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October 1995

# EXPORT FINANCE

## Comparative Analysis of U.S. and European Union Export Credit Agencies







United States  
General Accounting Office  
Washington, D.C. 20548

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**General Government Division**

B-260226

October 24, 1995

The Honorable Barney Frank  
House of Representatives

Dear Mr. Frank:

As you requested, we reviewed the types of export-financing assistance that national governments provide to exporters and banks in the United States (particularly through the U.S. Export-Import Bank (Eximbank))<sup>1</sup> and in the five largest exporting countries of the European Union (EU)—France, Germany, Italy, the Netherlands, and the United Kingdom (U.K.).<sup>2</sup> The distinguishing characteristic of this type of financing is that it is generally tied to the export of goods and services from the countries providing the export financing assistance.

Congressional decisionmakers are currently debating the level of resources that the Eximbank should receive in supporting U.S. exporters. Some believe that the Eximbank has an important function by correcting market failures and helping U.S. exporters compete on a level playing field against their foreign counterparts. Others believe that the Eximbank distorts capital markets and provides unwarranted taxpayer subsidies to U.S. exporters.

In response to your request and to provide congressional decisionmakers with information on what competitor export credit agencies (ECA)<sup>3</sup> do that may be relevant to the current debate on the Eximbank, we (1) identified the magnitude of export financing that the United States and five EU countries provide, (2) described the types of export-financing delivery systems used in these countries, (3) highlighted key differences in and types of trade-offs among U.S. and EU member state programs, and (4) summarized the status of international efforts to limit the use of government-supported export financing.

Although this report focuses with regard to U.S. programs primarily on the Eximbank's export-financing assistance, we included some information on

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<sup>1</sup>The Eximbank is an independent U.S. government agency responsible for helping banks and exporters finance U.S. export transactions.

<sup>2</sup>The EU, formerly the European Community, is a political and economic union of 15 European countries. The EU's member states are Austria, Belgium, Denmark, Germany, Finland, France, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the U.K.

<sup>3</sup>Organizations that provide government-supported export-financing assistance, such as the Eximbank, are referred to as ECAs.

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the overseas investment insurance programs of the Overseas Private Investment Corporation (OPIC). OPIC is a U.S. government agency that promotes economic growth in developing countries by encouraging U.S. private investment in those nations. While OPIC is not an ECA because none of its programs are tied to the export of U.S. goods and services, this information is included to make the comparisons more complete because the ECAs of the five EU countries all provide overseas investment insurance as part of their regular product offerings.

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## Background

Exporters and their customers sometimes need export financing to make export transactions. Export financing includes export loans, loan guarantees, and export credit insurance.<sup>4</sup> Export loan guarantees and export credit insurance are referred to as “export cover.” Although export financing is available from commercial banks and private insurers, governments also provide export-financing assistance as part of their national trade promotion strategies. In general, governments focus their support on exports financed with longer term credits to relatively riskier markets.

Exporters from the five EU member states we reviewed are major competitors of U.S. exporters. Collectively, the five countries represent an economy about 83 percent as large as the United States in terms of gross domestic product (GDP) and accounted for 79 percent of the EU’s total exports in 1993. However, these countries are more heavily dependent on export markets than the United States. While exports in the United States represented only 7.4 percent of GDP in 1993, exports from these five countries represented between 16.4 percent and 45 percent of their GDP in the same year. (See table 1.)

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<sup>4</sup>Loan guarantees to commercial lenders provide repayment protection for loans to foreign buyers of exports. Export credit insurance protects exporters against the failure of foreign buyers to pay their credit obligations.

**Table 1: Export Position of the United States and Five EU Countries, 1993**

Dollars in billions

Country	GDP	Exports	Ratio of extra-EU exports to GDP <sup>a</sup>	Ratio of total exports to GDP
United States	\$6,245	\$465	NA	7.4%
Five EU members	5,204	1,057	9.2%	20.3
France	1,254	206	6.6	16.4
Germany	1,713	365	11.1	21.3
Italy	1,000	168	7.9	16.9
Netherlands	309	139	11.5	45.0
U.K.	927	178	10.1	19.2

Legend:

NA = not applicable

Note: Totals for the five EU members may not add due to rounding.

<sup>a</sup>Extra-EU exports are exports from EU countries to non-EU countries.

Source: US-EC Facts and Figures, Office of Public Affairs, United States Mission to the European Communities (Oct. 1994).

## Results in Brief

The United States and the five EU member states provide significant—although varying—levels of export-financing assistance for their exporters. (See app. I for a detailed discussion of the six nations' government-supported export-financing programs). In 1993, the Eximbank financed about \$15.1 billion of U.S. exports—about 3.2 percent of total U.S. exports. In comparison, ECAS in the five EU member states collectively supported at least \$74.8 billion of their total exports—about 7.1 percent of these countries' total exports—in the same year.

The government costs of these programs are substantial. However, comparisons of the government costs for these programs are difficult to make because the countries use different budgeting techniques to record their costs. Since 1991, the cost of the Eximbank's programs represent the total estimated subsidy cost of the new credit-related assistance provided in a given year plus the cost of liquidating credit obligations incurred before the onset of federal credit reform in October 1991. In contrast, the level of support reported by the five EU governments represents the net cash flows associated with their programs in a particular year. In 1993, the

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U.S. government provided about \$1.8 billion for Eximbank programs.<sup>5</sup> In the same year, the five EU governments collectively spent at least three times this amount—\$5.76 billion—on similar export-financing assistance programs.<sup>6</sup>

The United States and the five EU member states use different organizational approaches to deliver similar types of export-financing assistance. Despite these different approaches to program delivery, however, governments in both the United States and the five EU member states all ultimately set policies and assume the financial liabilities for these programs. The Eximbank provides a wide range of export-financing assistance to the U.S. exporting community, including direct loans, loan guarantees, and export credit insurance. This assistance is complemented by OPIC's programs for insuring overseas investments. The five EU member states use a variety of approaches—ranging from a single government agency to a mix of private and public sector providers—to deliver similar assistance.

The Eximbank and ECAS in the five EU member states offer similar types of export-financing assistance but under terms that differ. These differences have important implications for exporters and banks. Specifically, (1) the Eximbank assumes more of the risks of an export transaction than do ECAS in the five EU member states; and (2) the Eximbank's medium- and long-term loan guarantees, which constitute virtually all of its total medium- and long-term cover business, are "unconditional."<sup>7</sup> These features increase the attractiveness of the Eximbank's program to exporters. In contrast, ECAS in four of the five EU countries require exporters and banks to share some—usually at least 5 percent to as much as 15 percent—of the risks of an export transaction. They also offer this coverage on a more conditional basis.

Exporters, banks, and governments face important trade-offs due to the differences between the Eximbank's and the EU ECAS' export-financing assistance. These trade-offs involve the following:

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<sup>5</sup>In 1993, the Eximbank received an appropriation of \$1.778 billion; \$803 million to fund the costs of its 1993 programs and \$975 million to liquidate the pre-fiscal year 1992 obligations incurred before the Federal Credit Reform Act of 1990 (Public Law 101-508, Nov. 5, 1990) went into effect.

<sup>6</sup>The EU totals include the amounts spent on member state export cover programs (i.e., guarantee and insurance) and the amounts spent on interest rate subsidy programs.

<sup>7</sup>As defined by the Eximbank, medium-term cover for capital goods and related services is financing of \$10 million or less, with a usual repayment term of 1 to 5 years; long-term cover is financing of more than \$10 million or repayment terms of greater than 5 years. "Unconditional" means that exporters or participating banks are unconditionally reimbursed in the event of a default due to political or commercial risks.

- There is a trade-off between the time ECAS spend scrutinizing applications and the time elapsed before claims are paid. The Eximbank spends more time reviewing applications up front and pays off claims more rapidly, while EU ECAS spend less time up front and pay off claims more slowly.
- There is a trade-off between the level of risk assumed by sharing between ECAS and participating banks. The Eximbank generally assumes all of the risks of the loan guarantees that it issues, while most EU ECAS share some of the risks of covered transactions with banks and exporters.
- There is a trade-off between fiscal discipline and premium levels charged. Only one of the countries reviewed—the U.K.—requires its ECA to be self-funded on cover business undertaken since 1991. Therefore, to meet this requirement, the U.K. ECA generally charges higher premiums in high-risk markets, which U.K. exporters said places them at a disadvantage compared with other exporters. In contrast, none of the other ECAS are required to be self-funded. (Despite this self-funding requirement, the U.K. ECA offers interest rate subsidies through a separate program.)

International organizations, including the Organization for Economic Cooperation and Development (OECD)<sup>8</sup> and the EU, have implemented agreements or initiated efforts to limit government subsidies and provide common guidelines for national export-financing assistance programs. The OECD's Arrangement on Guidelines for Officially Supported Export Credits set terms and conditions for government-supported export loans. The agreement has been progressively strengthened since it was first established in 1978. It was last modified in 1994 to require member countries to use only market-based interest rates on all government-provided export loans. However, the OECD agreement does not currently apply to the premiums charged for export cover or to export credits relating to exports of defense goods or agricultural products. The EU is also renewing previous efforts to harmonize the export credit insurance systems of EU member states.

## Scope and Methodology

To identify the magnitude of the government support provided to each ECA, we analyzed financial reports and budgetary information obtained from central governments and held discussions with ECA and Treasury representatives in the United States and in each of the five countries we visited. We interviewed officials from the Eximbank and OPIC in the United States; Compagnie Française pour le Commerce Extérieur (COFACE) and

<sup>8</sup>OECD is an international forum for coordinating economic policies among 25 industrialized countries, which include the economically developed, free market democracies of North America, Western Europe, and the Pacific.

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the Banque Française du Commerce Extérieur (BFCE) in France; AKA Ausfuhrkredit Gesellschaft mbH (AKA), Hermes Kreditversicherungs AG (Hermes), and Kreditanstalt für Wiederaufbau (KfW) in Germany; Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE) and Mediocredito Centrale in Italy; Nederlandsche Credietverzekering Maatschappij N.V. (NCM) in the Netherlands; and the Export Credits Guarantee Department (ECGD) in the U.K.

To describe and compare the key organizational approaches and programs of the major EU ECAs with those of the Eximbank, we spoke with representatives of and reviewed documents from ECAs, government ministries, the EU Commission,<sup>9</sup> commercial banks, OECD, and the International Monetary Fund. The documents that we reviewed included annual reports, brochures, and export finance studies.

To compare trade-offs among U.S. and EU member state programs, we interviewed ECA representatives and analyzed reports commenting on various aspects of these trade-offs. To compare premiums for export credit cover available from the Eximbank and the EU ECAs, we analyzed Eximbank data that were based on a survey of 1994 premiums charged by eight ECAs in 26 major markets. We were unable to verify the accuracy of these data, which are self-reported by the individual ECAs and are based on varying data sources and measurement techniques.

To describe international efforts to reduce disparities in government-supported export-financing programs among ECAs, we analyzed publications issued by and held discussions with officials of OECD, the EU, and the International Union of Credit and Investment Insurers (the Berne Union). We did not include the export-financing assistance programs of any multilateral institutions within the scope of our review since we focused on national ECAs comparable to the Eximbank. The information in this report does not reflect original analysis of foreign laws, but was obtained from interviews and secondary sources.

We did our work from June 1994 to June 1995 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the President of the Eximbank, the President of the Overseas Private Investment Corporation, and the Secretary of the Treasury, or their designees. Officials from these agencies provided oral comments that are discussed on page 20. We also obtained

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<sup>9</sup>The European Commission functions as the executive body of the EU. It drafts and proposes EU legislation and enforces the implementation of EU laws.



the views of representatives of ECAs in France, Germany, Italy, the Netherlands, and the U.K. on country-specific information.

## Export-Financing Assistance Programs Cost Billions

The United States and the EU provide varying levels of support for their exporters through their ECAs. In 1993, the Eximbank financed about 3.2 percent of total U.S. exports, the low end of the range financed by ECAs in the five EU member states.<sup>10</sup> (See table 2.)

**Table 2: Exports Supported by U.S. and EU Export Credit Agencies, 1993**

U.S. dollars in billions

Country	Provider	Total exports of country	Value of exports financed <sup>a</sup>	Percent of exports financed
United States	Eximbank	\$464.8	\$15.1	3.2%
Five EU members		1057.5	74.8	7.1
France	COFACE	206.3	35.7	17.3
Germany	Hermes	365.3	20.4	5.6
Italy	SACE	168.5	5.7	3.4
Netherlands	NCM	139.1	6.9	5.0
U.K. <sup>b</sup>	ECGD	178.3	6.1	3.4

<sup>a</sup>The figures for Germany include the total value of exports supported. The figures for the other countries represent the financed value of the export contract. In the United States, this financing support includes loans. For the other countries, this total reflects only cover (insurance and guarantees). The value of exports separately supported through EU ECA loan subsidy programs was not available. However, the value of exports supported through EU ECA cover programs generally includes the value of the exports supported under separate loan subsidy programs because EU ECAs generally obtain ECA cover on exports supported under loan subsidy programs.

<sup>b</sup>Figures for the U.K. are for ECGD fiscal year 1993-1994, which begins on April 1 and ends on March 31.

Sources: ECA annual reports; interviews; and US-EC Facts and Figures, October 1994.

The United States and the five EU member state governments have spent billions of dollars on export-financing assistance programs. In 1993, the U.S. government provided about \$1.8 billion to support the Eximbank's export-financing activities—down 54 percent from the \$3.94 billion provided in 1992. In 1993, the five EU governments collectively spent at

<sup>10</sup>In comparing the amounts of exports supported through the U.S. and major competitor EU ECAs, it is important to note that the types of exports supported through ECAs differ. The U.S. ECA totals on the levels of exports supported do not include U.S. exports financed separately by the Departments of Defense and Agriculture. EU ECA figures for Germany, France, and the U.K. include support for defense exports. However, EU ECA figures exclude exports supported through separate EU-wide agricultural support programs.

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least \$5.76 billion to support their export cover programs—a slight increase from the \$5.56 billion spent in 1992. (See table 3.) The net cash deficits for the five EU government programs ranged from a low of \$110 million in the Netherlands to a high of \$3.09 billion in Germany. ECA officials attributed these deficits to various factors, including the economic upheaval in the newly independent states of the former Soviet Union.

