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THE EXPORT FINANCE MECHANISMS IN THE ESCWA REGION

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LIST OF ABBREVIATIONS AND SYMBOLS

AKA	A consortium of German banks
BFCE	Banque Francaise de Commerce Exterieur (France)
CASCE	The Campania Argentina de Seguro de Credito a la Exportation
CCCE	Caisse Central de Cooperation Economique (France)
CIRRs	A List of Commercial Interest Reference Rates
COFACE	Compagnie Francaise d' Assurance pour le Commerce Exterieur (France)
DREE	Directour des Relations Economiques Exterier (France)
ECGC	Export Credit Guarantee Corporation of India Ltd.
ECGD	Export Credits Guarantee Department (United Kingdom)
EID	Export-Import Insurance Division (Japan)
GCC	Gulf Cooperation Council
GOIC	Gulf Organization of Industrial Consulting
KfW	A Corporation under public law (Germany)
LIBOR	London Interbank Offer Rate
MITI	Ministry of International Trade and Industry (Japan)
OECF	Overseas Economic Co-operation Fund (Japan)
PIBOR	Paris Interbank Offer Rate

INTRODUCTION

Since exporting was recognized as a dynamic factor in overall economic growth, providing both employment and foreign exchange, and competition in the world market of manufactured goods intensified, the availability of adequate finance at reasonable cost was considered an important competitive element for promoting exports, especially of manufactured goods. Consequently, Industrial countries started (some of them as early as the 1920s) their national export financing programmes.

However, the economic problems of slow growth and high level of unemployment which started to be felt by industrial countries in the 1960s, for the first time in the post World-War II period, were mainly attributed to the recession in the capital goods market. The situation worsened as a result of the first and second adjustments in international oil prices in the 1970s and the inappropriate reaction of the governments of industrial countries represented by pursuing conservative fiscal and monetary policies.

Yet, the high level of financial surpluses of oil exporting-countries, which eventually settled in Western banks and financial markets, and the upsurge in consumption and investment expenditures in many developing countries, encouraged governments of industrial countries to intensify their efforts to promote exports, especially of capital goods, in order to reduce unemployment and reactivate their stagnant economies. Consequently, a golden age for Western exporters started and was characterized by plentiful bank credit, subsidized interest rates and easy availability of insurance cover.

The debt crisis which started unfolding in 1982, brought therefore that era to a halt. The painful effects of the crisis were felt by debtor nations and among the banks and official export credit agencies of the OECD countries. Consequently exports to Latin America, Africa, and the Middle East lost some of their appeal in most OECD countries, while banks and other financial institutions preferred to build portfolios of safe assets and financing short-term business in the OECD countries themselves.

These developments, however, did not abolish the importance of national export finance agencies, but mainly caused a re-consideration of their activities as well as the development of alternative techniques.

Many developing countries in Latin America and Asia have developed their own (sometimes very sophisticated) programmes of export finance and export guarantee to increase their competitiveness in the world market for manufactured goods and services.

Yet, in the countries of Western Asia, the interest in establishing export finance schemes was either non-existent or very small until recently. This phenomenon can be explained by two main reasons. The first is to be found in the fact that many member

countries, such as Iraq and the GCC countries, are major oil exporters with more than 90 per cent of their exports consisting of petroleum and petroleum products, i.e. strategic goods which are not usually subject to export finance. Second, member countries with more diversified economies such as Egypt, the Syrian Arab Republic and Jordan concentrated for a long time on import substitution policies, with little attention being given, in practice, to export promotion.

However, following the failure or limited success of import substitution policies, member countries started to stress an export-oriented policies. As part of the new strategy, interest has emerged in the idea of establishing national and regional export finance programmes. Some of these programmes have already started their operations, while others are still proposals.

This study aims to examine the need of the countries of the ESCWA region for export finance programmes, as a necessary instrument to promote exports, as well as reviewing and evaluating the existing programmes and those which are still at a proposal stage at both national and regional levels. These issues form the subject of chapter four of the study. The first three chapters deal, respectively, with the mechanisms of export finance and export guarantee, the main alternative techniques of export finance, and export and guarantee programmes in a number of developed and developing countries.

The Annex depicts the components of the _Agreement on Guidelines for Officially Supported Export Credits_ (traditionally known as _the Consensus_), which codifies the consensus among the governments of the OECD countries to adopt common terms and conditions on which official export finance should be made available.

