262. It is in these circumstances where the "vicious circle" referred to in Chapter IV of the Background Paper (Page 91 of ID/WG 381/2) for the First Consultation on the Training of Industrial Manpower may arise. Briefly, the "vicious circle" was described as circumstances in which financiers had turned down a project for lack of trained manpower. Yet they were unwilling to finance steps to make good the deficiency because training was too uncertain an investment to be viable. In orthodox banking

this would be a normal decision taken to safeguard the investments made by the banks' customers.

263. The question of whether to risk capital on training where the investment is not guaranteed will clearly depend on the specific circumstances of the particular project. Thorough research on the viability of the proposal will be a necessary prerequisite, whatever the source of finance, if sound investment decisions are to be made. The ATP may be able to provide finance in such cases.

264. There are other ways in which banks may provide finance for industrial training or infra-structure. These are discussed briefly in paragraphs 326-331 of Section 21.

SECTION 17

THE EXPORT CREDITS GUARANTEE DEPARTMENT : REDUCING CREDIT RISKS

265. A major preoccupation of ECGD - quite rightly so - is to limit the amount of exposure by the Department to the risk of bad debts. This is the defensive approach. It is not an easy judgement to make. What could be looked at more closely are the means already available to reduce the likelihood of defaults arising.

266. It has to be recognised that ECGD is subject to outside economic influences beyond its control - as are the developing countries themselves. Guaranteeing export credits over the medium and long term leaves the Department vulnerable when a debt crisis occurs in a client country. It can and does monitor the debt burden assumed by each state to which it extends guarantees - but this information is largely historical.

267. The Department is not able to predict the trend of interest rates in the international markets over the years. This is one reason why it cannot, with any certainty, forecast the likely financial strength of its country clients which are heavily dependant on external finance. Another factor is the earning capacity of the country; many developing countries are heavily dependant on commodity prices for their income - a figure which is as variable as the interest rates. The future of the world economy is as unpredictable as the weather.

268. One way of reducing the risk would be to guarantee less - particularly to those markets more vulnerable to outside influences. Such a course would seem likely to have long term effects on United Kingdom exports. It could undermine the position of exporting companies in established markets and make them reluctant to venture into new ones.

However, given the existing problems of debt in many developing countries, a more selective approach in the short term seems inevitable.

269. Another approach is to see whether anything further can be done to make the use of export credits contribute more efficiently to the buyer countries' foreign exchange earning and thereby their ability to service the debt. So far as ordinary export credits are concerned, the criteria used by ECGD described in paragraphs 76-78 of Section 6 concentrates on the overall financial position of both country and the borrower. This is alright so far as it goes. The size of the export credits and the number of countries, participants and proposals involved, and the type of expertise which ECGD can bring to bear, make it a difficult problem to overcome save in the broad brush manner mentioned in the previous paragraph. A concerted imaginative international effort by lender countries would be needed for anything different.

270. The mixed credits scene offers greater opportunity for success. Not only is the scale of such credits of manageable proportions nationally but there already exists a mechanism in SCAT (see paragraph 137 of Section 8) for something to be done.

271. Training is now an essential element which should appear in most capital goods projects. As explained in earlier Sections, it does not always figure in the requirements of the buyers. There may be good reasons for this, e.g. trained personnel already exist to use the new equipment or separate training arrangements have been made. The exporting company may take the short term view and regard the sale of the capital goods as a desirable goal in itself even though there is little or no training input. Banks, by and large, do not consider it their responsibility to check on the training requirements or on their fulfilment where guaranteed export credits are concerned.

272. However, without proper training, the viability of the enterprise may be in doubt. It could result in machinery and equipment being damaged, perhaps irreparably, with a further drain on foreign exchange to recommission it. This additional drain could lead to repayment problems.

273. Machinery exported from the United Kingdom may provide an end product which can be exported by the developing country. If the maximum output which can be sold abroad cannot be achieved and maintained, foreign exchange earnings will be reduced. Lack of proper training in all aspects of the enterprise is likely to produce just such a situation. Once again, this could result in difficulties with repayments.

274. Since proper training is so vital an input into successful industrialization, it is regrettable that more encouragement is not given to the export of such a service on its own merits. The ECGD Specific Services Guarantee offers a possibility of some insurance cover but the Department follows normal international trading practice in expecting payment for the majority of service contracts to be made in cash or on very short credit terms, i.e. up to six months. As already explained, exceptions are regularly made for services that are subsumed within a major project substantially of United Kingdom origin which would itself attract credit terms. Such exceptions might even extend occasionally to a separate service contract entered into in conjunction with such a major contract. Also, there are some types of service for which it has become customary to offer credit of between two and five years, depending on the size of the contract. For example, feasibility studies into how a project should be tackled might qualify for such support but not studies to decide whether a project is feasible. It is not therefore customary to extend export credit guarantees for industrial training services alone. Apart from custom, the reasoning appears to rest -as in the case of the banks- on the argument that there is a lack of tangible assets as discussed in paragraph 258 of Section 16.

Without a guarantee, banks are reluctant to provide money for training packages outside of capital goods projects and yet there is a real market for such expertise in the world. Services are, in any case, likely to assume more importance in the export field and policy over providing guarantees should be reviewed- see also paragraphs 318-322 of Section 20.

275. Within the confines of the present policy, industrial training is not excluded from guaranteed export credits providing it is a subordinate part of a capital goods project. However, given the effect that inadequate training -management, operational and maintenance- can have on a project, there are good reasons for ECGD to take a more direct interest in the subject. The arguments may be summarised as follows: by ensuring the provision of adequate industrial training, the likelihood of project success is increased and the credit risks reduced. Moreover, success may attract more export orders for the United Kingdom.

276. For these reasons, ECGD should assure itself that proper account has been taken of training needs before underwriting a mixed credits project. The opportunity to do this arises when the case is considered in the inter-departmental committee on mixed credits - SCAT - described in paragraph 137 of Section 8.

277. Of course, if the economy and the foreign exchange situation in a developing country are strong, the lack of success of a project - whether due to inadequate training or other causes - is unlikely to have a big effect on its ability or willingness to pay because the developing country will not wish to run the risk of jeopardising its credit-worthiness by renegeing on repayment of export credits. The adverse result is more likely to be in reducing the chance of new orders - which is bad both for the exporting company and the United Kingdom. It defeats the aims of ECGD to facilitate exports and is against the "national interest".

SECTION 18

THE DEPARTMENT OF TRADE AND INDUSTRY; STIMULATING EXPORTS

278. The DTI criteria for supporting an ATP application includes enhancing the prospects for further orders. One way in which this aim may be achieved is by recognising the importance of industrial training as an essential adjunct to the proper use of capital goods exports.

279. Even in developed countries, training in new production techniques is usual. In developing countries, many of which have very limited industrial experience on which to draw, there can be few occasions where training on new machinery and equipment is not warranted. At the very least, training in operating and maintenance procedures will be needed.

280. In many cases, this limited provision will fall far short of what is required. Wide ranging training in industrial projects from management to the shop floor, encompassing supervisors, foremen and trainers as well as operators and maintenance personnel, may be as vital to the success of a project as the provision of the capital goods and should be so recognised.

281. A successful project based on United Kingdom machinery and equipment and good training facilities and back-up service will create the right sort of climate for further orders for the supplier. There are instances in the case studies where manufacturing machinery has given long service and good relations have been maintained with the overseas customer leading to proposals for new orders despite lower bids elsewhere.

282. In other instances, securing the orders described in those case studies even under the ATP were dependant on a good training package

being offered to the customer. The training package in one case was, according to the successful company, believed to have played a most important part in winning the substantial contract against strong competition.