The costs of these programs are difficult to compare because countries use different budgeting techniques to record their costs. Except for the Eximbank's costs for 1992 and 1993, the level of support shown in table 3 represents the net cash flows associated with the five EU member state programs rather than the estimated long-term program costs. We compared net cash flows because this was the only common basis of comparison among the five EU member states.

**Table 3: Cost of Government-Supported Export-Financing Programs in the United States and Five EU Countries, 1991-93**

U.S. dollars in millions			
Country	1991	1992	1993
United States <sup>a</sup>	\$923	\$3,936	\$1,778
Five EU members <sup>b</sup>	6,197	5,561	5,758
France	1,802	1,378	1,016
Germany	1,155	1,478	3,088
Italy	1,468	1,479	1,334
Netherlands	53	113	110
U.K. <sup>c</sup>	1,719	1,113	210

Note: The costs of U.S. programs for 1992-93 are the total fiscal year appropriations under credit reform for Eximbank. The costs of the 1991 U.S. and 1991-93 EU program are the net cash deficits incurred by governments in a given year.

<sup>a</sup>U.S. totals include the Eximbank's 1992-93 appropriations for credit and related expenses of \$641 million and \$802.7 million, respectively. The remainder of the U.S. balances for 1992 and 1993 represents the annual appropriations that Eximbank received to meet the cost of business originated before October 1, 1991. U.S. totals do not include the cost of the export-financing assistance separately provided by the U.S. Department of Defense (DOD) through the Foreign Military Financing (FMF) program or the Department of Agriculture. The FMF program is largely a grant program that enables selected U.S. allies—primarily Israel and Egypt—to obtain U.S. military equipment and related services. According to DOD officials, FMF is provided to advance U.S. foreign policy and national security interests rather than to promote U.S. exports. In fiscal year 1993, the FMF program received about \$3.4 billion in appropriations. According to the U.S. Foreign Agricultural Service, total U.S. agriculture spending was \$16 billion in fiscal year 1993, including \$1.2 billion in direct export subsidies.

<sup>b</sup>The EU figures, except for Germany, include the amount spent on interest rate subsidy programs. The German, French, and U.K. ECAs we reviewed all provided some level of export-financing assistance for defense exporters. In 1993, approximately 48 percent, 21 percent, and 1 percent, respectively, of U.K., French, and German export cover was provided to defense exporters. Figures on defense export expenditures for Italy and the Netherlands were unavailable. The EU figures do not include amounts spent under separate EU agricultural programs. According to the U.S. Foreign Agricultural Service, total EU agriculture spending was \$44.4 billion in 1993, including \$11.7 billion in direct export subsidies.

<sup>c</sup>Figures for the U.K. are for U.K. fiscal years (April 1 through March 31).

Source: GAO analysis of information obtained from U.S. and EU ECAs.

The Eximbank's budgeting practices changed significantly with the passage of the Federal Credit Reform Act of 1990. The act, which became effective on October 1, 1991, requires the Eximbank to estimate the total long-term costs—instead of just the cash flows—of its direct loans and guarantees in the year they are authorized. The Eximbank's export credit insurance programs are also covered under the act. Under the act, the Eximbank also may not incur new obligations or commitments unless Congress specifically appropriates the budget authority for these transactions in advance.

The governments of the five EU member states budget for the cost of their export-financing operations on a cash basis.<sup>11</sup> Under this approach, the government reimburses the ECA for the total cash losses sustained on government-supported operation during the year. However, total cash losses for any 1 year are not indicative of current-year performance because losses on prior-year loans are included in this total. Although not subject to the same budgeting requirements as the Eximbank, the U.K.'s ECA is subject to relatively stringent financial discipline. Unlike the five other governments, the U.K. government's policy is that its ECA should break even financially on its cover policies issued since 1991, with a reasonable level of confidence, by establishing sufficient reserves and charging risk-based fees.

The Eximbank and the EU ECAs we reviewed generally try to limit the total amount of export-financing assistance they provide, as well as the amount they provide for exports to specific countries. Interministerial committees or legislative bodies generally set annual limits for each ECA.

## Governments Provide Similar Types of Export-Financing Assistance Through Different Approaches

The United States provides U.S. exporters with a wide range of export-financing assistance, primarily through the Eximbank. The Eximbank offers export credit insurance and loan guarantees to protect exporters and banks against a wide range of nonpayment risks. The Eximbank also provides exporters with fixed-interest-rate export loans. The United States provides overseas investment insurance through OPIC. OPIC insurance protects U.S. investors from the political risks associated with investments in overseas markets.<sup>12</sup>

Like the United States, all five EU member states have export credit insurance and loan guarantee programs to protect their exporters and banks against various nonpayment risks. They also have overseas investment insurance programs. Unlike the United States, which offers export loans through the Eximbank, the five EU member states provide interest rate subsidies for export loans obtained from commercial banks. These subsidies allow banks to offer lower fixed-interest-rate loans to exporters. All of the five EU member states' government-supported interest

<sup>11</sup>Under cash-based budgeting, receipts are recorded when received and expenditures are recorded when paid regardless of the accounting period in which the receipts are earned or the costs incurred.

<sup>12</sup>OPIC also provides investment guarantees, loans, and preinvestment support services, such as trade missions and business outreach. In 1994, OPIC provided about \$6 billion worth of investment insurance and \$1.7 billion worth of investment loans and loan guarantees.

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rate subsidy programs and export loans, like the Eximbank's export loans, are subject to minimum OECD interest rates.

The U.K. uses a single government agency to deliver an entire range of export-financing assistance. Italy uses a government agency to deliver government-supported export cover (guarantees and insurance) but also uses a state-owned bank to provide interest rate subsidies for export loans. France, Germany, and the Netherlands use commercial insurance companies to deliver government-supported export cover and use other entities to provide interest rate subsidies for export loans. The French, German, and Dutch governments reimburse these insurance companies for the administrative costs of providing these government services. In all five EU member states, the same organization that delivers export cover also provides overseas investment insurance.

Table 4 summarizes the types of export-financing assistance that governments in the six countries provide and the organizations used to deliver this assistance.

**Table 4: Types of Government-Supported Export-Financing Assistance Offered by Six Countries, 1993**

Country	Provider	Cover				Support for export loans	
		Export credit insurance	Export loan guarantee	Overseas investment insurance	Other <sup>a</sup>	Direct loans	Interest rate subsidies
United States	Eximbank	X	X			X	
	OPIC <sup>b</sup>			X			
France	COFACE	X	X	X	X		
	BFCE						X
Germany	Hermes	X	X	X	X		
	KfW <sup>c</sup>					X	
	AKA <sup>d</sup>						X
Italy	SACE <sup>e</sup>	X	X	X	X		
	Mediocredito Centrale						X
Netherlands	NCM	X	X	X	X		
	Ministry of Economic Affairs						X
U.K.	ECGD <sup>e</sup>	X	X	X	X		X

Legend:

x = provided

Note: Blank spaces indicate that cover or support is not provided.

<sup>a</sup>“Other” includes things such as cover for foreign exchange risks, construction trade fairs, or marketing surveys.

<sup>b</sup>Although OPIC’s financing activities may indirectly benefit U.S. exporters, its programs are intended to facilitate U.S. private investment in developing countries and emerging markets. Overseas investment insurance constitutes the bulk of its assistance. This insurance protects investors against losses due to (1) war, revolution, insurrection, or civil strife; (2) expropriation; and (3) the inability to convert foreign currency into dollars. OPIC also provides investment loans and loan guarantees to U.S. investors and lenders.

<sup>c</sup>KfW provides some direct loans involving funds from the German government.

<sup>d</sup>AKA may refinance some export loans through the German Central Bank (Deutsche Bundesbank). However, the Bundesbank plans to discontinue this support in June 1996.

<sup>e</sup>Export credit reinsurance is also offered for short-term policies.

Source: GAO analysis of information obtained from U.S. and EU ECAs.

Governments in the United States and the five EU countries set policies and assume the ultimate financial risks of these programs regardless of whether commercial insurers, government agencies, or credit institutions administer these programs. In the United States, the Eximbank's policies and operations are overseen by Congress and a seven-member board of directors (including two ex-officio members: the Secretary of Commerce and the U.S. Trade Representative). OPIC is governed by a 15-member board of directors; its Chairman is the Administrator of the Agency for International Development; its Vice-Chairman is the Deputy U.S. Trade Representative. In the EU member states, interministerial government committees establish and coordinate policies for their export-financing assistance programs. These committees typically include representatives from government ministries, including treasury, trade, and foreign assistance, and from ECAs that administer the programs. Although EU ECAs themselves can generally approve routine applications for export-financing assistance, the interministerial committees must approve applications that involve relatively large or potentially controversial export transactions.

## Program Differences Have Important Implications for Exporters

The Eximbank's export-financing assistance differs in several key respects from the assistance offered by the ECAs in the five EU member states. These differences have important implications for exporters, banks, and governments.

The Eximbank provides greater risk protection on export transactions by giving exporters 100-percent political and commercial risk protection on most of the medium- and long-term cover it issues. In addition, the Eximbank's loan guarantees, which constituted virtually all (92 percent) of its 1994 medium-and long-term cover business, provide exporters with unconditional repayment protection. These features increase the attractiveness of the Eximbank's programs to exporters. In contrast, four of the EU ECAs require exporters and banks to share some—usually at least 5 percent to as much as 15 percent—of an export transaction's risk. In addition, the coverage the four EU ECAs offer is more conditional in that an ECA is to reimburse claims only if specified conditions have been met. The U.K.'s ECA is the only EU ECA that offers unconditional 100-percent risk coverage. The maximum risk levels that these six ECAs can cover are summarized in table 5.

**Table 5: Maximum Risk Levels Covered by Six ECAs**

Country	Provider	Export credit insurance		Export loan guarantees	
		Political risks	Commercial risks	Political risks	Commercial risks
United States	Eximbank	100%	100%	100%	100%
France	COFACE	90	85	95	95
Germany	Hermes	90	85	95	95
Italy	SACE	90	90	95	95
Netherlands	NCM	95	90	95	90
U.K.	ECGD	100 <sup>a</sup>	100 <sup>a</sup>	100	100

<sup>a</sup>100-percent cover is available only after satisfactory contractual performance by the exporter and buyer. Cover is initially limited to 90 percent.

Sources: The Eximbank and EU ECAs.

Exporters, banks, and governments face a number of trade-offs due to the differences in the Eximbank's and EU ECAs' programs.

First, the time needed to approve applications and pay claims differs between the Eximbank and other EU ECAs. For those transactions in which the Eximbank provides 100-percent unconditional risk protection, it assumes all of the risks of the export transactions it covers. Hence, the Eximbank must thoroughly assess the suitability of such transactions before giving approval for cover. These comprehensive reviews tend to lengthen the application process and decrease the attractiveness of the Eximbank's programs to exporters, according to Eximbank and EU ECA officials.

The Eximbank's requirements for careful up-front reviews have led to persistent complaints from U.S. exporters. According to the Eximbank's annual assessment of its competitiveness vis-à-vis its major competitors,<sup>13</sup> U.S. exporters and commercial bankers that the Eximbank surveyed praised the attractiveness of specific Eximbank programs and products but complained in 1992 and 1993 about the Eximbank's slow processing times and excessive paperwork requirements. However, because the Eximbank reviews applications in detail before giving its approval, it can reimburse relatively quickly customers who later make claims for export losses (within about 1 week for the Eximbank's loan guarantees). This

<sup>13</sup>See Export-Import Bank of the United States, Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States (Washington, D.C.: Eximbank, July 1994). Congress mandates the Eximbank to conduct an annual survey of the exporters and commercial lending institutions that use the Eximbank's programs.



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increases the attractiveness of the Eximbank's programs to exporters and participating banks.

In contrast, because ECAs in four of the five EU countries offer more conditional cover, they can quickly approve applications—in some cases, within 1 to 2 days—after receiving the initial application. However, the trade-off is that these EU ECAs require exporters to prove the validity of any later claims made after they issue cover policies. Thus, exporters can wait months to receive reimbursement for export losses. Dutch banking officials noted that the waiting period for claims reimbursements is typically 3 to 6 months from when losses occur. A French ECA official noted that small claims (\$3,000 or less) are paid within 2 months and all other claims within 5 months of when they are submitted. Recognizing these trade-offs and concerns about up-front processing times, the Eximbank introduced a more conditional medium-term insurance policy for exporters and banks in 1994. The Eximbank expects the conditionality of the policy to result in faster application processing times.

Second, the level of risk-sharing between ECAs and participating banks may influence bank behavior. The Eximbank assumes 100 percent of the risks on most of the medium- and long-term cover that it issues. This feature increases the attractiveness of the program to exporters, according to Eximbank and EU ECA officials, but reduces some of the incentive for cautious lending behavior among the banks that obtain these guarantees. The Eximbank thus assumes more of the responsibility and the associated administrative costs of reviewing applications for export-financing assistance since it does not require banks to share the risks of these transactions.

In contrast, most EU ECAs share some of the risks of covered transactions with exporters and banks. Thus, exporters and participating banks review the financial soundness of proposed export transactions more carefully, according to EU ECA officials. According to EU government and banking industry officials, such risk sharing helps shift some of the responsibility and associated administrative costs of reviewing cover applications from ECAs to exporters and financing institutions. Some risk sharing may soon be an EU-wide requirement. The EU has issued proposed rules that would require some minimum level of private-sector risk sharing in most EU ECA covered transactions. EU officials believe that exporters will make more responsible judgments if they stand to lose money in a bad deal.