I. WHAT IS EXPORT FINANCE?[1]

Export finance is a term generally applied to large transactions where credit over a period of years is required. It is, therefore, distinct from trade finance, which concerns short-term credit periods (90 or 180 days up to two years) and from project finance, which refers specifically to large individual projects whose eventual cash flow will repay the debt taken on to finance them.

This chapter provides an overview of the subject of export finance, i.e., the financial mechanisms which bring together the buyers and the sellers of internationally traded goods, the role of the banking system and the part which governments and government-sponsored entities play in this process.

A. Export credit agencies

The expressions export credit and export finance mean the set of facilities available to an exporter in any country to help him cover the risks of non-payment in his export business. It is, therefore, essentially an insurance concept; or more correctly a mixture of insurance and banking mechanisms.

No two national export credit systems are identical. Each has its own distinct features, and each operates in a different political and commercial environment. The structure of each economy, the nature of its major industries and of their markets, and the sophistication of the banking sector and insurance industry, all play a part in determining the set of facilities available to an exporter, and how they function.

The set of problems faced by exporters is, however, similar. Therefore, different systems attack problems in a similar way, and common concepts apply to many different systems. The greatest similarity, perhaps, is the involvement of both government, through the export credit agency concerned, and of the commercial banking sector in the workings of the system. Common types of insurance policies and banking facilities are generally available around the world.

A common type of export credit agency is the straightforward insurer. Such a company is often a general insurer from the private sector. However, the large size of

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[1]/ This chapter is based on information derived from: J. Ball & M. Knight (editors), The Guide to Export Finance 1989, published by Euromoney publications, Plc., pp. 1-19.

export transactions, the long credit periods required and the difficulty of assessing risks mean that private companies are either unwilling or unable to insure such transactions, with the result that, national governments have stepped in as underwriters by re-insuring the commercial insurers. Nederlandsche Crediebverzekering Masstschap Pij (NCM), the Dutch insurance company, is perhaps the best example in this respect.

In other countries, the state plays a more direct role, either through a state-owned insurer or through a department of government. The provision of a government guarantee will encourage commercial banks to make loans for exports. But some export credit agencies can also provide finance as well as insurance. The Export Development Corporation of Canada, for example, provides both services. Alternatively, finance can be provided by a specialized bank, wholly or partly owned by the government, or completely independent. Svensk Export Credit, half-owned by the Swedish Government and half-owned by Sweden's commercial banks, is the most successful of these banks. Regular communication at a technical level has been taking place between export credit agencies since the formation in 1934 of the Berne Union of Export Credit Insurers, which includes private sector insurers as well as government agencies. More recently, since 1973, a series of negotiations and agreements has been pursued under the auspices of the OECD, seeking to prevent harmful competition on credit terms.

The export credit systems in the world, therefore, have evolved within common parameters which meet specific needs within a common framework and have a particular history and a legal, banking and insurance tradition; and operate in a common environment, confront common problems, and propose specific (though perhaps very similar) solutions.

B. Risk and insurance

The fundamental risk covered by a financial guarantee is of non-payment by the buyer. The risk can be of either a commercial or a political nature. Commercial loss arises from the inability of the buyer to meet his obligations vis-a-vis the exporter because of insolvency or bankruptcy, or other severe deterioration in his financial situation. Political risk, which may prevent the buyer from meeting obligations toward the exporter, can be caused by war, civil disturbances, or the non-availability of foreign exchange.

The form of the insurance policy could be global or specific, or some hybrid of the two. Under a global policy, the exporter will designate all his export orders for

coverage, while a specific policy is designed to cover a particular export contract.

A specific policy, however, will be appropriate if the size of the operation is large, the order unique or the credit period substantial. Global and specific policies may cover short-term (usually up to two years' credit) or medium-term (usually over two years credit) transactions under one policy or separate policies as may be needed.

Credit insurance must cover post-shipment risks. However, risks exist between the award of a contract and the shipment of the goods, when the goods are manufactured to order, and thus pre-shipment cover is usually available.

The 1970s was a period of high inflation, low interest rates and extreme exchange rate volatility following the first adjustment of oil prices. Therefore, a number of peripheral insurance schemes came into being during that period in response to the demands of buyers. The more important additional risks covered under some of these schemes include bond support, escalation insurance and exchange rate fluctuation insurance.