283. Not all exporting companies see the requirement for training as a potential selling point. During discussions of an ATP proposal, the DTI could emphasise to the company the important part that training can play in the process of establishing customer satisfaction with the product. Future orders may depend on this service being properly provided.

284. Industrial training proposals for developing countries should, in principle, be supported even though capital goods are not immediately involved. Training in United Kingdom methods on United Kingdom capital goods could well lead to further orders. Use of the ATP TC provision offers another avenue to pursue such opportunities (see paragraphs 132 and 133 of Section 8).

285. Infra-structure projects are often the necessary preliminaries to industrial development projects. Capital goods for the building up of the infra-structure are well recognised already as suitable for ATP projects and this policy is to be welcomed. Training should not, however, be neglected as an integral part of these projects also.



SECTION 19

THE OVERSEAS DEVELOPMENT ADMINISTRATION;  
DEVELOPMENT OBJECTIVES AND MIXED CREDITS

286. It is obvious that the allocation for the ATP reduces the amount available for bilateral aid projects and programmes wholly funded with concessional aid. United Kingdom policy is still to give priority to allocations to the poor countries where they can use British assistance effectively. But many, perhaps most, of the developing countries which have benefited from the ATP are not in this category. It can be claimed that the provision for mixed credits is therefore causing a distortion in one of the principal aims of the British aid programme.

287. The ODA approach to the provision of mixed credits has been coloured by these demands on its limited resources. Measured on the basic needs criteria, mixed credits projects are not always a priority use of aid. The poorest countries are often those least able to satisfy the credit-worthiness test. Moreover, the provision of amenities which are taken for granted in more developed communities - electricity, water, etc. - require local capital which is also likely to be in very short supply. Meeting the recurrent costs causes a problem because the poorer people have insufficient income to pay economic prices for the services provided. Much the same picture emerges with housing.

288. Given that the demands on the limited aid resources are so large and given also the difficulties of identifying projects for poorer countries and communities which can operate on a commercially viable basis, it is understandable that ODA does not wish to encourage further encroachment by the ATP on "pure" aid.

289. Moreover, in view of the caution expressed by some banks over lending for infra-structure purposes whilst the present debt crisis in many developing countries exists (see paragraph 328 of Section 21), the alternative sources of overseas finance for this purpose will be mostly through the IBRD, the regional development banks and the European Development Fund - which rely on support from aid programmes of donors, including the United Kingdom - and through non-ATP bilateral aid. This is likely to create further demands on the aid programme.

290. There are, however, strong arguments for the retention of the ATP and that it should grow proportionately with the Aid Programme. From the United Kingdom's point of view, the provision of mixed credits by other countries creates the pressure for the ATP to continue so that United Kingdom exporters can tender for contracts on competitive terms.

291. Indeed, the ATP is provided for use in developing countries to which the United Kingdom does not normally provide bilateral aid or where the planned allocation is already committed. ATP therefore provides a means by which concessional aid can be offered to developing countries which would not be eligible for such assistance under the normal aid criteria.

292. It has a gearing effect because by using the ATP, it is possible under present criteria to tap some three times as much commercial finance. Without the ATP catalyst, there may not be sufficient finance on offer to support a bid by a United Kingdom firm to enable it to compete for a contract in a developing country.

293. Developing countries which are in an intermediate stage of development, or who would find difficulty in the short term in marshalling sufficient resources because of credit limitations, may be assisted through the ATP. Their claims for full-scale concessional aid may be weak when

compared to the urgent needs of poorer countries; at the same time, they may not yet be in a position to undertake the full burdens of ordinary commercial finance.

294. A further consideration is that many countries which have accepted an offer of a mixed credits package have been able to embark on projects for which they would not have received sufficient United Kingdom aid. This has resulted in orders for United Kingdom companies which may not otherwise have materialised. The increased exports have played a part in strengthening the United Kingdom economy and in providing employment in the manufacturing companies. All for a comparatively small outlay from the aid programme. This seed corn can have a multiplier effect in so many ways in developing countries and in the United Kingdom. It can help to bring forward the day when more resources can be allocated to aid as the United Kingdom's export earnings increase and it can win more support for concessional assistance from the general public through its beneficial effect on employment.

295. Perhaps the main lesson to be learnt is to keep a balance between "pure" aid and the ATP. Given the acute constraints on the former, it seems appropriate to mix some aid with commercial funds in order to speed development in developing countries. An ATP allocation of some 10% of the bilateral aid programme would seem reasonable; in expenditure terms, this figure was nearly reached in 1982.

296. There are other advantages in mixed credits. Since ODA carries out an appraisal of all ATP proposals which reach it, this offers an opportunity to bring some influence to bear on a few of the projects involving commercial finance. ODA is not, after all, simply an aid agency; it does carry out a broader development function. If ATP is treated as a new developmental tool, it can provide positive practical results.

297. For example, purely commercial considerations will tend to dictate that an exporting company provides the minimum training - say a single short-stay team to instruct operators - but developmental considerations require a broader training perspective. The needs may encompass all levels of staff from management to operators and maintenance personnel and certainly ought to include training for the purchaser's own trainers. In this way, the ATP can particularly benefit both parties and purposes.

298. It has to be recognised, however, that the staff resources available to ODA are limited and there is usually pressure in the case of ATP proposals for an early decision. Moreover, as pointed out in paragraph 256 of Section 16, the ODA is the junior financial partner in a mixed credits project and there is, therefore, a limit to what can be done. If banks can be persuaded to support ODA views, e.g. in cultivating a more positive approach to training, this would be helpful. In any event, the ODA does make a positive contribution to the evaluation of a project which it is proposed to finance from the ATP. The drawback to this involvement is that consideration and consultation, particularly with overseas posts and Development Divisions, takes time.

299. There has always been a heavy emphasis in the aid programme on the training of local personnel. It is all the more surprising, therefore, to find that in the case studies there has been a somewhat erratic record in consulting the industrial training advisers. Whilst it is not always possible to obtain such advice at the time it is needed, because of the travelling commitments of these advisers, it would make ODA inputs to ATP projects involving engineering enterprises - from maintenance workshops to steel works - more effective if the occasions when they are by-passed are the exception. This is especially important in view of the emphasis

which should be placed by all concerned with mixed credits projects in the United Kingdom on the need to provide for industrial training on whatever scale seems necessary as part of the export of capital goods.

300. As the ATP can be used to provide a technical cooperation industrial training package where the export potential exists, the fullest use should be made of this provision to respond to genuine needs. The export of United Kingdom services ought not to be disadvantaged, especially where they may be followed by exports of United Kingdom machinery and equipment. If, for example, the "vicious circle" situation described in paragraphs 261-263 of Section 16 arises, the ATP might well be a suitable source of finance for training, providing the proposed project appears sound and the opportunity for eventually selling United Kingdom capital goods seems likely.

301. There is already some evidence of a greater awareness of the part training financed from the ATP can play in advancing industrial development. Some situations may require the export of a self-contained training package if real progress is to be made. The extension of export credits guarantees to such mixed credits projects should be considered - see paragraphs 258 and 259 of Section 16, paragraph 274 of Section 17, paragraph 284 of Section 18 and paragraphs 318-322 of Section 20.

302. Opportunities for providing technical cooperation industrial training from the ATP in conjunction with multi-lateral aid projects where contracts have been awarded to United Kingdom manufacturers have already been seized. This is a welcome development which should be encouraged.

303. Other ways in which the ATP might be used to help with developing countries' industrial development is in the provision of feasibility studies and financial advice in suitable cases. There are some examples

of the provision of feasibility studies under the ATP already, although not particularly oriented to manufacturing. Financial advice would be a new venture. By providing such services where there is a gap in local resources, the ATP could help developing countries avoid some of the pitfalls in the development of industries. Such planning could result in future export opportunities.