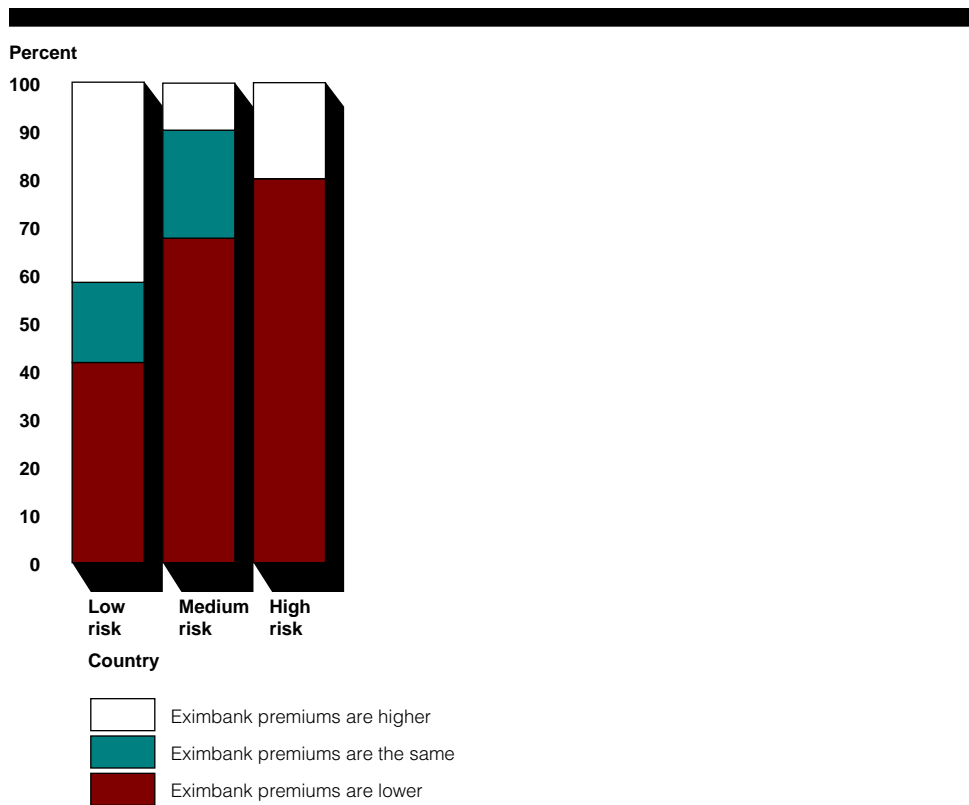
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Finally, trade-offs exist between fiscal discipline and premium levels charged to exporters and banks. To reduce the government costs of its program, the U.K. has required its ECA to be self-funding on any new cover business undertaken after 1991. Since this requirement went into effect, the U.K. ECA has charged relatively high prices for its products, particularly in high-risk markets. According to U.K. exporters, this puts them at a competitive disadvantage vis-à-vis the other nations' exporters. In contrast, none of the other EU ECAs or the Eximbank are required to be self-funded. Despite offering a higher quality product (unconditional and greater risk coverage), the Eximbank generally charges lower premiums than those charged by other ECAs (the exception being premiums charged for medium-term financing to low-risk countries).<sup>14</sup> (See figs. 1 and 2.)

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<sup>14</sup>In August 1994, Eximbank raised its fees for cover in medium-and high-risk markets for transactions with repayment terms greater than 5 years. Most 1994 financing was completed under the former fee schedule. In September 1995, Eximbank officials said additional fee increases were being considered.

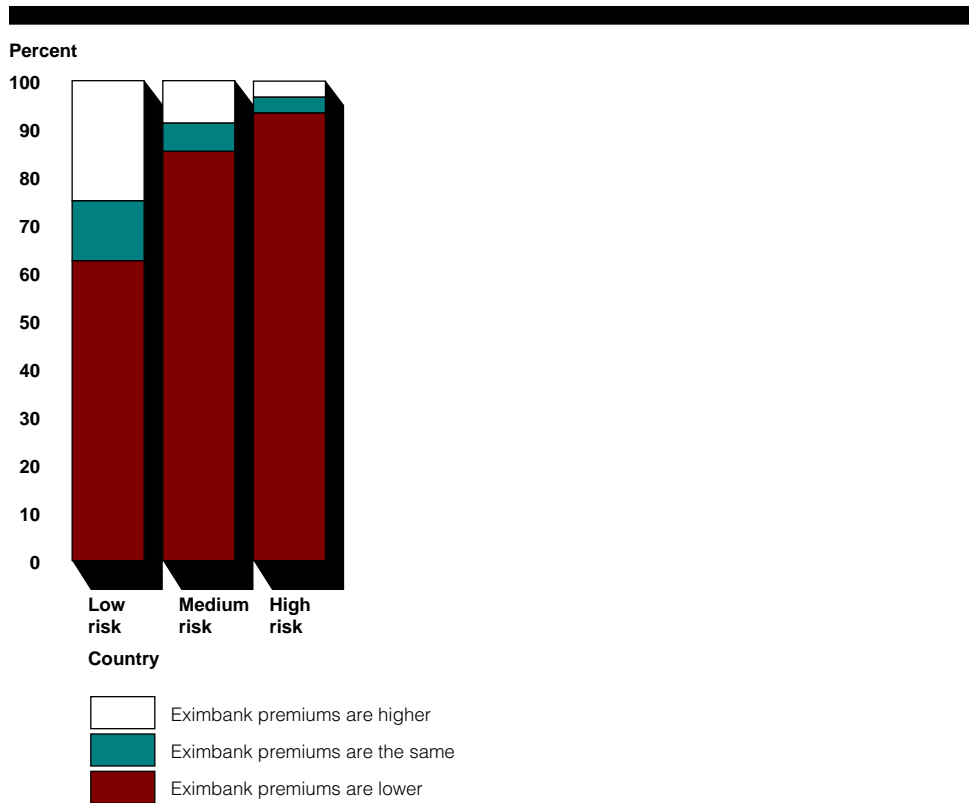
**Figure 1: Comparison of Eximbank Medium-Term (5-Year) Premiums to Those of Major Competitors, 1994**



Note: Figure based on comparisons of 1994 exposure fees charged by Eximbank and 7 competitor export credit agencies—Canada, France, Germany, Italy, Japan, Spain, and the U.K.—in 26 markets.

Source: Eximbank.

**Figure 2: Comparison of Eximbank Long-Term (8.5-Year) Premiums to Those of Major Competitors, 1994**



Note: Figure based on comparisons of 1994 exposure fees charged by Eximbank and 7 competitor ECAs—Canada, France, Germany, Italy, Japan, Spain, and the U.K.—in 26 markets.

Source: Eximbank.

## International Efforts to Limit Government Support for Export Financing Continue

Since the late 1970s, the United States and other countries have sought to limit government support for export financing, particularly through OECD. Since 1978, OECD countries, including the United States and the five EU member states, have agreed to abide by the rules of the OECD Arrangement on Guidelines for Officially Supported Export Credits. This voluntary agreement, also referred to as the “OECD Consensus” or “Arrangement,” established terms and conditions under which governments could support export credits with repayment terms of 2 years or more. The OECD Consensus terms and conditions include minimum downpayments, interest rates, credit terms, and maximum repayment periods.

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Since the OECD Consensus was first established, the United States and other OECD countries have agreed on a series of measures to strengthen the agreement. In their most recent agreement in 1994, OECD countries agreed to phase in the use of market-based interest rates over the next 2 years on all official financing supported by way of direct credit, refinancing, or interest rate subsidy.

Previously, participants were allowed to use below-market rates established by the agreement in specified markets.

Participants also agreed to discuss expanding the guidelines to include (1) the premiums charged on government-supported export cover and (2) agricultural products. The OECD Consensus does not currently apply either to the premiums charged for export cover or to agricultural products.

The EU has renewed previous efforts to harmonize export credit insurance and loan guarantee programs among its member states. After relatively unsuccessful attempts to achieve such harmonization in the 1970s, the EU proposed legislation in July 1994 that would harmonize officially supported medium- and long-term export credit insurance systems among its member states. The proposed legislation is still under review within the EU and among the member states. The EU is also considering a proposal that would prevent member states from subsidizing export credit insurance or loan guarantees for certain short-term risks that the private sector can cover.

Finally, the Berne Union serves as an international forum for export insurers from 34 countries to exchange views and information on their export credit programs. Members of the Berne Union, which include the Eximbank and the ECAs of the five EU countries, have also agreed to a "General Understanding" and other agreements. The General Understanding governs terms on downpayments, starting points for credit terms, and repayment schedules on certain export transactions. Berne Union members who deviate from agreements are obliged to inform other members of such intentions and allow them to match the differing conditions. Although the Berne Union's agreements are voluntary, Berne Union officials believe that pressures from other members encourage ECAs to abide by these agreements.

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## Agency Comments

We requested comments on a draft of this report from the Secretary of the Treasury and the President of the Eximbank, or their designees. On August 29, 1995, we obtained oral comments from U.S. Department of the Treasury officials, including the Director, Office of Trade Finance; on September 7, 1995, we obtained oral comments from Eximbank officials, including the Vice President, Policy and Planning; and on September 8, 1995, we obtained oral comments from OPIC officials, including the Vice President for Finance. These officials generally agreed with the information presented in the draft report. In addition, they provided some technical comments, which we incorporated in the report where appropriate. We also discussed country-specific information with representatives of ECAS in France, Germany, Italy, the Netherlands, and the U.K. and with officials from OECD, the EU, and the Berne Union. The officials agreed with our characterization of their countries' programs. We incorporated their suggested technical changes in the report where appropriate.

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We are sending copies of this report to the President of the Eximbank and the Secretary of the Treasury. We will also make copies available to other interested parties upon request.

If you have any questions concerning this report, please contact me at (202) 512-4812. Major contributors to this report are listed in appendix III.

Sincerely yours,



Allan I. Mendelowitz, Managing Director  
International Trade, Finance,  
and Competitiveness Issues

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**Abbreviations**

AKA	AKA Ausfuhrkredit Gesellschaft mbH
ANVAR	Agence Nationale pour la Valorisation de la Recherche
BFCE	Banque Française du Commerce Extérieur
CIRR	commercial interest reference rates
COFACE	Compagnie Française pour le Commerce Extérieur
DM	German marks (deutsche marks)
DOD	Department of Defense
DREE	Direction des Relations Economies Extérieures
EC	European Commission
ECA	export credit agency
ECGD	Export Credits Guarantee Department
ERP	European Recovery Program
EU	European Union
Eximbank	Export-Import Bank of the United States
FF	French francs
FMF	Foreign Military Financing
FSU	former Soviet Union
GDP	gross domestic product
GNP	gross national product
IBRD	International Bank for Reconstruction and Development (World Bank)
ICRAS	Interagency Country Risk Assessment System
INA	Istituto Nazionale delle Assicurazioni
KfW	Kreditanstalt für Wiederaufbau
L	Italian lira
NATO	North Atlantic Treaty Organization
NCM	Nederlandsche Credietverzekering Maatschappij N.V.
NIS	newly independent states
NLG	Dutch guilders
OECD	Organization for Economic Cooperation and Development
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PEFCO	Private Export Funding Corporation
SACE	Sezione Speciale per l'Assicurazione del Credito all'Esportazione
SME	small- and medium-sized enterprises
UK	United Kingdom

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# Six Nations' Government-Supported Export-Financing Programs

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The United States and the five European Union (EU) member states we reviewed—France, Germany, Italy, the Netherlands, and the United Kingdom (U.K.) use different organizational approaches in providing export-financing assistance. But these countries generally offer similar types of assistance. Although the costs of these programs vary, all the export credit agencies (ECA) we reviewed have sustained large net cash deficits on these programs.

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## The United States

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### Background

The U.S. economy is the largest in the world, with a population of about 258.2 million and a gross domestic product (GDP) of \$6,245.4 billion in 1993. In 1993, the United States exported \$464.8 billion of products, about 7.4 percent of GDP. Compared to the five EU competitors we reviewed, U.S. exports constitute a lower percentage of GDP.

### Financing Organizations

The Export-Import Bank of the United States (Eximbank) is an independent U.S. government agency responsible for assisting U.S. exporters. Created in 1934, the Eximbank is to offer terms competitive with those of other governments' export-financing agencies and absorb risks that the private sector is reluctant to cover. For the Eximbank to continue operating as an independent U.S. corporate agency, Congress must periodically reauthorize it. Its current authorization extends through September 30, 1997.

The Private Export Funding Corporation (PEFCO), a corporation founded in 1970, is an additional source of financing for U.S. exporters. PEFCO's stock is owned by 35 commercial banks, 7 industrial companies, and 3 financial services companies. It serves as a supplemental source of medium- and long-term loans to foreign purchasers of U.S. goods and services. The Eximbank unconditionally guarantees all PEFCO loans and maintains a measure of control over PEFCO's loan commitments as well as its borrowings. Since it began, PEFCO has made export loan commitments in excess of \$8 billion, mostly to borrowers in developing countries. These loans have supported a wide variety of capital goods and projects, including aircraft, power generation plants and equipment, mining projects, and industrial and municipal facilities. In 1994, PEFCO made \$395 million in new loan commitments.

**Appendix I  
Six Nations' Government-Supported  
Export-Financing Programs**

OPIC is a self-sustaining U.S. government agency that encourages U.S. private investment in developing countries and emerging market economies. OPIC is an investment insurer and not an export credit agency. OPIC primarily offers the following types of services: overseas investment insurance; investment guarantees; direct loans; and preinvestment support services, such as trade missions and business outreach. Like the Eximbank, some of OPIC's activities are subject to the Federal Credit Reform Act of 1990. During 1994, OPIC received \$84.6 million in appropriations to cover the net present value of the anticipated long-term cost to the government of its direct and guaranteed loans as well as the administrative costs related to its credit program. In 1992 and 1993, it received an appropriation for credit and related administrative costs of \$17.1 million and \$17.9 million, respectively. According to OPIC officials, these funds were returned to the U.S. Treasury because of OPIC's self-sustaining status.

**Export-Financing  
Programs**

In 1994, the Eximbank authorized about \$14.9 billion in loans, loan guarantees, and insurance for U.S. exports, slightly less than 1993's record authorizations of \$15.1 billion (see table I.1). Loan guarantees and insurance are the main programs the Eximbank uses to help U.S. exporters.

**Table I.1: The Eximbank's Financing Authorizations, Fiscal Years 1992-94**

Dollars in billions			
Eximbank program	1992	1993	1994
Loans	\$0.816	\$1.748	\$3.016
Loan guarantees	7.301	9.094	7.609
Insurance	4.220	4.229	4.261
<b>Total</b>	<b>\$12.337</b>	<b>\$15.071</b>	<b>\$14.886</b>

Source: Eximbank.

The Eximbank offers a wide range of financing services:

- direct and intermediary loans to foreign buyers of U.S. exports, helping U.S. exporters match officially supported foreign competition;
- guarantees to commercial lenders, providing repayment protection for loans to foreign buyers of U.S. exports;
- working capital guarantees, encouraging commercial lenders to make loans to companies that have exporting potential but need funds to produce or market goods or services to export; and

- export credit insurance to exporters protecting them against the failure of foreign buyers to pay their credit obligations.