304. The ATP has been responsive to applications for assistance towards infra-structure requirements within its policy limitations. In many developing countries, the development of basic services may be an essential prerequisite to industrial projects but, because of the limits on the uses of mixed credits, and the credit-worthiness of the country, "pure aid" may be the only source of finance. Low cost housing is one such example, although in some countries the CDC has been able to provide assistance. Both mixed credits and "pure aid" have a continuing role to play. Training needs within infra-structure projects should be identified and satisfactory provision to meet such a requirement should be made.

SECTION 20

THE TREASURY: A DIFFERENT APPROACH

305. The Treasury have accepted the provision of mixed credits reluctantly. Their concern is that mixed credits will be both "bad aid" (by encouraging capital intensive schemes and diversion of aid to higher income countries) and "bad trade" (by contributing to the difficulty of making sales on commercial terms). This view is also regarded as the Government's policy line.

306. In broad terms the Treasury sympathise with the United States public posture of pressing for a greater proportion of concessional aid in the make-up of mixed credits. Given the financial limitations on all donors' aid programmes, this would mean that there would be less mixed credits in toto on offer. At the same time, they are likely to support any move to place a restriction on the total amount of oda which could be used for mixed credits.

307. If these moves came about, there would certainly be a fall in the mixed credits available from the United Kingdom. This is because the ceiling on mixed credits is set by the amount of concessional aid available for that purpose. The ratio of concessional aid to export credits in most ATP projects is about 1:3. If the US proposal of 50% concessional aid in mixed credits projects is adopted, this would result in a ratio of 1:1 with a considerable drop in the total sum available.

308. Overall, the Treasury position is that they would prefer to see mixed credits phased out altogether. Until that goal is achieved, they would like to see its use limited and, if possible, reduced. However, they recognise that so long as other exporting countries make use of

mixed credits to soften terms for financing exports, then United Kingdom exporting companies will also need to be able to quote such arrangements if they are to be able to bid successfully.

309. It is, of course, understandable that the growth of mixed credits in the United Kingdom ought to be balanced against the need for pure bilateral aid. However, that is somewhat different from trying to reduce or eliminate the ATP or making the use of mixed credits more expensive in concessional aid terms. The developmental grounds for continuing the ATP have already been discussed in paragraphs 290-294 of Section 19 and need not be repeated here.

310. The effect on exports should not be exaggerated. At the same time, since the criteria for a claim on the ATP includes the requirement that it is to match offers of "soft" credit from other exporting countries, the withdrawal of the ATP or even a cut in the amount which can be offered is bound to affect United Kingdom exporters' competitiveness in a number of projects.

311. Perhaps the most telling argument for retaining mixed credits is that it harnesses commercial and public funds together. The financial package is devoted to developmental objectives in developing countries. It results in exports from the United Kingdom and it should enable the exporting company to earn a profit on the contract. At the same time, mixed credits projects aim at providing a viable enterprise or an improved infra-structure in developing countries at less cost than under the ordinary commercial arrangements. Mixed credits relieve the pressure on concessional funds and they provide training opportunities, partially financed at commercial rates. Both the exporting and the importing countries benefit.

312. A major concern of the Treasury is to limit public expenditure.



Under the present Government, the policy is to endeavour to bring public expenditure down and release the country's resources for the private sector of the economy. Because mixed credits provide actual claims (aid and interest support) and a potential claim (export credits guarantees) on public funds, they tend to be seen as being against the Government's objectives. But this is not a very logical approach because the aid for the ATP is not additional, the interest support is governed by the amount of medium term credit which is guaranteed (and the support itself is falling) and the export credits guarantees are not open ended either because there are country limits - see Section 6. It can be argued that mixed credits are supportive of Government interests rather than against them because they provide an opportunity to use public expenditure to help create opportunities for private enterprise - both in terms of investment and exports - which would not otherwise be there.

313. A further consideration is whether, in general, mixed credits are a welcome development for a nation so heavily dependant on trading. The case for the United Kingdom supporting their selective use to secure exports is at least as arguable as that of opposing such a policy. Other countries less dependant on foreign trade for their economic survival may take a different view.

314. However, the pros and cons of using mixed credits can be discussed in much greater depth than is possible in this study. For the present, the ATP exists and the question should be how to make better use of it.

315. As has been stated before, the main purpose of mixed credits is to help the capital goods sector in the United Kingdom to win orders in developing countries in competition with manufacturers from other countries which have also offered soft terms. So long as the present

export credits arrangements operate, the Treasury support the use of the ATP in this way providing the subsidy is not too great - see paragraph 150 of Section 9.

316. Training can be provided either as part of bilateral aid or through the ATP. In the latter case the Treasury consider that it should normally form part of a capital goods project.

317. The Treasury support the view that customers in developing countries must define what they want when calling for tenders. If the demand is for training and other competitors are going to respond, then it accepts that there would be pressure on the United Kingdom to do likewise.

318. This approach is to be welcomed. It ties in with another thought - that as the United Kingdom economy becomes more service oriented, the composition of exports may themselves change in the same direction. At present invisible exports enjoy only limited cover for business on a cash or near cash basis. There is no bank guarantee facility.

319. These limitations could have a restrictive effect on the provision of a United Kingdom consultancy - for example, in the circumstances described in paragraph 208 of Section 14. Once the need has been identified, the training required may have to be spread over a long period.

320. As explained in paragraph 274, normal international trading practice does not favour the provision of export credits guarantees for training, except as an element in a much larger project, and the ECGD Services Policies alone are not an ideal back up for this export service. Bank finance is doubtful in the absence of ECGD supplier or buyer export credits guarantees. Yet United Kingdom capital goods export orders could follow as a result of the training consultancy or package.

321. The Treasury view is that occasionally training might be provided which is directly linked to the export of capital goods. Under the

terms of the ATP, such a proposal would normally have to demonstrate that it is likely to provide an opportunity to export goods in due course. They are less sympathetic to companies simply offering a training package. However, they recognise that where overseas competitors have secured mixed credits terms for such a proposal, the United Kingdom would have to consider a matching offer.

322. Whilst this flexibility is to be welcomed, it does not go far enough. What is needed is a more positive approach to the training services which the United Kingdom can offer to developing countries on quasi-commercial terms through mixed credits. There seems no reason why export credits guarantee facilities should not be extended to cover training consultancies in appropriate circumstances. The risks involved appear no greater than with capital goods and, as stated earlier, capital goods exports may follow. Such assistance should increase the chances of a viable project and thereby lessen the prospects of default on export credits. Because of the limitations described in paragraph 132 of Section 8, the ATP cannot provide technical cooperation training on a large scale without complementary export credits.

323. Another form of advice which should commend itself to the Treasury is the use of the ATP for feasibility studies and financial advice where this could lead to subsequent capital goods orders. Both feasibility studies and the provision of financial advice should improve the prospects for the viability of projects and thereby avoid a fresh drain on developing countries' resources.

324. There is no difficulty in principle over infra-structure projects. The aims which have already been mentioned in describing the use of mixed credits - e.g. that they are to be used to finance exports with no guarantee that any non-United Kingdom costs can be met - are endorsed by the Treasury.

PART V

SOME ALTERNATIVE METHODS OF FINANCE

SECTION 21

COMMERCIAL FINANCE

325. In accordance with the terms of reference, the report has concentrated hitherto on the provision of mixed credits finance for industrial training and industry related infra-structure. This and the following section mentions some of the alternatives.

326. Banks are able to make sovereign loans to developing country governments. Their security lies in the viability of the country itself - both actual and potential - and in the likelihood that the government concerned will not wish to default on commercial loans because of the effect it could have on investors' confidence and, more especially, future access to bank credits and other sources of finance. The international mechanisms - the IMF and the IBRD, for example - help to maintain a stable world monetary situation and assist, in conjunction with the commercial banks and the creditor governments, in regularizing any debt problems.

327. These loans are fungible, i.e. they are not provided for a specific purpose, and could be used to finance recurrent costs as much as capital costs but the lenders would need to be satisfied that the uses would not jeopardise the repayments or interest due on them. They could be used to help finance industrial development generally, including industrial training; infra-structure requirements, including housing; or to assist in other ways which the borrowing government may decide within the purposes for which the loan was raised.

328. The essential requirement for banks is that the borrower is

regarded as credit worthy and therefore in a position to service the loan and eventually to repay it. Such loans can cause problems, sometimes through no fault of the borrower as recent events have shown. Because of current debt problems, banks have become more cautious about making these types of loans because they have not always been used for purposes which have generated cash flow or foreign exchange sufficient to meet the costs of debt servicing.

329. Banks can also be involved in co-financing projects with IBRD and regional development banks. Such projects could be industrial, including industrial training, or for the provision of infra-structure as a necessary preliminary to industrial development.

330. An interesting possibility for a more direct financial stake by banks in industrial development projects in developing countries, is the setting up of a subsidiary with a revolving fund for investment as seed capital. The idea would be that the bank would join with other interested investors, both local and expatriate, to provide the necessary finance to start a new project. Once it became viable, the bank might decide to sell its investment in the enterprise and use the proceeds for fresh investment in new projects.

331. At least one bank is considering such an approach. In the case of an industrial project, industrial training and infra-structure directly related to it would have to be included to the extent necessary. The Commonwealth Development Corporation, which is state owned, has operated a similar arrangement successfully for many years (see paragraph 350 of Section 22). The involvement of a commercial bank in a like venture would be a welcome development.

332. Export credits under ECGD guarantee are described under the sections dealing with Exporting Companies (Section 4), Banks (Section 5)

and ECGD (Section 6). Although they form part of the mixed credits scene in the United Kingdom, they are mostly used in their own right. The amount of ECGD new business with developing countries in 1982 was £6,823M representing 42.9% of the overall total for the year whilst at 31 March 1983 the amount at risk for developing countries was £19,105M representing 60.6%. As the ECGD 1983/84 Trading Results are broken down differently, it is not possible to provide up-dated figures for developing countries. Export credits could be used for industrial training as part of a capital goods project or for the export element of an infra-structure project under similar conditions to those described in the Sections quoted above - but without any ATP element.

333. As described in paragraph 73 of Section 6, bank financing of United Kingdom exports sold on terms of two years or more and insured by ECGD is eligible for the ECGD fixed-rate export finance scheme (except for most sales to the European Community). The cost of this scheme to the Exchequer in 1983/84 was about £320M.

334. As mentioned in paragraph 88 of Section 6 and Appendix D, ECGD may provide cover for a one-off type of consultancy - for example, a consultant who might be employed in connection with a major project. Finance would have to be by way of a cash transection between the buyer and the supplier. ECGD would simply cover the supplier against 90% of any loss of the sum guaranteed over a whole range of circumstances. The benefit to the developing country might be that the payments to the consultant could be spread over the period of the work rather than being met at the beginning.

335. Investment can also be generated through the activities of companies. Existing or new enterprises in developing countries may themselves generate or raise new capital for industrial development in

developing countries. The form such capital may take, e.g. share issues, bank loans, or reinvesting profits, will vary according to circumstances. Finance from all these sources could contribute to the industrial training requirements and industry related infra-structural needs. ECGD operate an overseas investment insurance scheme for new investments. Agreements covering a wide range of industries and services in 40 (mostly developing) countries are currently in operation.

SECTION 22

GOVERNMENT FINANCE

336. The principal source of United Kingdom Government finance for development in developing countries is the aid programme handled by ODA. This has been described broadly in Section 8. But some multilateral aid is administered by, and carried on the votes of, other Government departments.

337. In 1983, project aid included £14.8M for mining; £19.8M for manufacturing, including agricultural processing and fertilizer production; £111.9M for energy; £202M for construction; £7.2M for environmental amenities; and £42M for transport and communications. Contributions to multilateral agencies from gross public expenditure on overseas aid in 1983 totalled £477M, including drawings by the European Community for the European Development Fund and other Community agencies, the World Bank Group and the Regional Development Banks and contributions to UN organisations. Industrial and infra-structural projects were, of course, financed also from multilateral sources.

338. Training has for long formed an important sector of activity financed from the bilateral aid. At the end of 1983, there were 5,336 overseas students and trainees in the United Kingdom financed from the aid programme. During the whole of 1983, out of a total of 5,545 man years of training, students and trainees spent 172 man years in manufacturing; 118 man years in mining, 67 man years in energy, 231 man years in construction, 265 man years in transport and communications, 88 man years on environmental amenities (water supply, sanitation, urban and industrial development) and 476 man years in general engineering.



Whilst the statistics do not specifically identify all industrial training, it is evident that many of these students and trainees were destined to return to industry or infra-structure posts. Some trainees in other sectors, e.g. trade, financial services, natural sciences, not included in these figures may also be engaged in industry and infra-structure on their return.

339. United Kingdom personnel who work in developing countries and who are paid or partly paid from the aid programme always have a remit to help train local personnel. At the end of December 1983, the total number of such personnel overseas was 3,558, of which 738 were wholly financed, 1,779 partly financed and 1,041 were volunteers supported from the aid programme. During the year 1983, the man years spent in each economic sector related to industrialization were: Mining - 44; Manufacturing - 44; Energy - 30; Construction - 182; Environmental Amenities - 117; and Transport and Communications - 195.

340. Out of the total of 1630 man years spent on education in developing countries by United Kingdom personnel during the same period, 402 were spent on technical and vocational education. The total includes university education but the statistics do not provide a breakdown so it is not possible to state how many lecturers were engaged on industry related subjects, e.g. engineering.

341. ODA issued 161 new contracts for consultancies financed from the aid programme in 1983. Among the most significant mounted during the year were major power/management teams, road and railway consultancies and an irrigation development consultancy as well as a very sizeable on-going consultancy contract concerned with waste water. The range of consultancy work under technical assistance includes training and infra-structure as well as pre-feasibility and feasibility studies.

342. It is, of course, a matter for the overseas government to make their priorities for manpower and training known to the United Kingdom Government. As part of this process, the ODA carry out periodic manpower and training reviews in conjunction with overseas governments to decide how the needs for overseas personnel and for student and trainee places can best be met from the technical cooperation resources available. It is open to overseas governments to place industrial training as a high priority.

343. Infra-structure has always played a big part in the aid programme. In 1983, ODA was funding projects to assist railways in several countries with both financial aid and technical cooperation. Other transport assistance included road construction and there were power projects in some ten countries. There was at least one low cost housing scheme supported by financial aid. Water and sewerage projects were also being provided or planned. All these projects increase the foundations on which to build industrial development. Some mining and industrial projects were being assisted and a number of countries received programme aid which eased balance of payments difficulties, including the purchase of spare parts.

344. There are a number of organisations which are related to the developmental efforts of ODA and which play a part in the advancement of industrial development in developing countries. Some are mentioned briefly below.