Although loan guarantees and insurance both reduce the risks of exporting by providing protection against various political and commercial risks, the Eximbank's loan guarantees unconditionally cover a loan's principal and interest against the political and commercial risks of nonpayment. Insurance coverage is more conditional in that the policy insures against specific risks under specified conditions. The Eximbank provided 100-percent risk protection on all of the medium- and long-term guarantees that it issued between 1992 and 1994. These guarantees comprised 95 percent and 92 percent of the Eximbank's total medium- and long-term authorizations in 1993 and 1994, respectively.

## Project Financing

In response to the growing world demand for project finance support services, the Eximbank created a new Project Finance Division in 1994. In a project finance transaction, the Eximbank relies on the revenue stream of the project itself and not on the guarantee of the host government for repayment. To bolster its expertise in project finance, the Eximbank hired two private-sector specialists to lead the new division. In addition, the division includes three loan officers with project finance experience.

In late 1994, the project finance division had reviewed 10 requests for funding, totaling \$3.5 billion in financing. For this type of financing, the Eximbank will cover U.S. exports plus up to 15 percent of a project's local costs<sup>1</sup> as well as interest charges accrued during the construction phase. The Eximbank also has no minimum or maximum requirements for project size, which enables it to support both small and large infrastructure projects.

## Program Emphasis

In 1994, Latin America continued to be the Eximbank's largest market. The Eximbank supported \$5.2 billion in financing authorizations to that region in 1994, about equal to the prior year's total. In 1994, the Eximbank supported \$4.6 billion in authorizations to Asia, an increase of 15 percent over 1993. This expanded activity reflected the dynamic growth of many Asian markets and the increasing success of U.S. exporters in that market.

By country, the Eximbank's largest customers in fiscal year 1994 were Brazil, with \$1.8 billion in authorizations; Mexico, with \$1.4 billion; Russia, with \$1.3 billion; and China, with \$1.1 billion. Mexico is the Eximbank's

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<sup>1</sup>Local costs are the expenses incurred for goods or services purchased from suppliers in the buyer's country.

largest customer, with \$6.4 billion of outstanding loans, guarantees, and insurance as of September 1994. The Eximbank signed an Oil and Gas Framework Agreement with Russia in July 1993 that would enable it to support \$2 billion or more in financing for rehabilitating Russia's energy sector. The agreement should provide sales opportunities for U.S. exporters of oil and gas production equipment to Russia's energy sector.

Recent legislation (Public Law 103-428, Oct. 31, 1994) allows the Eximbank to provide financing on its own initiative, subject to certain conditions, for the export of nonlethal defense articles and services when the primary end use will be for civilian purposes. For example, the Eximbank can now finance radars for air traffic control systems.

#### Small- and Medium-Sized Enterprises (SME) Financing

The Eximbank's legislation requires it to make at least 10 percent of its aggregate budget authority available to finance small business exports.<sup>2</sup> In fiscal year 1994, the Eximbank supported \$1.7 billion in small business authorizations—about 11.4 percent of its total program authorizations.<sup>3</sup>

#### Risk Assessment and Pricing

The Office of Management and Budget (OMB) serves as Chairman, and the Eximbank serves as the secretariat of the executive branch's working group known as the "Interagency Country Risk Assessment System" (ICRAS). This working group is charged with assessing the country risk (the risk that a country will default on its debts) contained in foreign loans and guarantees. OMB requires executive branch agencies to calculate the costs of foreign loans and guarantees using annually updated ICRAS ratings. Throughout the life of the loan or guarantee, OMB guidance requires agencies to make annual reestimates of costs.<sup>4</sup>

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#### Program Budgeting and Results

The budgeting for the government costs of the Eximbank's programs reflects significant changes instituted with the passage of the Federal Credit Reform Act of 1990. The act required U.S. agencies, beginning in fiscal year 1992, to estimate and budget for the long-term costs of a loan or guarantee in the year the loan or guarantee is authorized, using present

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<sup>2</sup>A "small business" is defined as a sole proprietorship, partnership, or corporation that meets the U.S. Small Business Administration's definition of small business. "Small" relates to total sales volume or number of employees, depending on the company's Standard Industrial Classification code.

<sup>3</sup>The Eximbank's small business activity reported in fiscal year 1993 and after excludes the indirect support included in reports for earlier years.

<sup>4</sup>For more information about the executive branch's method for calculating country risk ratings and cost estimates for foreign loans and loan guarantees, see our report: *Credit Reform: U.S. Needs Better Method for Estimating Cost of Foreign Loans and Guarantees* (GAO/NSIAD/GGD-95-31, Dec. 19, 1994).

value analysis.<sup>5</sup> The act changed the budget treatment of credit programs so that their costs can be compared more accurately with each other and with the costs of other federal spending.

Before credit reform, credit programs—like other U.S. government programs—were reported in the budget on a cash basis. This created a bias in favor of loan guarantees over direct loans. Loan guarantees appeared to be free, while direct loans appeared to be expensive because the budget did not recognize that at least some of the loan guarantees would default and that some direct loans would be repaid.

The Federal Credit Reform Act has significantly changed the manner in which the Eximbank finances its credit activities. Under the act, the President's budget for fiscal year 1992 and after must include the total estimated cost to the Eximbank, instead of just the cash flows, of its direct loans, guarantees, and insurance. Under the act, the Eximbank may not incur new obligations or commitments unless Congress specifically appropriates budget authority to cover the estimated costs of these obligations and commitments in advance. Credit reform, in effect, increases congressional involvement in the Eximbank's decision making process about which countries should receive export credits. Congress should now know the estimated costs involved in potential transactions up front—during the budget process.

In fiscal year 1994, the Eximbank received a net appropriation of \$1,749.5 million (see table I.2). Of this amount, \$717.1 million was used to repay borrowings originated before credit reform was implemented in October 1991. The remainder of this appropriation, \$1,032.4 million, was used to cover the estimated subsidy cost of providing new financing—\$987 million—and the associated administrative costs of providing these programs—\$45.4 million.

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<sup>5</sup>Present value analysis calculates the value today of a future stream of income or cost.



**Appendix I  
Six Nations' Government-Supported  
Export-Financing Programs**

**Table I.2: The Eximbank's Credit Reform Appropriations, Fiscal Years 1992-94**

Dollars in millions			
<b>Eximbank appropriations<sup>a</sup> received</b>	<b>Fiscal year 1992</b>	<b>Fiscal year 1993</b>	<b>Fiscal year 1994</b>
For liquidation of pre-fiscal year 1992 obligations	\$3,294.5	\$974.9	\$717.1
For credit subsidies and related administrative costs	641.0	802.7	1,032.4
<b>Total received</b>	<b>\$3,935.5</b>	<b>\$1,777.6</b>	<b>\$1,749.5</b>
Eximbank obligations			
For liquidation of pre-fiscal year 1992 obligations	3,294.5	974.9	717.1
For credit subsidies and related administrative costs	639.0	681.2	980.7
<b>Total obligations</b>	<b>\$3,933.5</b>	<b>\$1,656.1</b>	<b>\$1,697.8</b>
Remaining balance <sup>b</sup>	0	121.4	50.3

<sup>a</sup>Appropriations in 1993 and 1994 are net appropriations.

<sup>b</sup>The remaining balance is available for tied aid authorizations (foreign assistance linked to the purchase of exports from the country extending the assistance). This balance does not include lapsed unobligated balances of \$2 million, \$.1 million, and \$1.4 million for fiscal years 1992-94, respectively.

Sources: Eximbank annual reports, 1993 and 1994.

## France

### Background

France has the second largest economy within the EU, with a population of 57.7 million and a GDP of \$1,254.4 billion in 1993.<sup>6</sup> In 1993, its merchandise exports totaled about \$206.3 billion, or 16.4 percent of GDP; about 60 percent of these exports were sent to other EU countries.

France's business environment is fundamentally different from that of the United States. Historically, the French have believed that government must play a major role in the economy. Consequently, state-owned enterprises represent a significant portion of French GDP. At the beginning of 1993, 70 state-owned enterprises accounted for approximately

<sup>6</sup>We converted French francs (FF) to dollars using the average 1993 exchange rate of 5.662 FF/\$1.

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30 percent of French GDP. However, the French government plans to privatize many of these companies over the next several years.

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## Financing Organizations

According to French government officials, French export credit policy is jointly formulated within the Ministère de l'Économie et des Finances—the Ministry of Economics and Finance—by two separate entities: the Directeur des Relations Économiques Extérieures (the Directorate for External Economic Relations—DREE), and the Trésor (the Treasury). The two entities are considered “equal partners” within the ministry. DREE is an advocate for French exporters and actively promotes increased export assistance for French businesses, while the Treasury tends to be more cautious and sensitive to the budgetary and financial implications of export credit decisions. Ministry export credit policies are implemented through two financial sector intermediaries, a quasi-public insurance company—the Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)—and a quasi-private bank—the Banque Française du Commerce Extérieur (BFCE).

COFACE, established in 1946, and BFCE act as France's ECAS. COFACE administers and delivers the export credit assistance that is provided through the French government. According to COFACE officials, the French government maintains an indirect equity interest in COFACE through its shareholdings in the state-owned banks and insurance companies that are COFACE's major shareholders. Although COFACE is gradually being privatized as part of a broader government strategy to reduce state involvement in the business sector, the French government estimated that it would control about one-third of COFACE shares at the end of 1994.

COFACE exercises a dual role by insuring some risks on its own account and other risks on behalf of the French government. Specifically, COFACE insures (1) short-term commercial risks and political risks to Organization for Economic Cooperation and Development (OECD) countries (except Turkey) on its own account and (2) longer term commercial risks and political risks in non-OECD countries (and Turkey) on behalf of the French government.

When insuring on its own account, COFACE is responsible for its underwriting decisions. On business run on behalf of the government, COFACE is guided by the decisions of an interagency governmental committee, the Commission des Garanties et du Crédit au Commerce Extérieur, that DREE chairs. The interagency committee is made up of

representatives from the Ministry of Economic Affairs and Finance, the Ministry of Foreign Affairs, relevant technical ministries, the Banque de France (French central bank), COFACE, and BFCE. According to French government officials, this committee meets every 2 weeks to review and set cover (insurance and loan guarantee program) policies for French exporters, particularly for those transactions that are potentially sensitive—large exposures or exposures to countries with high levels of risk.

COFACE has a delivery network of 22 regional offices and 5 overseas offices. COFACE officials estimated that about 650 staff handled the government account business in 1993. The French government annually reimburses COFACE for the administrative costs of delivering the government-backed export credit services. In 1993, the French government paid COFACE 473 million FF (\$83 million) for providing these services.

Government interest rate support is provided through BFCE, a government-owned bank that performs various public service roles, including subsidizing interest rates on export credits. France's central bank, the Banque de France, holds 11 percent of BFCE's capital. Other state-owned or partially state-owned companies hold a majority of the remaining capital. According to French government officials, BFCE's role in the French export credit system has changed in the last few years. In 1989, it stopped extending long-term financing on behalf of the French government, but it is still involved in providing interest rate subsidies to eligible French exporters.

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## Export-Financing Programs

COFACE offers a wide variety of export credit cover programs that the French government backs. This cover is available on loans made by banks (buyer credits) and loans made by exporters (supplier credits) to buyers for financing export sales. COFACE does not offer direct financing for export credits (e.g., loans).

Unlike the Eximbank, COFACE generally does not offer 100-percent coverage of the risks of an export transaction, thus requiring all policyholders to retain some element of the transaction's risk. The maximum cover that COFACE offers ranges between 85 and 95 percent depending on the type of export loan insured. For buyer credits, COFACE covers up to 95 percent of the amount financed by banks for both political and commercial risks. For supplier credits, COFACE covers up to 90 percent of political risks and 85 percent of commercial risks.

In addition, COFACE guarantees are more conditional than Eximbank guarantees and only cover the particular risks that are specified in the export insurance contracts. COFACE is only liable for losses provided that the exporter has complied with all of the relevant contract provisions and policy conditions. Thus, little practical distinction exists between COFACE insurance and guarantees. In case of a dispute between the exporter and the buyer, COFACE will not pay a claim until a final judgment or an arbitration award has been handed down. COFACE officials told us that in some cases exporters must wait several months before claims are paid. COFACE policy is that small claims (\$3,000 or less) will be paid in 2 months and others will be paid within 5 months.

Although direct loans to exporters are not offered in the French export-financing system, BFCE offers interest rate support for export credits of 24 months or more to developing countries. This support is allowed under the guidelines that OECD members adopted. COFACE cover is compulsory for credits financed through BFCE intervention.

Some programs that COFACE offers—market survey insurance, foreign exchange risk insurance, and overseas investment insurance—are not available from the Eximbank.

- Market survey insurance pays for some of an exporter's costs associated with prospecting for foreign sales, including market research expenses, advertising, and the costs of adapting products to local needs. A simplified version of this program is available for small firms whose overall sales do not exceed 300 million FF (approximately \$60 million).<sup>7</sup>
- Foreign exchange risk insurance allows exporters to quote prices and sell their products in a number of foreign currencies without incurring any of the risks due to the adverse fluctuations of the currencies relative to the FF during the bidding and negotiation process of a contact.
- Overseas investment insurance covers the political risks associated with investing in foreign countries, including the risks of expropriation, war, revolution, changes in local legislation dealing with foreign investment, and transfer risks.<sup>8</sup> (This type of insurance is available in the United States through OPIC.)

## Project Financing

According to COFACE officials, COFACE reviewed approximately 15 project finance applications during 1994; only 3 of these applications are likely to

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<sup>7</sup>Using the June 1, 1995, exchange rate of 4.999 FF/\$1.

<sup>8</sup>Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments.

be approved. COFACE has hired a financial specialist to help complete detailed analysis of expected project cash flows. COFACE officials believe this additional in-house expertise on project finance is necessary to provide greater assurances that financial projections for private sector undertakings are complete and accurate.

### Program Emphasis

According to French government officials, the French offer liberal export credit insurance coverage in a number of markets, especially for countries that have had close, historic ties to France, such as its former colonies in Africa. Unlike the U.S. government, the French government does not formally target particular regions of the world for special export promotion and financing assistance. Most of France's export-financing assistance is directed toward non-OECD countries that have had long-standing commercial relationships with France.

Current French government budgetary pressures and past losses in the newly independent states (NIS) of the former Soviet Union (FSU) have slowed the issuance of additional cover to the NIS. According to French government data, industry sectors that are major beneficiaries of French export credit assistance include large projects, military goods, aircraft and shipbuilding, and capital goods.<sup>9</sup> In 1992, support for these sectors represented 35.8, 21.4, 15.4, and 16.3 percent, respectively, of COFACE's total state account activity.

### SME Financing

The French government supports small- and medium-sized enterprises through its export-financing programs. According to French officials, "small businesses" are generally defined as companies with fewer than 500 employees. Support for small business exporters is provided through a variety of sources, including simplified COFACE policies designed for small companies, programs provided through the Agence Nationale pour la Valorisation de la Recherche (ANVAR), and programs provided by regional councils. ANVAR promotes and finances innovations in technology, particularly for small- and medium-sized businesses. It provides financial support for research and development activities, including interest-free loans for market research overseas and technical development. If the venture results in failure, the loan is forgiven up to a prespecified maximum.

### Risk Assessment and Pricing

According to COFACE officials, the rates the French charge for their export credit insurance are considered moderate relative to the rates of major

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<sup>9</sup>In the United States, export-financing assistance for defense goods is separately provided through the Department of Defense (DOD).

ECAS. Country cover and premium policies are based on a country risk scheme that separates countries into one of four separate categories of risk. These country risk categories are based on a weighing of a variety of quantitative measures, including debt payment and financial, economic, and political indicators. These data are collected through an overseas network of financial and commercial attachés, in-house sources, and outside consultants.

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## Program Budgeting and Results

Unlike Eximbank requirements under the Federal Credit Reform Act of 1990, the French government's budgeting for the cost of COFACE operations is performed on a cash basis, according to French government officials. Under this approach, the government reimburses COFACE for the net cash deficits it sustains on its government-supported operations during the year. However, the cash deficit for any 1 year is not indicative of current-year performance because losses on prior-year loans are included in this total. And the government does not require COFACE to estimate separately the long-run costs of new policies when they are issued or obtain advance legislative authority to make new obligations. COFACE's annual reports provide some information on its activities. However, since COFACE operates under French insurance company accounting rules, it is difficult to assess program results for any given year.

Some overall program discipline is imposed, however. To limit its exposure, the French government sets an overall exposure limit and individual country ceilings for COFACE annually. And, as previously mentioned, an interagency committee meets regularly to discuss and review new applications for COFACE cover.

In 1993, the French government reported that it had sustained a net cash deficit of about 5.750 FF billion (\$1.016 billion) on its export-financing assistance activities—a deficit of 5.250 billion FF (\$927 million) on COFACE activities and 0.500 billion FF (\$88 million) on BFCE activities. (See table I.3.) Although sizable, the amount of the government's losses has declined since 1991. In 1993, the French government covered about \$35.66 billion of exports through COFACE programs, about 17.3 percent of total French exports.

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**Table I.3: Net Cash Outlays of French Government for Export-Financing Assistance Programs, 1991-93**

FFs and U.S. dollars in billions			
Export-financing assistance program	1991	1992	1993
COFACE cover	9.054 FF \$ 1.605	6.430 FF \$1.215	5.250 FF \$.927
BFCE interest rate subsidies <sup>a</sup>	1.111 FF \$.197	0.864 FF \$.163	0.500 FF \$.088
<b>Total<sup>b</sup></b>	<b>10.165 FF \$1.802</b>	<b>7.294 FF \$1.378</b>	<b>5.750 FF \$1.016</b>

<sup>a</sup>Administered by BFCE on behalf of the French Treasury.

<sup>b</sup>Exchange rates used: 1991, 5.641FF/\$1; 1992, 5.294FF/\$1; 1993, 5.662FF/\$1. Totals may not add due to rounding.

Sources: COFACE annual report 1993; French Treasury information.

## Germany

### Background

Germany represents the largest economy in the EU, with a population of 81.1 million and a GDP of \$1,712.9 billion in 1993. In 1993, its merchandise exports totaled \$365.3 billion, about 21.3 percent of its GDP.

### Financing Organizations

The German government provides export-financing assistance for banks and exporters through several private and public institutions, including the Hermes/C&L Treuarbeit consortium (Hermes), Kreditanstalt für Wiederaufbau (KfW), and AKA Ausfuhrkredit Gesellschaft mbH (AKA).

Hermes Kreditversicherungs-AG, a private credit insurance company, and C&L Treuarbeit Deutsche Revision AG, an auditing firm, have jointly administered the German government's export credit guarantee and insurance program since 1948. Hermes plays the leading role in the consortium. In addition to operating the government's export credit insurance and loan guarantee program under their consortium, the two companies also operate their own private businesses. An interministerial committee, with representatives from the German Ministries of Economics, Finance, Foreign Affairs, and Economic Cooperation and Development functions as the central decisionmaking body for the Hermes program. However, it generally allows Hermes to approve cover for export transactions with values of up to German marks (DM) 5 million

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(\$3.5 million)<sup>10</sup> or up to DM 2.5 million (\$1.8 million) for transactions with relatively higher risks.

KfW is a government-owned bank that supports the objectives of the German government's economic policy.<sup>11</sup> Although it receives some funds from the German central government, KfW raises most of its own funds from the capital markets. KfW functions as the German government's development bank, providing support for both the domestic German economy and the economies of developing countries. Since German reunification, KfW has targeted much of its assistance to new German states in the former East Germany. KfW is supervised by the German Ministry of Finance and a board of supervisory directors with representatives from other federal government ministries, the German state governments, private industry, trade unions, and other institutions.

AKA, established in 1952, is a private consortium of 43 German banks whose goal is to provide commercial export financing. As a private bank, AKA is subject to routine government supervision under Germany's banking law. Most of AKA's loans, which include both buyer and supplier credits, do not receive official support. However, one of AKA's four loan facilities (Plafond B) allows AKA to refinance supplier credits through Germany's central bank (the Deutsche Bundesbank). In March 1995, the Deutsche Bundesbank decided to reduce this support in 1995 and eliminate it entirely by June 1996.

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## Export-Financing Programs

The German government provides export-financing assistance through export credit cover for banks and exporters and through direct export loans, special types of cover, and interest rate support.

## Export Credit Insurance

Hermes offers insurance to German exporters who extend loans to their foreign buyers. Policies can cover a single short-, medium-, or long-term export transaction, multiple short-term transactions involving the same foreign buyer over a 1-year period (revolving cover), or an exporter's entire short-term business with several foreign buyers over a maximum 2-year period (comprehensive cover). Hermes insurance generally covers both political and commercial risks simultaneously. However, Hermes may cover political risks only on some policies on a case-by-case basis.

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<sup>10</sup>DM values for 1993, 1992, and 1991 operations were converted into dollars using the respective average exchange rates of DM1.653, DM1.562, and DM1.659 = \$1. All other DM values were converted into dollars at the June 1, 1995, exchange rate of DM1.423 = \$1.

<sup>11</sup>KfW is 80-percent owned by the German federal government and 20-percent owned by the German state governments.



Exporters must bear some of the risks, since Hermes' cover is limited to 90 percent of political risks and 85 percent of commercial risks.

Hermes offers exporters policies against risks both before and after goods are shipped or services are rendered. Terms of cover vary depending on whether the foreign buyer is a public or private entity. Hermes' export credit insurance policies are conditional, in that exporters must prove that all terms of the original policy that Hermes issued were fulfilled. In addition to covering goods and services, Hermes' policies may also cover leasing contracts and overseas construction works.

#### Export Loan Guarantees

Hermes offers export loan guarantees to banks that extend buyer credits to foreign buyers of German exports. Hermes covers up to 95 percent of the amount that banks finance for both political and commercial risks. However, banks must bear the remaining 5 percent of the loan without recourse to the exporter. Hermes' guarantees to banks are conditional. When claims are filed, banks must prove that all terms of the original Hermes-guaranteed policy were fulfilled.

#### Other Types of Guarantees/Insurance

The German government offers overseas investment insurance through a separate program of the Hermes/C&L Treuarbeit consortium, for which Treuarbeit plays the leading role. The program provides cover up to 95 percent of investments abroad for political risks such as nationalization, expropriation, war, rebellion, and currency conversion.

#### Export Loans

Export loans are available to German exporters from KfW, AKA, and other banks. However, only some of KfW's and AKA's export loans receive government support.

Under one of its export-financing programs, KfW offers long-term loans of at least 4 years for the export of German capital goods and services, using its own funds and European Recovery Program (ERP)<sup>12</sup> funds from the German government. KfW must abide by OECD's interest rate guidelines when extending these loans. KfW may provide export loans using these funds of up to DM170 million (\$119 million) but requires that the financing be covered by Hermes. Only exports to developing countries, as OECD defines them, are eligible for loans under ERP.

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<sup>12</sup>KfW was originally founded in 1948 to administer U.S. Marshall Plan funds through ERP in order to finance reconstruction projects in Germany.

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**Interest Rate Support**

The German government provides interest rate support for AKA's Plafond B supplier credits<sup>13</sup> through the Deutsche Bundesbank. AKA provides these loans at an interest rate of 0.75 percent above the Deutsche Bundesbank's official discount rate.<sup>14</sup> AKA may then refinance the loans through the Deutsche Bundesbank at the official discount rate. Exporters must self-finance 30 percent of an export contract's value to be eligible for Plafond B loans. Furthermore, according to AKA officials, AKA member banks generally may only use Plafond B loans to refinance up to 55 percent of an export contract's value.

AKA loans extended through Plafond B are limited to a ceiling of DM2.25 billion (\$1.58 billion), about 9 percent of AKA's overall lending ceiling, and are available for export transactions with combined production and credit periods of between 1 and 4 years. In March 1995, the Deutsche Bundesbank decided to reduce the overall Plafond B ceiling to DM1.25 billion (\$878 million) as of June 1, 1995, and to eliminate the facility entirely as of June 1, 1996.

AKA loans involving Plafond B funds with credit periods of at least 2 years are subject to OECD minimum interest rates and generally require Hermes cover. If the effective interest rate on such loans falls below the applicable OECD minimum interest rate, the exporter must pay additional interest to the Carl Duisberg Gesellschaft, e.V., a German nonprofit institution for international training and personnel development.

**Project Financing**

Hermes has a small group of staff dedicated to examining applications for export credit cover for project financing. Treuarbeit staff typically evaluate project feasibility studies for such applications. According to KfW officials, KfW has not established a separate organizational unit to handle project financing.

**Program Emphasis**

The government-supported export-financing assistance programs administered by Hermes, KfW, and AKA are generally available for all types of exports. However, most exports assisted through these programs involve high-value capital goods and services. In addition, since German reunification, the programs have focused on assisting exporters in the former East Germany.

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<sup>13</sup>For these loans, AKA member banks discount exporters' DM promissory notes (written promises from exporters' customers to pay exporters within specified time frames).

<sup>14</sup>The "discount rate" is the interest rate that a central bank charges member banks for loans. The discount rate represents a floor on interest rates in a particular country, since banks generally set interest rates on the loans that they extend at levels above the discount rate.

Hermes covered a wide range of exports in 1993, particularly production facilities, machinery, ships, electronics, aircraft, and automobiles. According to Hermes officials, less than 1 percent of Hermes' policies covered defense-related exports in 1993, which were generally restricted to countries that belong to the North Atlantic Treaty Organization (NATO). By the end of 1993, 65.5 percent of Hermes' cover involved exports to developing countries and members of the Organization of Petroleum Exporting Countries, while Central and East European countries accounted for 24 percent of the total.

KfW/ERP loans are available for exports of capital goods and related services to developing countries. In 1993, most KfW loans involved exports in the mechanical engineering, vehicle construction, electrical engineering, and telecommunications industries.

## SME Financing

The German government does not specifically target SMEs under its export-financing assistance programs. Nevertheless, SMEs can access these programs, as well as other types of financial support, from both the public and private sector. For example, under its private business, Hermes offers a commercial insurance policy to SMEs with annual sales up to DM4 million (\$2.8 million). This policy protects SMEs from customers who do not pay their debts.

Many of KfW's efforts to promote the domestic German economy also involve programs for SMEs. Using funds from its own resources and the German government, KfW makes loans available to SMEs and investors in SMEs for business modernization, expansion, equipment, research and development, and overseas projects. Recently, much of this assistance has gone to support SMEs in eastern Germany with traditional markets in Central and Eastern Europe and the FSU. In addition, German SMEs have traditionally received considerable support for export promotion from local chambers of commerce.

## Risk Assessment and Pricing

Hermes charges premiums for export credit guarantees and insurance on the basis of country risks. The German government classifies each export market into one of five country risk categories. (Before July 1994, premiums for Hermes cover did not vary by country risk. The German government introduced the five-category system in anticipation of EU harmonization in this area.) In addition, premium levels vary depending on the status of the buyer (public or private) and the type of policy involved (comprehensive or single transactions). KfW/ERP loans and AKA loans of at

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least 2 years that involve Plafond B funds are subject to minimum OECD interest rates and payment terms.

**Program Budgeting and Results**

The German government funds the Hermes cover program on a cash basis. The German government reimburses the consortium for the program's operational and administrative costs and pays it a fee for running the program. The German government does not require Hermes to estimate or set aside funds for the long-term costs of new policies before it issues them. In 1993, the Hermes program resulted in a net cash deficit for the German government of DM5.104 billion (\$3.088 billion). (See table I.4.) Hermes attributed much of this deficit to loan defaults from FSU countries.

**Table I.4: Net Cash Outlays of German Government for Export-Financing Assistance Programs, 1991-93**

German DM and U.S. dollars in millions			
<b>Export-financing assistance program</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
Hermes/Treuarbeit cover <sup>a</sup>	DM1,916 \$1,155	DM2,309 \$1,478	DM5,104 \$3,088
KfW/ERP loans	NA	NA	NA
Deutsche Bundesbank refinancing of AKA Plafond B loans	NA	NA	NA

Legend

NA = not available

<sup>a</sup>Does not include figures for overseas investment insurance. These figures were not available.

Source: Hermes/Treuarbeit.

Each year, the German government establishes a limit on the overall amount of cover that Hermes can offer. It also sets country-specific limits for certain markets considered to have higher risks, such as FSU countries. For 1993, the government established an overall exposure limit of DM180 billion (\$109 billion) for the Hermes program. By the end of 1993, the cumulative exposure of the German government under the Hermes program reached DM166.7 billion (\$100.8 billion). During that same year, the Hermes program covered new export transactions worth DM33.7 billion (\$20.4 billion), about 5.6 percent of total German exports.

The German government supports KfW/ERP export loans through an annual appropriation from the German federal budget. The German government does not require KfW to estimate the long-term costs of new

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KfW/ERP loans before the bank extends them. However, the German government expects KfW to reimburse these funds as the loans amortize. When extending these loans, KfW combines the government's ERP funds with funds it raises in capital markets in a ratio of 1 to 3 (or more). In 1993, KfW extended new KfW/ERP loans of about DM486 million (\$294 million).