345. The British Council, which was established in 1934 to promote, inter alia, a wider knowledge of Britain and the English language abroad, is financed jointly by the FCO and ODA. In developing countries the Council is particularly concerned, in cooperation with ODA, with the administration of educational aid and in the United Kingdom it manages,

on behalf of ODA, the training programmes discussed in paragraph 338 above. The role it plays in English language training has already been mentioned. TETOC is now within the Council's orbit; technical education, management and industrial training advice emanates from that quarter for ODA and, when sought, to developing countries and international organisations.

346. The British Volunteer Programme receives ninety per cent of its income from the aid programme. In 1983, 220 volunteers worked in the industrial, infra-structure or technical education fields.

347. At the other end of the age range, British Executive Service Overseas received eighty-one per cent of its income from the ODA and the remainder in private donations from British industry. It recruits usually retired experienced executives for short visits - normally three to four months - to advise governments and businesses in developing countries. In 1983, 127 executives went to some 36 different countries.

348. One other source of financial assistance should be specifically mentioned. This is the Commonwealth Development Corporation which is a state owned corporation set up some 36 years ago. It promotes economic development by investing in productive public or private sector projects in developing countries. Projects must be financially viable but the Corporation aims to maximise developmental value rather than profits. It invests both through equity holdings and loans (not grants), usually in association with publicly owned and/or private companies.

349. Despite its title, CDC operates not only in those Commonwealth countries which have achieved independence since 1948, (and in the remaining United Kingdom dependencies) but it is also able to operate in any other developing country with Ministerial approval. By the end of 1983 authority to operate in some fifteen non-Commonwealth countries had been given.

350. The Corporation finances itself in two ways. It can borrow up to £750M, £700M of which can be advanced from United Kingdom Exchequer funds including some loans from the aid programme at concessional rates of interest. Repayments of capital and interest payments on these loans are financed from the Corporation's income derived from dividends, interest and repayments from previous investments. Once a company in which CDC has equity holdings has been successfully established, the Corporation often encourages other participants - frequently local Government organisations - to buy it out, although it may continue to provide financial support through loans. The money from such buy-outs, together with the balance of the income after the Exchequer loans have been serviced, is then recycled for use in new investments.

351. However, the CDC is not simply concerned with financial investment in developing countries. As the Chairman stated in the 1983 Report:

"CDC is not just a lending or investing institution. In many cases we add the vital ingredient of management to try to ensure that the projects in which we and our host countries invest are soundly based and a continuing asset for the country concerned. When we have succeeded in training local management to the standard required, we recycle our executives, like our money, to the next challenge.

One of the most encouraging features of my travels in 1983 was to detect a growing awareness of the need for this dual role, money and management, by governments in developing countries."

352. At the end of 1983, the Corporation had £506.5M invested and undisbursed commitments of £269.3M making a total commitment of £775.8M. Of this total, £254.9M was committed to basic development - power, water,

housing finance and transport; £116M to industry and commerce - development companies, industry and hotels; and £404.9M to primary production and processing - renewable natural resources and minerals.

353. One of many examples will show what can be achieved through assistance from this remarkable organisation. About 20 years ago, at the request of a developing country government, the aid programme financed a project for the construction of an industrial estate on the outskirts of an urban centre. A United Kingdom textile company went into partnership with the government development corporation (also in receipt of financial assistance from the aid programme at the time) and the CDC. Personnel were trained by the company and it prospered. The Corporation sold its equity locally once the textile company was firmly established but continues to provide financial support through loans to the company.

354. CDC helped finance the infra-structure which, inter alia, serves the estate. It has provided several loans to the local state-owned water board, the state-owned electricity supply commission (which also tapped Barclays Bank International and Standard Chartered Bank among others) and the state-owned housing corporation. The aid programme has also provided assistance to these three infra-structure areas.

355. The local textile company have invested in a new company to make sacks, with the CDC providing some loan capital, now converted to equity, and a third partner - a local development bank in which the Corporation also have shares. This is a good example of how to use the system to achieve industrial development, industrial training and the provision of infra-structure.

PART VI

CONCLUSIONS AND RECOMMENDATIONS

SECTION 23

CONCLUSIONS ON THE TERMS OF REFERENCE

356. The terms of reference called for an assessment of the use of mixed credits in the United Kingdom particularly for industrial training and infra-structure.

357. Firstly, to what extent can mixed credits be used to finance the training component of an industrial project? Discussions with the banks and the Government departments concerned reflected in the earlier sections of the report lead to the conclusion that the policy of both the financial institutions and Government departments allows for the financing of training in a mixed credits industrial project. The normal conditions are that the training is part of a capital goods project and that the training element is not a substantial part of the contract. Within those limitations, an effective training package can be assembled, particularly if the project overall is a large one. Training can take place in the United Kingdom and locally. If the ECGD guarantee allows non-United Kingdom costs, there could be room for third country training, if required. Several of the case studies show that the policy is carried out in practice.

358. What is less likely to attract support in a mixed credits context is the financing of a straightforward training consultancy unrelated to a capital goods project. This is because the present climate in banking and ECGD/Treasury circles appear not to be sympathetic to providing guaranteed export credits for the export of a service on its

own. They prefer to see cash sales. However, if it could be shown that such a consultancy might lead to a capital goods export from the United Kingdom and providing the cost could be kept below the limits set by the DAC for technical cooperation on its own (see paragraph 132 of Section 8 and Appendix A), it is possible that it might qualify for assistance from the ATP TC.

359. Secondly, the terms of reference asked for an assessment of the use of mixed credits to finance investment in infra-structure directly related to an industrial project. The answer here is less clear-cut. Mixed credits, like export credits, are concerned with helping export sales. Therefore they are unlikely to be able to finance all aspects of an industrial project since such a project will contain local inputs which mixed credits are not primarily intended to fund. Up to 15% of non-United Kingdom inputs may be allowed to be financed from export credits under ECGD guarantee arrangements - the exact amount, if any, agreed within that limit would be negotiated in each case.

360. On the other hand, infra-structure inputs which are manufactured in the United Kingdom for export to an industrial project can be counted as part of the export content. Generators, pumping equipment, etc., which might be needed within the battery limits, even window frames and other items for the factory buildings or housing, could all qualify providing they were made in the United Kingdom. These exports, together with up to 15% for local and other non-United Kingdom costs if such a provision is negotiated, could go some way to meeting the expenses for ancillary items over and above the manufacturing machinery and equipment. In some cases, banks have been able to raise finance outside of the mixed credits provision to help meet local costs.

361. The case studies do provide examples of mixed credits projects -

particularly the two steel works and the super-phosphates mine - where some infra-structure costs have been met. There are several instances of mixed credits projects themselves being entirely devoted to infra-structure. So the short answer to this question is that export goods (and consultancy work related to those goods) for infra-structure can be met from mixed credits and possibly some local costs.

362. The extent to which industrial training is an investment in social infra-structure and is therefore eligible for financing on softer terms can be answered by pointing to the use of mixed credits for this purpose. But it must not be forgotten that the purpose of mixed credits is to support exports. They can be used to finance industrial training as part of a capital goods project. The ATP may also be used, within the limitation imposed by the DAC for technical cooperation, for industrial training outside of a capital goods project providing the consultancy could lead to fresh exports. It is a moot point whether these circumstances are likely to arise in practice.

363. From a developmental point of view, the ODA would consider training as an investment in social infra-structure, in much the same way as they would if ordinary bilateral technical cooperation was used to finance industrial training. However, the ATP has been established for export oriented purposes, not social development. The case studies show that industrial training was and is financed from mixed credits, usually as part of a capital goods project. There is, however, one case study where the ATP has fully financed the training element only of the project and another where it has fully financed a separate contract for training as well as contributing to the cost of the related capital goods contract.