The German government provides interest rate support for AKA's Plafond B supplier credits through a refinancing facility of the Deutsche Bundesbank. In 1993, AKA approved 326 new Plafond B loans totaling DM1.453 billion (\$879 million), about 16 percent of the value of all new loans that AKA extended that year. As of the end of 1993, Plafond B loans represented about 5 percent of AKA's outstanding loans.

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## Italy

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### Background

Italy represents the third largest economy in the EU, with a population of 58 million and a GDP of \$999.7 billion in 1993. Italian exports, totaling about \$168.5 billion, represented about 16.9 percent of Italian GDP in 1993.

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### Financing Organizations

Italy offers government export-financing assistance through the Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE, the Special Section for Export Credit Insurance) and the Istituto Centrale per il Credito a Medio Termine (Mediocredito Centrale, the Central Institute for Medium-Term Credits). Italy established its current export credit system in 1977 by creating SACE and specifying new functions and responsibilities for Mediocredito Centrale.

The Comitato Interministeriale per la Programmazione Economica (the Interministerial Committee for Economic Planning) coordinates the Italian government's policies on export credit support programs administered through SACE and Mediocredito Centrale. According to Italian officials, the Interministerial Committee consists of representatives from the Ministries of Budget and Economic Planning, Foreign Affairs, the Treasury, Agriculture and Forestry, Industry and Commerce, and Foreign Trade.

SACE provides export credit insurance, loan guarantees, and reinsurance that the Italian government ultimately backs. SACE is a public institution and operates as an autonomous section of the state-owned insurance

group Istituto Nazionale delle Assicurazioni (INA, the National Insurance Institute). SACE maintains budgetary, financial, and management autonomy from INA. Although INA is currently undergoing privatization and restructuring, SACE officials indicated that SACE would continue to be a public institution.

SACE is supervised by the Italian Treasury and governed by a management board comprising seven representatives from various government ministries, INA, and Mediocredito Centrale. The board decides on major policies and authorizes insurance transactions for SACE. However, the board delegates responsibility for authorizing cover worth less than Italian lira (L) 5 billion (\$3 million)<sup>15</sup> to the Director of SACE. In addition, the Treasury must approve cover for all credit terms exceeding 5 years.

Mediocredito Centrale is a public financial institution that provides loans and interest rate subsidies to Italian businesses for both domestic and overseas operations. Established in 1952, Mediocredito Centrale administers several programs and funds on behalf of the Italian government, including aid to developing countries, loans and grants to SMES, and interest rate subsidies on export credits. However, Mediocredito Centrale also functions as a commercial bank, extending direct loans (including export loans) from its own resources and activities without government support. In 1994, Mediocredito Centrale became a joint stock company but will remain state-owned and state-controlled.

Mediocredito Centrale is overseen by a general council and a board of directors, whose members are appointed by the Italian government. As an Italian credit institution, Mediocredito Centrale is subject to bank supervision by the Bank of Italy.

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## Export-Financing Programs

The Italian government provides export-financing assistance through export credit cover for banks and exporters and interest rate support for commercial export credits.

## Export Credit Insurance

SACE insures political and commercial risks for short-, medium-, and long-term export loans. SACE cover is available for loans made by banks (buyer credits) and loans made by exporters (supplier credits) for financing Italian exports. For medium- and long-term loans, SACE offers individual policies covering political risks up to 90 percent of supplier

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<sup>15</sup>Italian lira values for 1993, 1992, and 1991 operations were converted into dollars using the respective average exchange rates of L1,572.0, L1,232.0, and L1,245.4 = \$1. All other lira values were converted into dollars at the June 1, 1995, exchange rate of L1,649.0 = \$1.

credits and 95 percent of buyer credits. Comprehensive policies are available for covering an exporter's entire short-term business. The level of SACE cover for political and commercial risks varies on a case-by-case basis. However, the level of cover for commercial risks may not exceed that offered for political risks.

**Export Credit Guarantees**

SACE guarantees short-, medium-, and long-term political and commercial risks for Italian and foreign banks providing export loans and lines of credit. SACE may cover up to 95 percent of the amount financed.

**Other Types of Guarantees/Insurance**

SACE also offers export credit insurance policies for risks associated with fluctuations in currency exchange rates, bond payments, overseas investments, market surveys, and public works contracts. In addition, SACE reinsures all short-term export credit guarantees issued by two commercial credit insurers in Italy (Società Italiana Assicurazione Crediti and, according to Italian officials, Viscontea), except for those policies involving markets in which SACE does not offer cover. The reinsurance policies cover up to 95 percent of political and 30 percent of commercial risks, subject to an annual ceiling of 14.5 trillion (\$2.77 billion). According to Italian officials, one of the advantages of these reinsurance arrangements is to allow the commercial insurers to benefit from SACE's statutory exemption from Italian taxes on insurance premiums.

**Export Loans**

The Italian government does not offer export loans directly. Medium- and long-term export loans (over 18 months) are available from specialized financial institutions and certain large commercial banks in Italy and abroad. Such credits are eligible for interest rate subsidies from Mediocredito Centrale. Short-term loans are available from commercial banks without Mediocredito Centrale support. For certain markets, according to Italian officials, forfaiting<sup>16</sup> is important for Italian exporters to finance their exports. Forfaiting transactions are eligible for Mediocredito Centrale subsidies as well.

**Interest Rate Support**

Mediocredito Centrale subsidizes interest rates on medium- and long-term export loans on behalf of the Italian government. Under this program, Mediocredito Centrale can subsidize buyer and supplier credits with a minimum maturity of 18 months. However, those credits with a maturity of at least 2 years are subject to the minimum interest rates specified in the OECD Consensus. Eligible export credits may be denominated in lira or foreign currencies and issued by Italian or foreign banks. SACE cover is not

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<sup>16</sup>Forfaiting is a method of trade finance whereby an exporter sells a receivable to a purchaser ("forfeiter") at a discount for cash. The forfeiter has no recourse to the exporter if the original party to the transaction defaults.

required for obtaining Mediocredito Centrale's interest rate subsidy. However, according to Italian officials, most transactions that benefit from Mediocredito Centrale's interest rate support also receive SACE cover.

**Project Financing**

SACE has recently established a separate group to review requests for SACE assistance with project financing. According to SACE officials, SACE has assisted in about 10 project finance deals and several other similar limited recourse arrangements since 1988. Mediocredito Centrale has begun to develop expertise in reviewing and arranging financing operations for proposed projects.

**Program Emphasis**

In 1993, SACE insured new export transactions worth L8.889 trillion (\$5.655 billion), about 3.4 percent of total Italian exports.

By the end of 1993, 93.1 percent of the cumulative exposure of the Italian government under the SACE program was concentrated in nonindustrialized countries. According to SACE officials, SACE is most heavily exposed to the possibility of loan defaults by Algeria, Russia, and Iran.

For new transactions approved in 1993, Mediocredito Centrale's interest rate subsidies for export credits were geographically distributed (in terms of the value of the underlying credits) among developing countries (66 percent), non-EU industrialized countries (16 percent), East European countries (16 percent), and EU countries (2 percent).

**SME Financing**

SACE has no special programs for SMES. However, according to Italian government and industry officials, SMES constitute a significant proportion of Italian exporters and are major SACE customers. Mediocredito Centrale also does not have a special scheme for promoting SMES within its interest rate subsidy program for export credits. However, Mediocredito Centrale provides financing and refinancing support to SMES for various activities. Such loans are available for SMES to finance their acquisition of equipment and transportation of goods in a variety of industries.

**Risk Assessment and Pricing**

SACE's policy is to assess premiums based on the country risk associated with a particular market, the type of risk covered, the length of the credit term, and the existence of bank guarantees. SACE classifies markets into six country risk categories.

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**Program Budgeting and Results**

SACE operates within statutory limits set annually by the Italian government and Parliament. For short-term cover (credits of up to 2



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years), SACE operated within a statutory ceiling of L18 trillion (\$11.5 billion) in 1993. For medium- and long-term cover (credits over 2 years), the Italian government establishes an annual ceiling on new commitments for SACE in the budget, which was set at L12 trillion (\$7.6 billion) for 1993. SACE also establishes exposure ceilings for individual countries.

In principle, SACE is expected to fund itself primarily from its operating income and an endowment fund financed by the Italian government. In practice, however, SACE has been operating at a net cash deficit that the Italian government has funded. In 1993, SACE insured L8.889 trillion (\$5.655 billion) worth of new exports, about 3.4 percent of total exports. During the same year, SACE operated at a net cash deficit of L1.661 trillion (\$1.057 billion). (See table I.5.)

**Table I.5: Net Cash Outlays of Italian Government for Export-Financing Assistance Programs, 1991-93**

Italian lira and U.S. dollars in millions			
<b>Program</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
SACE insurance and guarantees	L1,458,877 \$1,171	L1,451,452 \$1,178	L1,661,406 \$1,057
Mediocredito Centrale interest rate subsidies for export loans	L369,767 \$297	L370,971 \$301	L435,394 \$277
<b>Total</b>	<b>L1,828,644</b> <b>\$1,468</b>	<b>L1,822,423</b> <b>\$1,479</b>	<b>L2,096,800</b> <b>\$1,334</b>

Sources: SACE and Mediocredito Centrale.

SACE does not publicly disclose the estimated long-term liabilities and assets of its portfolio, such as expected losses and recoveries, on an accrual basis. However, according to Italian officials, it annually estimates its expected cash needs for the Italian government. SACE's total commitments outstanding as of the end of 1993 amounted to L45.818 trillion (\$29.146 billion).

Mediocredito Centrale receives funds from the Treasury to provide interest subsidies on export loans on behalf of the government. To finance its other commercial and public-oriented activities, Mediocredito Centrale borrows from Italian and foreign banks and uses its state-financed endowment fund. In 1993, the government provided L435,394 million (\$277 million) to fund Mediocredito Centrale's interest rate subsidies for export loans.

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## The Netherlands

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### Background

The Netherlands, the sixth largest economy within the EU, with a population of about 15 million, is heavily dependent on foreign trade. In 1993, merchandise exports were \$139.1 billion, or 45 percent of the Netherlands' GDP of \$309.4 billion; about 74 percent of these exports were sent to other EU countries.

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### Financing Organizations

Nederlandsche Credietverzekering Maatschappij N.V. (NCM) delivers export-financing assistance to Dutch banks and exporters on behalf of the Dutch government. NCM is a subsidiary of NCM Holding N.V., which is owned by major Dutch banks and insurance companies as well as several foreign insurance companies. NCM's holdings include the Insurance Services Group, the short-term credit insurance arm of the U.K.'s Export Credits Guarantee Department (ECGD), which was acquired in 1991.

NCM was founded in 1925. A 1932 agreement with the Dutch government established a reinsurance arrangement between NCM and the Dutch government. Under this agreement, NCM is to insure the commercial risks of Dutch exporters on its own account and reinsure noncommercial risks with the Dutch government.<sup>17</sup> NCM handles all activities related to government-supported export credit insurance transactions, including processing applications and paying claims. Thus, under the Dutch system, exporters deal exclusively with a single private-sector provider that supplies a full range of export credit insurance services, according to Dutch government officials.

According to Dutch government officials, the Dutch government pays NCM a management fee for delivering and administering these insurance services—in 1993, the Dutch government paid NCM 31 million Dutch guilders (NLG) (about \$16.7 million<sup>18</sup>) for providing these services. According to NCM officials, about 185 staff of the 608 NCM employees are dedicated to the government account business.

Three separate government organizations—the Central Bank of the Netherlands, the Ministry of Finance, and the Ministry of Economic

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<sup>17</sup>NCM is to reinsure (with the Dutch government) commercial risks for which no cover in the private market is available as well as other risks, such as foreign exchange risks and political risks assumed under investments in developing and East European countries.

<sup>18</sup>The exchange rate used was the 1993 average exchange rate of NLG1.857/\$1.

Affairs—are involved in approving applications for cover that exceed NCM's approval ceiling of NLG10 million (approximately \$6.29 million).<sup>19</sup> A unique feature of the Dutch system is that the central bank is involved in approving applications for export credit cover, according to Dutch officials. The central bank approves requests for export credit cover between NLG10 million and NLG25 million (approximately \$15.72 million), and the Ministry of Finance and the Ministry of Economic Affairs jointly approve requests for export credit cover over NLG25 million. Dutch government officials said that the Ministry of Finance and the Ministry of Economic Affairs are equal partners in this arrangement. The risks of the government-insured transactions are reinsured through the budget of the Ministry of Finance.

A committee of private and public officials advises the Ministry of Finance and the Ministry of Economic Affairs on matters involving general export credit insurance. This advisory committee includes representatives of banks, industry, and trade and insurance companies, as well as government officials from the Dutch ministries of Finance, Economic Affairs, and the Central Bank.

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## Export-Financing Programs

NCM supports Dutch banks and exporters by offering government-supported export credit cover, overseas investment insurance, and other special types of cover. This cover is available on loans made by banks and loans made by exporters to buyers for financing export sales. The government does not provide direct loans to exporters.

## Export Credit Insurance

NCM insurance is available for short-, medium-, and long-term transactions.<sup>20</sup> Short-term (1 year or less) cover is offered for consumer goods, raw materials, semifinished goods, and services. The amount of cover provided for short-term business is usually 75 percent. In some cases, short-term cover up to 95 percent of the export credit is offered. Medium- and long-term cover is available for capital goods, construction works, and engineering services. For medium- and long-term business, the maximum percentage of cover is usually 90 percent for commercial risks and 95 percent for political risks, according to Dutch government officials.

According to Dutch officials, the maximum cover policy of 95 percent offered by NCM requires exporters and financing banks to share some of

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<sup>19</sup>At the June 1, 1995, exchange rate of NLG1.590/\$1.

<sup>20</sup>According to OECD, export credits are generally divided into short-term (usually below 2 years), medium-term (usually 2 to 5 years), and long-term (usually over 5 years) credits.

the risks of an export transaction. Consequently, this policy minimizes the number of frivolous applications for export credit cover. These officials also told us that this risk-sharing requirement for export credit insurance also helps speed application processing because less up-front exporter scrutiny and examinations of the applicant's financial status are required.

#### Other Types of Insurance

NCM offers other types of government-supported export credit cover, such as lease insurance, foreign exchange risk insurance, and overseas investment insurance. Lease insurance covers the risks due to nonpayment of leases. Exchange risk insurance covers the losses due to foreign exchange rate fluctuations on contracts not denominated in Dutch guilders. Overseas investment insurance covers the political risks of investing in developing countries, East European countries, and FSU countries.

#### Interest Rate Support

The Dutch government operates an interest rate subsidy program through the Ministry of Economic Affairs. Under this program, the government can subsidize the difference between market interest rates and minimum interest rates specified by the OECD Consensus, according to Dutch government officials. Both buyer and supplier credits of at least 2 years' duration are eligible for the subsidies.

#### Project Financing

NCM officials told us that NCM's medium-term export credit risk department is involved in project financing as an adviser and an underwriter. However, it does not provide any of the actual financing assistance that is needed to complete specific capital projects. No special project finance unit has yet been formed to deal with project finance issues because the Dutch government is still formulating a response to this issue, Dutch officials said.

#### Program Emphasis

According to Dutch government officials, the Netherlands does not have a strategy that focuses on particular countries, industries, or business sectors. Unlike the United States, no "big emerging markets" have been identified for intensive export financing and promotion efforts. No general restrictions exist on providing export cover for defense goods other than for nuclear materials and products that require an export license. Agriculture exports are eligible for export credit coverage from the government as well.

#### SME Financing

According to Dutch officials, the Dutch government has no export credit insurance programs designed specifically for the needs of small business.

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However, the officials stated that small firms are eligible for the full range of programs for which large businesses are eligible.

#### Risk Assessment and Pricing

According to OECD, the Netherlands divides all countries into four categories for risk premium purposes. Within each category, different rates apply to public buyers, private buyers, and banks. NCM premium rates are based on a variety of factors, including the types of goods involved, the maturity of the transaction, the percentage of cover, the market risks, and other pertinent factors. According to Dutch government officials, premiums have been raised twice in the last 10 years—in 1985 and in 1993—to more closely correspond to market realities.

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#### Program Budgeting and Results

The Dutch government calculates the cost of its export credit program through a cash-flow approach, according to Dutch government officials. Unlike the requirements imposed on the Eximbank through the 1990 Federal Credit Reform Act, the long-term costs of the Dutch government's export-financing programs are not estimated and budgeted for in the year they are authorized. In addition, Dutch government officials told us that the Dutch Parliament does not require advance notification before existing exposure ceilings are exceeded.

In 1993, the Dutch government covered \$6.95 billion of exports, about 5 percent of total Dutch exports. According to Dutch officials, the government raised its exposure ceiling to NLG25 billion in 1994 from NLG10 billion in 1993. Even though the Dutch government has strived to reduce the costs of its export credit insurance program, the government sustained a net cash deficit of about NLG204 million (about \$110 million) in 1993. This figure includes the management fee of NLG31 million (about \$16.7 million) that was given to NCM to administer the Dutch government's export credit system. In 1993, approximately NLG41 million (approximately \$22.08 million) was spent on the Ministry of Economic Affairs' interest rate subsidization scheme. (See table I.6.)

**Appendix I  
Six Nations' Government-Supported  
Export-Financing Programs**

**Table I.6: Net Cash Outlays of Dutch Government for Export-Financing Assistance Programs, 1991-93**

NLG and U.S. dollars in millions			
<b>Export-financing assistance program</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
NCM reinsurance	NLG78.0 \$41.7	NLG174.0 \$99.0	NLG163.0 \$87.8
Ministry of Economic Affairs interest rate subsidies <sup>a</sup>	NLG22.0 \$11.8	NLG24.0 \$13.7	NLG41.0 \$22.1
<b>Total<sup>b</sup></b>	<b>NLG100.0 \$53.5</b>	<b>NLG198.0 \$112.6</b>	<b>NLG204.0 \$109.9</b>

<sup>a</sup>Administered by the Netherlands' Ministry of Economic Affairs.

<sup>b</sup>Exchange rates used: 1991, NLG1.870/\$1; 1992, NLG1.758/\$1; 1993, NLG1.857/\$1. Totals may not add due to rounding.

Source: Dutch Ministry of Finance.

## The United Kingdom

### Background

The U.K. represents the fourth largest economy in the EU, with a population of 58 million and a GDP of \$927.4 billion in 1993. U.K. exports totaled about \$178.3 billion and represented about 19 percent of U.K. GDP in 1993.

### Financing Organizations

The U.K. ECGD, an independent U.K. government department, serves as the sole export credit agency for project and capital goods exports. ECGD was created in 1919 to promote U.K. exports by insuring banks and exporters against the risks of nonpayment by overseas buyers. It also provides overseas investment insurance and reinsurance to two private sector credit insurers for short-term export credit cover and administers the U.K. government's interest rate support scheme for private export financing. ECGD does not offer direct export credits.

ECGD is regulated by the U.K. Export and Investment Guarantees Act of 1991 and is responsible to the U.K. Secretary of State for Trade and Industry. The act requires the U.K. Treasury to approve every guarantee that ECGD gives. However, ECGD officials indicated that in practice, it delegates this authority to ECGD for the vast majority of its transactions. For certain contentious transactions, ECGD is to first consult with the U.K.

Treasury and other U.K. government departments. ECGD is also to seek advice on its operations from the Export Guarantees Advisory Council, a statutory body consisting of senior-level representatives from the banking, commercial, and industrial sectors appointed by the Secretary of State for Trade and Industry.

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## **Export-Financing Programs**

ECGD offers insurance to exporters against nonpayment from foreign buyers, guarantees to banks providing export loans, reinsurance to private insurers for certain short-term transactions, interest rate support to banks for export loans, and overseas investment insurance.

### **Export Credit Insurance**

ECGD offers U.K. exporters insurance for medium- and long-term supplier credits through its "specific guarantee" facility. Specific guarantees are restricted to U.K. companies or foreign companies carrying on business in the U.K. that export U.K. goods and services.

ECGD's specific guarantee policies cover exporters against a range of defined commercial and political risks. Normally, ECGD limits cover to 90 percent of the amount financed but may raise it to 100 percent after a period of satisfactory contractual performance by both the exporter and buyer. As a supplement to buyer credits that ECGD guarantees, exporters can also use specific guarantees to cover the prefinancing period.

ECGD previously also offered short-term policies for exporters. However, it sold off this business to the private credit insurance company NCM in 1991. As discussed in the following section, ECGD continues to reinsure some of these policies.

### **Export Loan Guarantees**

ECGD provides guarantees to banks for export-related buyer credits, lines of credit, and supplier credits. To be eligible for these guarantees, loans must last a minimum of 2 years and finance a maximum of 85 percent of the total value of the export contract.

For buyer credits, ECGD guarantees banks the repayment of loans made to overseas purchasers of major U.K. exports valued at a minimum of pounds sterling (£)5 million (\$8 million).<sup>21</sup> Guarantees normally cover 100 percent of the financed principal and interest.

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<sup>21</sup>Pound sterling values for 1993, 1992, and 1991 operations were converted into dollars using the respective average exchange rates of £0.666, £0.570, and £0.569 = \$1. All other £ values were converted into dollars at the June 1, 1995, exchange rate of £0.629 = \$1.

ECGD offers similar guarantees for lines of credit extended by U.K. banks to overseas buyers' banks, used for transactions involving multiple U.K. suppliers. Guarantees for lines of credit, which usually involve loans paid over 2 to 5 years, also cover 100 percent of the principal and interest.

In addition, ECGD offers guarantees to banks for transactions in which banks purchase from U.K. exporters bills of exchange or promissory notes issued by foreign buyers. ECGD unconditionally covers 100 percent of the amount financed in these transactions.

**Other Types of  
Guarantees/Insurance**

ECGD also offers insurance for overseas investments, bond risks, and foreign exchange rate movements and reinsurance for some short-term policies.

ECGD's overseas investment insurance protects long-term equity and loan investments that U.K. companies make abroad. U.K. goods do not need to be exported as part of the investment. The program covers foreign investments for political risks, such as expropriation, war, and currency conversion.

ECGD also offers insurance for bond risks and foreign exchange rate movements. ECGD's bond risk cover insures exporters against a premature call for bond repayment beyond the control of the exporter. Cover is normally available for public sector entities buying U.K. exports. ECGD also offers cover for exporters against the risks of currency exchange rates fluctuating during the bidding process for major overseas projects.

Finally, ECGD also provides reinsurance to support some short-term credit insurance policies issued by NCM (U.K.) Holdings Ltd. (NCM-U.K.) and Trade Indemnity. To ensure that U.K. exporters do not suffer from a sudden shortfall in the availability of short-term cover, ECGD provides reinsurance support to NCM-U.K. ECGD extends this support when NCM-U.K. is unable to obtain reinsurance completely from the private sector. However, according to ECGD officials, NCM-U.K. obtains over 90 percent of its reinsurance from private sources. ECGD also provides 100-percent reinsurance support to NCM-U.K. for a few markets considered to be in the national interest. According to ECGD officials, in 1993, ECGD made some of its reinsurance support available to another credit insurer (Trade Indemnity).

**Interest Rate Support**

Under its Fixed Rate Export Finance scheme, ECGD offers interest rate support for export loans provided by banks for U.K. capital goods and



projects overseas involving U.K. companies. To be eligible, export loans must last at least 2 years and be insured by ECGD. Through this program, banks lend to U.K. exporters or overseas borrowers at fixed interest rates determined by the OECD Consensus. Banks receive an agreed rate of return, consisting of the floating commercial market interest rate plus a margin. When the agreed rate is higher than the relevant fixed interest rate, ECGD pays the difference to the banks. Conversely, ECGD receives the difference from banks when the agreed rate is lower than the fixed rate.

### Project Financing

Under its project-financing program, ECGD guarantees loans extended by banks for projects where repayment depends on the revenue-earning capacity of the project, rather than on guarantees from project sponsors or third parties. ECGD revised and expanded the program in 1994 to make it more flexible. ECGD's guarantees cover either political risks only or both political and commercial risks combined. It decides on the amount of cover on a case-by-case basis. Although ECGD generally expects the minimum value of the U.K. export loan to be £20 million (\$32 million), it will consider covering smaller loans as well. To administer the scheme, according to ECGD officials, ECGD recently established a project-financing unit using existing ECGD staff and expertise. According to these officials, ECGD is currently reviewing 30 project-financing proposals, 6 or 7 of which appear potentially viable.

### Program Emphasis

In fiscal year 1993-94,<sup>22</sup> ECGD export credit insurance and loan guarantees (excluding overseas investment insurance and reinsurance) covered U.K. exports worth £4.086 billion (\$6.135 billion). The exports accounted for about 3.4 percent of the U.K.'s total merchandise exports of £178.3 billion in 1993. During the same year, ECGD's overseas investment insurance program covered eight new agreements valued at over £28 million (\$42 million). At the end of fiscal year 1993-94, ECGD supported a total of £5.935 billion (\$8.911 billion) in outstanding fixed-rate export financing.

ECGD export-financing assistance generally involves high-value U.K. capital goods, services, and project exports. Defense-related exports, notably military aircraft, military vehicles, and naval vessels for countries in the Middle East, accounted for about 48.3 percent of ECGD business in fiscal year 1993-94. However, according to ECGD officials, the proportion of guarantees issued by ECGD for defense-related business fell back to around 20 percent in fiscal year 1994-95, which is within the "normal" range of 10 percent to 30 percent. Aerospace exports, primarily involving British

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<sup>22</sup>The U.K. government's and ECGD's fiscal year begins on April 1 and ends on March 31. All references to fiscal years in this section are based on the U.K. fiscal year.

Aerospace's wings for Airbus aircraft and Rolls Royce aircraft engines, also were a significant part (14.8 percent) of ECGD's business, with other civilian exports accounting for the rest (36.9 percent).

Export markets in the Middle East and Asia accounted for much of ECGD's new business in U.K. fiscal year 1993-94, with the top 10 (in descending order) being Saudi Arabia, Kuwait, Hong Kong, Oman, South Africa, Qatar, India, Singapore, China, and Ireland.

### SME Financing

According to ECGD officials, ECGD does not target SMEs for export credit support through specific programs. Nevertheless, the U.K. government does support SMEs through broader export promotion efforts. Most recently, the U.K. government has begun to establish a planned national network of 200 "Business Links." These will serve as one-stop shops for advice and information, particularly for SMEs, on U.K. government programs for export promotion available to U.K. companies. Business Links will be formed by local partnerships of business support providers and the U.K. Department of Trade and Industry.

### Risk Assessment and Pricing

ECGD assesses the risks of proposed transactions and charges fees for its support using a portfolio management system. The system is designed for ECGD to manage its cover policies issued since 1991 with a reasonable level of assurance, as determined by the U.K. government, of breaking even financially. Through this approach, ECGD assesses the risks of proposed transactions and charges fees for support to closely match such risks.<sup>23</sup> ECGD adopted the portfolio management system in 1991 to reduce the risks of ECGD losses and the related burden it imposed on U.K. taxpayers. ECGD's portfolio management system does not cover ECGD's interest rate support and foreign currency exchange rate insurance programs, which the U.K. government funds directly.

According to ECGD officials, the portfolio management system approach initially resulted in unfavorably high premiums for cover, particularly in high-risk markets. Due to concerns from U.K. exporters about ECGD's competitiveness compared to other ECAs, ECGD subsequently reduced its premiums in 1992 and 1993. However, ECGD officials said that this reduction in premiums is still consistent with their overall goal of breaking even.

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<sup>23</sup>Under the portfolio management system, ECGD calculates risks in individual countries to help it decide on the amount of cover to provide and the premium level to charge on specific transactions. For each country, ECGD makes 10-year forward projections of foreign currency earnings and debt repayments of individual countries, then calculates probabilities of default and probable loss.

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## Program Budgeting and Results

The U.K. government's policy is for ECGD to generate sufficient funds from its cover operations conducted since 1991 to break even financially. ECGD's portfolio management system is aimed at meeting this goal. In addition, the U.K. government aims to limit ECGD's exposure in a group of countries called the "amber zone" that pose high risks for its overall portfolio. The U.K. government considers countries in the amber zone to have high risks either because of their specific market risks or because ECGD's exposure on those markets is already highly concentrated. At the end of U.K. fiscal year 1993-94, ECGD's total exposure stood at £23.991 billion (\$36.023 billion).