364. As required by the terms of reference, banks, ECGD, the ODA and



export companies were asked for their viewpoints on the most suitable forms of financing for investment in industrial training and infrastructure.

365. Banks were unanimous in being prepared to accept industrial training as part of a capital goods project if guaranteed by ECGD providing the country limits were not exceeded and other borrowing conditions were satisfied. They were therefore content with a mixed credits project of this nature. Use of a sovereign loan to finance industrial training was also acceptable providing the purposes for which it was raised did not preclude such investment. Many were extremely coy about financing a training project on its own; no doubt they were aware of ECGD limitations.

366. The ECGD were prepared to guarantee a capital goods project with an element of industrial training providing the latter was not a substantial portion and the general conditions for extending a guarantee were met. For training packages alone, they could consider offering a Comprehensive or Specific Services Guarantee but were unlikely to offer to guarantee export credits.

367. Apart from ODA's general reservations about the provision of mixed credits, they are content with the use of the ATP for industrial training, providing their developmental criteria are met. DTI would require the establishment of an export opportunities case first - as would the rest of SCAT.

368. If the export contract requires the provision of training, export companies are mainly concerned to see that finance is available for this purpose without being so interested in its source. Most companies do not have a preferred source but a few have expressed the view that they would prefer the training to be financed from aid.

369. Turning now to infra-structure, banks are not averse to financing the export elements in these projects under ECGD guarantee. Where infra-structure requirements are an ancillary part of a capital goods project, the export element could form part of the normal financial arrangements. Up to 15% of the project may be allowed towards local costs and other non-United Kingdom costs -- local costs are usually a large proportion of the expenditure on all infra-structure projects -- whilst still retaining ECGD cover. In some instances, banks can assist in the raising of loans, not guaranteed by ECGD, to help meet local expenditure on projects. This could be helpful for expenditure on infra-structure. There are several examples in the case studies where some infra-structure costs of a project have been met from mixed credits.

370. ECGD have no difficulty in principle with infra-structure projects, though they can only underwrite the cost of the exports involved and up to 15% of non-United Kingdom costs in appropriate cases.

371. The ODA view regarding mixed credits has been expressed earlier. They see no difficulty in financing infra-structure projects from the ATP providing their developmental criteria are met. The DTI will wish to see their export objectives satisfied. The case studies confirm that, in principle, these requirements can be met.

372. Export companies have expressed no views about the source of finance for the provision of infra-structure.

SECTION 24

RECOMMENDATIONS

373. It is clear from the conclusions that although there are limitations on the financing of industrial training and infra-structure, much has been and can be achieved under the existing arrangements. The main requirement is to provide United Kingdom exports of capital goods, or - in the case of a training consultancy - the likelihood of such exports arising from the results of the consultancy.

374. Changes will follow if the approach is right. One most important requirement is that when organisations in developing countries call for tenders for capital goods projects, they should stipulate what training they expect to see included in the bids. Here is an area in which UNIDO would be well placed to help. In many instances the developing country government or organisation will have little local expertise on which to draw as to what training to specify in the call for tenders. They will be in need of independent advice which UNIDO should be able to provide either itself or through its contacts.

375. Having made the decision to include training in their tender calls, the developing country government or organization should resist any temptation to reduce the training provision if other costs escalate. Providing the requirements are not so unrealistic as to reduce the chances of competitive bidding, all tenders would start on an equal footing in respect of the minimum training needs specified.

376. Many exporting companies recognise the importance now attached to training when responding to tender calls. Those which do not would be induced to do so by the action described above.

377. Financiers, credit agencies, aid agencies and Government departments concerned with exports should all play a part in encouraging proper training arrangements. The arguments are set out in detail under the various sections. They may be summarised as a combination of self and philanthropic interests. Borrowers (developing countries) need to produce efficiently in order to make profits to service their loans. Proper training can contribute to this goal; lack of such training can contribute to their indebtedness.

378. Where infra-structure is lacking and must be provided as one of the inputs into an industrial project, the same basic arguments apply. Social infra-structure, including housing, because of its high local content, cannot be easily financed through export or mixed credits, and each case has to be considered on its merits. Other means of finance may be more appropriate in these cases. Some alternatives have been mentioned already.

379. The message is clear - use the existing system to the best advantage. Much can be done within it and improvements can be brought about by applying the right pressures.

380. For ease of reference, a brief summary of the main points made concerning each of the participants in the mixed credits system is set out below with a cross reference to the relevant paragraphs in the report.

#### Developing Countries

381. Developing countries should consider the following points:
- (a) credit-worthiness in ECGD terms has to be maintained in order to qualify for mixed credits (paragraphs 35-36);
  - (b) the project must qualify as a high priority in the country's economic development to attract ODA support (paragraph 37);

- (c) the need for trained manpower must be identified at the outset (paragraphs 206-208);
- (d) outside assistance to assess training needs may be needed, a task in which UNIDO could assist (paragraphs 209-210);
- (e) the invitation to tender should specify broadly what training the tenderer is expected to provide (paragraph 211);
- (f) consideration should be given to the best method of organising the training required (paragraphs 212-215);
- (g) training is as important as the capital goods and should not be stinted (paragraphs 216-217);
- (h) infra-structural requirements should not be neglected (paragraphs 218-225);
- (i) local resources needed should be identified and provided at the outset, including finance, or costs could escalate (paragraphs 226-228);
- (j) provision has to be made to meet recurrent costs (paragraphs 229-230).

Exporting Companies

382. Points for the exporting companies to bear in mind are:
- (a) quality can outweigh costs if the customer is satisfied (paragraph 231);
  - (b) by stating a requirement for training in the tender the customer puts all bidders on an equal footing (paragraph 232);
  - (c) properly trained personnel to operate the capital goods are as essential as the goods themselves (paragraph 233);
  - (d) an effective training package can be a good selling point (paragraph 234);
  - (e) training can establish a developmental criteria in mixed credits proposals (paragraph 236);

- (f) language training may be important (paragraph 237);
- (g) training arrangements should include provision for working under normal operating conditions (paragraph 238);
- (h) training of senior staff should not be neglected (paragraph 239);
- (i) some training may be best done in another developed or developing country (paragraph 240);
- (j) where local instruction is appropriate, exporting companies should explain their requirements to the customer (paragraph 241);
- (k) "on the job" training is not always sufficient (paragraph 242);
- (l) the importance of adequate spare parts should be stressed (paragraph 243);
- (m) after sales contact and service should not be neglected (paragraph 244).

Banks

383. Points for the banks to bear in mind are:
- (a) more might be done to publicise the services they can offer to customers in developing countries (paragraph 246);
  - (b) financing feasibility studies may lead to attractive investment opportunities (paragraph 247);
  - (c) banks should strongly advise customers in developing countries to make provision for training when discussing finance for mixed credits (paragraphs 250-255);
  - (d) closer liaison with ODA on mixed credits projects would be beneficial (paragraphs 256-257);

- (e) export of services, e.g. training packages, may assume greater importance than hitherto. An adjustment in credit policy should be considered (paragraph 258);
- (f) ECGD should be urged to extend export credits guarantees to services more readily (paragraph 259);
- (g) ways of meeting local costs should not be neglected (paragraph 260);
- (h) the ATP may be able to help where project investment financed by banks is being considered (paragraphs 261-263).

ECGD

384. Points for ECGD to consider are:

- (a) ways of minimising the risk of defaults on mixed credits should be examined (paragraphs 269-270);
- (b) training is now an essential element in most capital goods projects. Without it damage could be caused to machinery and the viability of the project could be in doubt. (paragraphs 271-272);
- (c) furthermore, inadequate training could lead to lower outputs and a loss of foreign exchange earnings (paragraph 273);
- (d) consideration should be given to guaranteeing export credits finance for export services not linked to capital goods projects, such as training packages (paragraph 274);
- (e) mixed credits provide an ideal vehicle to insist on proper training provision and thereby reduce the risks (paragraphs 275-276);
- (f) an unsuccessful project is unlikely to attract new export orders (paragraph 277).

DTI

385. Points for DTI to consider are:

- (a) industrial training can enhance the prospects for further export orders (paragraph 278);
- (b) there will be few occasions when training is not necessary. In some cases, project success requires a wide ranging provision (paragraphs 279-280);
- (c) a good training package with appropriate back-up facilities can win an order against strong competition (paragraphs 281-282);
- (d) since not all exporting companies recognise the importance of training, it should be emphasised to them when ATP proposals are discussed (paragraph 283);
- (e) allocations from the ATP for training should be supported outside of capital goods projects where export opportunities are likely to eventuate (paragraph 284);
- (f) training within infra-structure projects should not be neglected (paragraph 285).

ODA

386. ODA should consider the following points:

- (a) the ATP should continue to grow proportionately so that United Kingdom exporting companies are competitive in mixed credits tendering (paragraph 290);
- (b) it enables concessional aid to be offered to some developing countries which would not otherwise receive it (paragraph 291);
- (c) it has a gearing effect on development by using aid to tap commercial finance (paragraph 292);



- (d) developing countries at an intermediate stage of development or with credit limitations at present can benefit from mixed credits (paragraph 293);
- (e) projects can be undertaken for which insufficient concessional aid would be available with beneficial results to all participants (paragraph 294);
- (f) a balance between "pure aid" and the ATP should be maintained. The aim should be to allocate about 10% of the bilateral aid programme to the ATP (paragraph 295);
- (g) the ATP offers an opportunity to improve the developmental impact of some commercial finance used in developing countries, especially in the training field (paragraphs 296-297);
- (h) banks and ODA can have more beneficial influence on mixed credits projects through closer liaison (paragraph 298);
- (i) the industrial training advisers should, if possible, be consulted about all ATP projects involving engineering enterprises (paragraph 299);
- (j) ATP TC should be used to finance training consultancies where potential export opportunities exist (paragraph 300);
- (k) changes in policy to allow export credits guarantees to be provided as part of mixed credits for self-contained training packages should be considered (paragraph 301);
- (l) industrial training provided from the ATP as a complement to United Kingdom exports financed from multilateral sources should be encouraged (paragraph 302);
- (m) ATP TC could also assist industrial development in developing countries by funding feasibility studies and financial advice (paragraph 303);

- (n) both "pure aid" and mixed credits have assisted with infrastructure and have a continuing role to play. In some instances, the CDC may also help. Training needs should not be overlooked (paragraph 304).

Treasury

337. Points for the Treasury to consider are:

- (a) mixed credits harness commercial and public funds together to support both United Kingdom exports and developmental objectives in developing countries (paragraph 311);
- (b) they support Government interests (paragraph 312);
- (c) as a trading nation, there is some merit in retaining mixed credits (paragraph 313);
- (d) export of services may assume greater importance as the United Kingdom economy becomes more service oriented (paragraph 318);
- (e) training and other consultancies do not normally attract guaranteed export credits (paragraph 320);
- (f) training and other consultancies may lead to capital goods orders but the limitations on the use of export credits guarantees for these export services could lose export opportunities (paragraph 322);
- (g) the ATP should be made available to finance feasibility studies and financial advice to developing countries to improve the viability of projects (paragraph 323).

APPENDIX A.

DAC GUIDING PRINCIPLES FOR THE USE OF AID  
IN ASSOCIATION WITH EXPORT CREDITS  
AND OTHER MARKET FUNDS

I. Preamble

1. Recognizing the need to avoid the risk of distortion of trade and aid, DAC Members undertake to ensure that associated financing will promote priority developmental objectives and is consistent with fair trade competition and to this end adopt the guiding principles set out below. They confirm that associated financing transactions should be subject to the greatest possible transparency. Members take note of the progress made in the Arrangement on Guidelines for Officially-Supported Export Credits towards greater discipline in this area.

II. Definition of Associated Financing

2. Associated financing transactions with developing countries associate in law or in fact two or more of the followings:

(i) Official Development Assistance 1/2/

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1/ Official Development Assistance (oda) is defined as those resources to developing countries (and multilateral institutions) provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

(a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and

(b) it is concessional in character and contains a grant element of at least 25 per cent.

To calculate the grant element of an oda transaction, a 10 per cent discount rate is used.

2/ Associated financing transactions whose oda component consists solely of technical co-operation are exempted from the application of Section III of the Guiding Principles, provided that the technical co-operation component remains below 3 per cent of the total value of the associated financing transaction or below \$1 million, whatever is lower.

- (ii) Other official flows, except official export credits covered in (iii), with a grant element of at least 20 per cent.
- (iii) Officially-supported export credits, or other official flows with a grant element of up to 20 per cent, or other funds at or near market terms.

3. These transactions may take various forms - such as "mixed credits", "mixed financing", "joint financing", "parallel financing" or single integrated transactions. Their main characteristic is that the concessional component is linked in law or in fact to the non-concessional component and that either the non-concessional or the concessional component or the whole financing package is effectively tied to procurement in the donor country 1/.

### III. Guiding Principles

4. With regard to associated financing transactions containing any element of oda, Members undertake to:

- (a) confine associated financing to priority projects and programmes which are carefully appraised against the developmental standards and criteria applicable to official development assistance programmes and which form part of the recipient country's development programme;
- (b) refrain from providing associated financing with a combined grant element of below 20 per cent 2/;
- (c) in conformity with the DAC Recommendation on Terms and Conditions of Aid, which stipulates that Members should relate the terms of aid on a case-by-case basis to the

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1/ In determining association or linkage "in fact", referred to in paragraphs 2 and 3, due consideration should be given to such factors as: (i) the existence of informal understandings between the recipient and the donor authority; (ii) the intention by the donor through the use of oda to facilitate the acceptability of a financing package; (iii) the effective tying of the whole financing package to procurement in the donor country; (iv) the tying status of oda and the modality of tender and/or of the contract of each financing transaction.

2/ For purposes of calculating the grant element, Members will only include officially-supported export credits and the funds referred to in (i) and (ii) of paragraph 2. The grant element of officially-supported export credits is considered to be zero for this purpose.

- circumstances of each developing country or group of countries, tailor the terms of associated financing to the economic situation, stage of development and debt servicing capacity of the recipient country;
- (d) in line with this general principle, to the extent associated financing is provided to least-developed countries, ensure that the transaction takes place on favourable terms through an appropriately high oda component; strictly restrain the use of Official Development Assistance for associated financing in the case of stronger developing countries, in particular newly-industrialising countries and structural balance of payments surplus countries, both as a proportion of the total official development assistance programme and, subject to provision 4 (b), for individual associated financing transactions;
  - (e) assist developing countries to receive a fair value for the price paid and, in particular in case of large projects, use associated financing as far as possible on the basis of international competitive bidding 1/;
  - (f) establish a contact point in their administrations to respond to questions by other Members on aid offers for particular projects.