Under the portfolio management system, ECGD uses two accounts, prepared on an accrual basis, for its guarantee, insurance, and reinsurance business. These accounts, named "Account 1" and "Account 2," distinguish between ECGD's business undertaken before (Account 1) and after (Account 2) the introduction of the portfolio management system in 1991. Account 2 also includes all of ECGD's overseas investment insurance policies and reinsurance support. ECGD's financial objective for Account 1 is to manage the portfolio of assets and liabilities in order to minimize the cost to the taxpayer. ECGD's financial objective for Account 2 is to maintain sufficient reserves to allow ECGD to break even over time.

For fiscal year 1993-94, ECGD operated at a cash deficit of £198.1 million (\$297.4 million) for Accounts 1 and 2 combined. (See table I.7). Account 1 experienced a cash deficit of £359.2 million (\$539.3 million), while Account 2 experienced a cash surplus of £161 million (\$241.7 million). However, on an accrual basis, ECGD's operations (or "trading results") for fiscal year 1993-94 resulted in surpluses of £380.8 million (\$571.8 million) for Account 1 and £26.7 million (\$40.1 million) for Account 2. (See table I.8.)

**Appendix I  
Six Nations' Government-Supported  
Export-Financing Programs**

**Table I.7: Net Cash Outlays of U.K. Government for Export-Financing Assistance Programs, U.K. Fiscal Years 1991-93**

U.K. £ and U.S. dollars in millions			
<b>Export-financing assistance program</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
ECGD insurance, guarantees, and reinsurance (Accounts 1 and 2)	£739.0 \$1,298.8	£517.9 \$908.6	£198.1 \$297.4
ECGD interest rate support	£237.0 \$416.5	£111.0 \$194.7	(£53.0) (\$79.6)
ECGD foreign exchange rate insurance	£1.8 \$3.2	£5.7 \$10.0	(£5.2) (\$7.8)
<b>Total</b>	<b>£977.8 \$1,718.5</b>	<b>£634.6 \$1,113.3</b>	<b>£139.9 \$210.0</b>

Note: Figures in parentheses indicate cash inflows. Figures are for ECGD fiscal years which begin on April 1 and end on March 31.

Source: ECGD.

**Table I.8: Accrual-Based Trading Results of ECGD Export Cover Accounts, U.K. Fiscal Years 1991-93**

U.K. £ and U.S. dollars in millions			
<b>ECGD account</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
Account 1	£319.4 \$561.3	£518.5 \$909.6	£380.8 \$571.8
Account 2	£20.8 \$36.6	£51.6 \$90.5	£26.7 \$40.1
<b>Total</b>	<b>£340.2 \$597.9</b>	<b>£570.1 \$1,000.2</b>	<b>£407.5 \$611.9</b>

Note: Positive figures indicate surpluses. Figures are for ECGD fiscal years, which begin on April 1 and end on March 31.

Source: ECGD.

Accounts 1 and 2 do not cover ECGD's interest rate support program and insurance program for foreign exchange rates. For these programs, ECGD uses separate funds that the U.K. government provides directly. For the first time in its existence, ECGD's interest rate support program resulted in a net cash surplus for the U.K. government of £53 million (\$79.6 million) in fiscal year 1993-94. During the same fiscal year, the cover program for foreign exchange rates resulted in a net cash surplus for the U.K. government of £5.2 million (\$7.8 million). (See table I.7.)

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# International Efforts to Address Government Support for Export Financing Continue

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The United States, EU member states, and other countries have agreed or are attempting to limit government subsidies and create a level playing field among their ECAs through various international forums, including OECD and the Berne Union, and within the EU.

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## OECD

OECD is an international forum for monitoring economic trends and coordinating economic policy among 25 developed countries, including the United States and all 15 EU member states.<sup>1</sup> Under the OECD Arrangement on Guidelines for Officially Supported Export Credits, most OECD member countries have voluntarily agreed to terms and conditions under which their governments support credits with repayment terms of 2 years or more.<sup>2</sup>

The agreement—also known as the OECD Consensus—aims to discourage member countries from competing for exports on the basis of financing terms. To help reach this goal, countries participating in the OECD Consensus have periodically strengthened the agreement since it was first established in 1978.<sup>3</sup>

The OECD Consensus imposes several conditions on officially supported export credits of 2 or more years. First, the OECD Consensus requires the buyer to make a minimum cash downpayment of 15 percent of the value of the export contract. Second, the OECD Consensus limits repayment periods to a maximum of 5 years (8.5 years with prior notification) for export loans to relatively rich “Category I” countries, or 10 years for relatively poor “Category II” countries.<sup>4</sup> Third, the OECD Consensus sets minimum interest rates, based on prevailing market rates, that apply to governments providing official financing support by way of direct credit, refinancing, or

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<sup>1</sup>Other member countries of OECD are Australia, Canada, Iceland, Japan, Mexico, New Zealand, Norway, Switzerland, and Turkey.

<sup>2</sup>Only three OECD countries—Iceland, Mexico, and Turkey—do not currently participate in this agreement.

<sup>3</sup>The provisions of the OECD Consensus were last modified in August 1994 and are being phased in over 2 years.

<sup>4</sup>In August 1994, participants of the OECD Consensus agreed to define “Category I” countries as those that have graduated from International Bank for Reconstruction and Development (IBRD, or World Bank) lending—currently those with a per capita gross national product (GNP) of over \$4,715—and “Category II” as all other countries. Previously, the OECD Consensus specified three country categories with different maximum repayment terms.

interest rate subsidy.<sup>5</sup> Finally, the OECD Consensus specifies conditions under which member governments may extend tied aid (foreign assistance linked to the purchase of exports from the country extending the assistance).<sup>6</sup>

In addition to these conditions for general export credits, OECD Consensus participants have also negotiated unique terms and conditions for officially supported export credits involving ships, civil aircraft, and conventional and nuclear power plants.

Under the OECD Consensus, a country that offers support for export credits that does not conform to the agreement's terms must notify other countries. The other countries may then make their own offers that match the original offer.

The OECD Consensus does not currently include guidelines on premiums for officially supported export credit insurance or fees for loan guarantees. In addition, the agreement does not apply to exports of military equipment or agricultural commodities. However, in August 1994, participants to the OECD Consensus agreed to discuss the development of guidelines on premiums for export credit insurance, as well as for export credits for agricultural products.

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## The EU

The EU is a union of 15 European countries or "member states" and was known as the European Community (EC) before 1994.<sup>7</sup> Its goals include economic and monetary union, common defense policy, and cooperation on social issues.

The EU has recently revived efforts to harmonize export credit insurance systems among its member states. According to EU officials, the EC's

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<sup>5</sup>OECD establishes these minimum interest rates, called "commercial interest reference rates" (CIRR), for various currencies each month. CIRRs are based on the yields of certain government bonds. By setting minimum OECD Consensus rates at CIRRs, which already correspond closely to commercial interest rates, OECD minimizes government subsidies that allow financial institutions to offer export financing at below commercial interest rates. Before August 1994, the OECD Consensus had a more complex system for determining minimum interest rates. CIRRs applied to export credits to relatively rich countries, while a "matrix" of interest rates negotiated among OECD members applied to other countries.

<sup>6</sup>The OECD's 1992 tied aid agreement, sometimes referred to as "the Helsinki package," builds on previously established guidelines contained in the 1987 and 1990 versions of the OECD Consensus. These guidelines are intended to minimize the trade distortions that can result from the use of tied aid. For more information on tied aid programs of the Eximbank and other major ECAs, see our report, International Trade: Competitors' Tied Aid Practices Affect U.S. Exports (GAO/GGD-94-81, May 25, 1994).

<sup>7</sup>The Treaty of Maastricht, ratified on November 1, 1993, formally restructured the EC as the EU.

earlier attempts to achieve such harmonization during the 1970s proved relatively unsuccessful. In 1991, the EC asked a team of experts to examine ways to harmonize medium- and long-term export credit insurance among its member states. On the basis of this team's findings, the European Commission proposed a directive<sup>8</sup> in July 1994 that would harmonize the medium- and long-term export credit guarantee systems of EU member states.

The proposal included several major provisions. First, it would establish common principles for ECAs to follow when granting cover and paying claims. Significantly, the proposal would generally limit cover to 95 percent for buyer credits and 90 percent for seller credits, and it would require lenders to retain the remaining risk. Second, the proposal would also establish guidelines for ECAs to set premiums at levels that would reflect the risk involved and cover the long-term costs of claims. Third, the proposal would call for member states to limit the amount of export credit insurance or loan guarantees that their ECAs could extend to any specific country, depending on various risk factors and the amount of cover that an ECA already provided to that country. Finally, the proposal also specifies notification and consultation procedures for member states that deviate from its provisions. The proposal would not affect member state ECAs' practice of matching more generous terms that non-EU ECAs may offer on specific transactions. The EU's Council of Ministers and European Parliament are currently reviewing the proposal.

The European Commission is also developing a proposal that would require EU member states to remove government subsidies from their ECAs' cover policies for commercial risks on short-term export credits to OECD countries, except Turkey and Mexico. However, the proposal has not yet been officially issued because of continuing disagreement among member states over existing short-term reinsurance arrangements in the U.K. and Italy.

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## Berne Union

The International Union of Credit and Investment Insurers, known as the "Berne Union," serves as an international forum for cooperation among ECAs that insure export credits or overseas investments. Founded in 1934, the Berne Union has 43 member ECAs<sup>9</sup> from 34 countries and serves as a

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<sup>8</sup>The European Commission is the executive body of the European Union. A directive is one type of EU legislation that requires member states to ensure that their national laws and regulations conform to the directives' provisions within specified time frames.

<sup>9</sup>The Eximbank, OPIC, and the government-supported export credit insurers of the five EU member states that we reviewed are members of the Berne Union.

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**Appendix II**  
**International Efforts to Address**  
**Government Support for Export Financing**  
**Continue**

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forum for members to exchange views and information about the nature and extent of their actual and proposed activities.

Member ECAs of the Berne Union have also agreed to a “General Understanding,” which includes provisions on terms of payments, starting points for credit terms, and repayment schedules on certain export transactions. Berne Union members that offer cover that deviates from the agreement are obliged to inform other members and allow them to match the offer. Berne Union members have also reached agreements on maximum credit terms that ECAs can grant for particular types of exports, including breeding animals, paper and pulp, fertilizers and insecticides, buses, containers and semitrailers, wool exports, trucks, and agricultural vegetable reproduction material.

Agreements among Berne Union members are voluntary. However, according to Berne Union officials, Berne Union member ECAs generally do not deviate from these agreements without good reason or lengthy prior consultation with other members.



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# Glossary

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Berne Union	The International Union of Credit and Investment Insurers, known as the “Berne Union,” is an international forum for cooperation and information exchanges among participating export credit insurance agencies. Founded in 1934, the Berne Union has 43 member export credit insurance agencies from 34 countries and 1 multilateral institution.
Budgeting, Cash Basis	A budgeting method whereby receipts are recorded when received and expenditures are recorded when paid, regardless of the accounting period in which the receipts are earned or the costs incurred.
Budgeting, Accrual Basis	A budgeting method whereby transactions and events are recognized when they occur, regardless of when cash is actually received or paid.
Buyers Credit	A loan made by an ECA, bank, or other financial intermediary in the exporting country to a foreign buyer or to a bank in the importing country to finance the purchase of goods and services from the exporting country.
Cover	OECD defines cover as export credit insurance or loan guarantees given to exporters or lending institutions.
Credit Subsidy Cost	The estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, and excluding administrative costs.
Credit Reform	The revised method of controlling and accounting for credit programs in the U.S. federal budget. The Federal Credit Reform Act of 1990 requires that the net present value of the estimated long-term cost to the government of new direct loans and loan guarantees (the credit subsidy cost) be financed from new budget authority and be recorded as budget outlays at the time the direct or guaranteed loans are disbursed.
European Union	The European Union, formerly the European Community, is a political and economic union of European countries established under the Treaty of Maastricht, which was ratified on November 1, 1993. The EU’s 15 member states are Austria, Belgium, Denmark, Germany, Finland, France, Greece,

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Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the U.K.

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**Export Credit** As defined by OECD, an export credit arises whenever a foreign buyer of exported goods or services is allowed to defer payment. Export credits are generally divided into short-term (usually less than 2 years), medium-term (usually 2 to 5 years), and long-term credits (usually over 5 years). They may take the form of “buyer credits,” where the exporter’s bank or financial institution lends to the buyer (or his or her bank), or of “supplier credits,” extended by the exporter.

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**Export Credit Agency** An organization that administers officially supported export finance programs.

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**Export Credit Insurance** Insurance coverage that permits an exporter (seller) who is granting credit terms to a foreign buyer to shift the nonpayment risks to the insurer.

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**Export Financing** Export financing refers to any form of financing of export transactions. Export financing generally includes loans, loan guarantees, and export credit insurance.

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**Export-Import Bank of the United States** A U.S. government institution that administers programs to assist the U.S. exporting community, including providing direct lending and issuing guarantees or insurance to minimize risk for private banks and exporters.

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**Forfaiting** A form of supplier credit in which an exporter surrenders possession of export receivables in exchange for cash.

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**Gross Domestic Product** The value of all final goods and services produced within the borders of a country in a given period of time, whether produced by residents or nonresidents.

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**Loan Guarantee** An agreement to pay, in whole or in part, the loan to a lender or holder of a security in the event of default by the borrower. Because ECA loan

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guarantees are usually conditional, there is little practical distinction between credits that are guaranteed and credits that are subject to export credit insurance.

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**Organization for Economic Cooperation and Development**

OECD is a forum for monitoring economic trends and coordinating economic policy among its 25 member countries.

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**Project Financing**

The term “project finance” refers to the financing of projects that are dependent on the project cash flows for repayment as defined by the contractual relationships within each project.

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**Risk, Commercial**

The risk of nonpayment by a nonsovereign or private sector buyer or borrower in his home currency because of default, insolvency, and/or the failure to take up goods that have been shipped according to the supply contract.

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**Risk, Political**

The risk of actions on the part of a borrower country government that may prevent, or delay, the repayment of export credits. Many ECAs define political risks to include such events as war, civil war, revolution, or other disturbances that may prevent the exporter from performing under the supply contract or the buyer from making payment.

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**Reinsurance**

Insurance coverage for insurance companies. For example, a private insurer may wish to keep the commercial risks of a loan on its own books but seek to have the political risks reinsured.

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**Supplier Credit**

A financing arrangement in which the supplier (exporter) extends credit to the buyer in the importing country.

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