IV. Review and Appraisal

5. Members agree to review one year after the adoption of the Guiding Principles and thereafter periodically, through the Working Party on Financial Aspects of Development Assistance, their policies and practices concerning associated financing against the guiding principles set out above. The reporting requirements and definitions of the Creditor Reporting System will be adapted to meet the need for statistical information. Members will provide information on policies and procedures as required

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1/ The exchange of information arrangements available under the Trade Committee's Group on Export Credits and Credit Guarantees and under the Arrangement on Guidelines for Officially Supported Export Credits provide the possibility of consultations among Members on credit terms for export transactions and of establishing common lines on terms to be offered. In cases where large projects are subject to international tender, Members could under these arrangements seek agreement on appropriate terms. In the course of the Review and Appraisal of the Guiding Principles, provided for in Section IV below, Members will examine the use of these arrangements for such consultations and make recommendations as necessary for improvements to this end.

for the review and will inform the DAC of any significant new policies adopted in this area. The Guiding Principles themselves, including the definition of associated financing, will be the subject of review in the light of experience. The need for and possibility of improved reporting and consultation procedures will also be further considered in the review process.

V. Co-operation with the Group on Export Credits  
and Credit Guarantees of the Trade Committee

6. The DAC Working Party on Financial Aspects of Development Assistance will follow closely relevant developments in the Group on Export Credits and Credit Guarantees of the Trade Committee and co-operate with this Group as required.

APPENDIX B

SOME SERVICES PROVIDED BY THE EXPORT CREDITS GUARANTEE DEPARTMENT

NOTE: This information is not a comprehensive description of the scope of these services; neither does it list all the services available. It is intended only as an indication of the work of the Department. It should be read with Section 6.

1. INSURANCE FOR SUPPLIER CREDIT

This section describes briefly several of the various forms of credit insurance available to exporters for supplier credit transactions.

CONSUMER GOODS

- A comprehensive short term guarantee is available to exporters for supplier credit transactions. It has been designed to provide an insurance for a continuous volume of sales on credit terms up to six months, at an economic premium, and for a period of not less than 12 months. Not suitable for mixed credits.

PRODUCTION ENGINEERING  
GOODS

- For those suppliers who have a comprehensive short term guarantee but whose trade in such goods as commercial vehicles, machine tools, machinery, contractor's plant and a whole range of general engineering goods frequently necessitates the granting of supplier credit terms to the buyer in excess of six months.

SALE OF GOODS THROUGH  
OVERSEAS SUBSIDIARIES  
OR ASSOCIATES

- An Overseas Subsidiary of a UK firm (i.e. where the UK firm has a direct controlling interest) is eligible via its UK parent for ECGD facilities for sales by that subsidiary. An Overseas Associate of a UK company (e.g. where the UK firm has a

- shareholding but no controlling interest) is not eligible itself for ECGD facilities.

**SELLING CAPITAL GOODS**

- Specific guarantees are available to exporters for supplier credit transactions involving capital goods or projects on such a scale that they cannot be accommodated in the comprehensive policies. They are subject to individual negotiation of insurance between the exporter and ECGD. (see paragraph 82 of Section 6)

**CONSTRUCTION PROJECTS**

- A constructional works contract provides for the execution of specified works; both the supply of goods and materials and the performance of services are undertaken within the one contract. A Specific Constructional Works Guarantee is available to the supplier, i.e. the contractor, providing cover against non-payment for both the goods and services elements in such contracts.

**EARNINGS FROM INVISIBLE EXPORTS**

- The services policies operate broadly on the lines of the insurance of sales for earnings by suppliers from services for overseas clients (or principals) in the form of technical or professional assistance. Comprehensive type cover is available for a recurrent pattern of business performed within a 12 month period and credit does not extend beyond 180 days. (Specific cover can also be provided - see Appendix D).



## 2. GUARANTEES FOR SUPPLIER CREDIT FINANCING

This section describes briefly the guarantees available to banks where the exporter assigns his rights under his supplier credit policy to them.

- FINANCING SHORTER-TERM CREDIT** - Comprehensive Bill Guarantees for a credit period of less than two years. Not suitable for mixed credits.
- FINANCING MEDIUM-TERM SUPPLIER CREDIT** - Where the terms of payment are two years or more, and the insurance cover is either by extended terms policies or specific policies, supplementary policies offering specific guarantees to the financing banks are available. These guarantees enable the banks to finance the credit at a fixed rate of interest in line with the Guidelines for Officially Supported Export Credit (excluding EC countries). (see paragraph 82 of Section 6)

## 3. GUARANTEES FOR BUYER CREDIT FINANCING

This section describes briefly the guarantees available where the buyer seeks direct finance from a British bank to enable a cash payment to be made to the suppliers:

- BUYER CREDIT GUARANTEES** - For large contracts, exporters may negotiate on cash terms and arrange a loan to the buyer on repayment terms equivalent to the credit which might be expected from the supplier. Buyer credit guarantees are available to banks making such loans where the contract has a UK goods and services content of £1M or more. (see paragraph 83 of Section 6)
- COVER FOR LINES OF CREDIT** - Cover can be provided to a bank for lines of credit to a borrower in an overseas

- market to finance, on a buyer credit basis, contracts with a variety of UK suppliers of UK capital plant and equipment to a buyer in that market.

Loans made under buyer credit and line of credit guarantees carry fixed interest rates in line with the Guidelines for Officially Supported Export Credit (excluding EC countries).

#### 4. OTHER INSURANCE SERVICES FOR EXPORTS

This section describes briefly some other cover which might be available separately from or complementary to the services already described:

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| <b>PERFORMANCE AND OTHER BONDS</b>                                       | - For cash contracts worth £250,000 or more insured with ECGD against normal pre-credit and credit risks, support may be available for performance, tender, advance payment, progress payment and retention bonds. |
| <b>COVER AGAINST UNFAIR CALLING OF BONDS</b>                             | - Provides cover against unfair calling of performance and other bonds.  |
| <b>PROJECT PARTICIPANTS INSOLVENCY COVER AND JOINT AND SEVERAL COVER</b> | - Two schemes designed to protect British exporters involved in large project consortia from the losses caused by the insolvency of other members or a default arising from sub-contractors.                       |
| <b>TENDER TO CONTRACT COVER</b>  | - Provides cover for exporters tendering for major capital goods contracts to be financed in foreign currency against exchange rate movements in the period between tendering and the award of the contracts.      |

APPENDIX C

RISKS COVERED BY THE EXPORT CREDITS GUARANTEE DEPARTMENT  
UNDER A SPECIFIC SERVICES GUARANTEE

1. Cover is available for earnings from services for overseas clients (or principals) in the form of technical or professional assistance, provided that either the services are performed overseas or the benefit of services performed in the United Kingdom is enjoyed overseas by the client.
2. The Specific Services Guarantee covers risks against losses due to:
  - (i) insolvency of the principal;
  - (ii) the principal's failure to pay within six months of due date for services performed for which invoices have been submitted to him;
  - (iii) a general moratorium by the government of the principal's country or a third country through which payment must be made;
  - (iv) any other action of the government of a foreign country which wholly or partly prevents performance of the contract;
  - (v) political events, economic difficulties, legislative or administrative measures occurring outside the UK which prevent or delay transfer of payments;
  - (vi) legal discharge of a debt (not being legal discharge under the proper law of the contract) in a foreign currency, which results in a shortfall at the date of transfer;
  - (vii) war, revolution, civil disturbance or acts of God outside the UK preventing performance of the contract, provided

that the cause of loss is not normally commercially insured;

- (viii) cancellation or non-renewal of an export licence or the imposition of fresh export licensing restrictions;
- (ix) where ECGD has confirmed in writing that the principal or guarantor for the principal is a public principal or national government authority, the failure or refusal of that principal to fulfil any of the terms of the contract.

3. Under the policy, ECGD covers all earnings under the individual service contract. It covers 90 per cent of any loss for which cover has been given. It does not cover loss due to events preventing completion of a contract in circumstances which could free the client from his obligations to make payment under the contract.