Typical contract conditions may require an exporter to provide a bank bond to assure the buyer:

1. That if awarded a contract on the lines of the tender, the exporter will accept that contract (bid bond);

2. that the downpayment and any progress payments will be returned in the event that the exporter does not complete the contract (downpayment and progress payment bonds);

3. that if the export fails to perform to specification, the exporter will forfait a penalty (performance bond/retention bond).

Escalation insurance has been introduced only by France, Finland and the United Kingdom. It was intended to help exporters fix prices for long lead time contracts without the disadvantage of having to make substantial but unquantitative provision for domestic inflation in their contract prices.

Various forms of insurance can be conceived to help cover exchange risks. These risks arise from an exporter bidding for, or performing, a contract denominated in a currency other than his own, and even for one denominated in his own currency when there is a substantial third country element, if that is contracted for by the exporter in the currency of a third country. The risks extends from contract award until receipt by the supplier of the settlement due to him. Another period

of risks extends from the moment a tender is issued until a contract becomes effective.

The use of these peripheral schemes has decreased. This is simply a reflection of the fact that the world today is not influenced by high inflation and high expenditure levels in the third world as was the case in the 1970s. But of greater significance has been the changing attitude on the part of governments and exporters to such issues. For example, in the United Kingdom, the government has conducted a campaign to reduce the use of and, therefore, the justification for, the exchange rate fluctuation insurance scheme.

Guarantees

The provision by agencies of financial guarantees to the banking sector is near universal in systems which rely on the banking sector to provide funds for export finance facilities, and common in systems which rely wholly or partially on an export bank for the provision of funds.

In order not to hinder the completion of a transaction by an agency in case a bank refused an insurance policy held by the supplier, it is efficient to leave the risk assessment (both on the buyer and on the supplier) with the agency, and for the bank to put up funds relying solely on the credit of the agency. Most systems offer guarantees to banks for the full amount of the exposure, though under some systems a small element of risk on the buyer or recourse against the supplier will be left with the bank. Most agencies (in relation to insurance and guarantees at least) are charged with acting commercially. Nevertheless, most systems have reserved the right to support business which can not be accepted by the agency on commercial grounds by resorting to some direct government intervention if that business meets national interest criteria.

C. Finance and the role of banks

The second leg of an export credit system is the mechanism by which finance is made available.

Most agencies insist (and the OECD arrangement requires) that the buyer makes a direct payment in cash of at least 15 per cent of the contract value, by one or more payments between contract signature and shipment of the goods. The amount of any supply contract to be financed will, therefore, be at least almost 85 per cent of the value of the contract.

Where a contract provides for more than simply the delivery of hardware, however, its value may include, in addition to the purchase of hardware, the provision of material and services on site (the local element). A contract can also include the provision of hardware, services or technology (in the form of license fees) from a third country (the third country element). If the contract is for the provision of some complete new facility, an important cost, as far as the buyer is concerned, is the due interest during construction. A supplier may logically offer to finance this element of the buyer's cost also. Thus, finance for a major contract may cover a substantial part of these other elements, as well as the value of hardware supply.

Finance can be made available as supplier credit or buyer credit; it can be short-term or medium-term; and it can be made available by commercial banks, by an export bank, or by both in tandem.

A supplier credit is an arrangement under which a supplier agrees to allow deferred payment by his customer of the amount of the contract. The supplier credit mechanism, however, permits the supplier to receive his money as soon as the work is completed. The buyer's obligation to make extended payment to the supplier is documented by the issuance by the buyer of a stream of promissory notes or the acceptance of the buyer of a stream of bills of exchange. The bills or notes may be interest bearing or the latter may be capitalized within the principle sum financed. Once the bills or notes have been received by the supplier, an arrangement can be made between him and his bank under which the bank buys or discount them, thus effectively providing credit through the suppliers to the buyers. The fact that the direct financial relationship is between the suppliers and the buyers makes it more likely that the buyer will contest this if for some reason the goods do not work. It is common, therefore for a greater degree of recourse to be maintained by the agency (and by the bank if the agency's guarantee to the bank is for less than the whole of the financial amount plus interest) against the supplier under a supplier credit than might be the case if direct financial relationship existed between the bank and the buyer.

Under a buyer credit, a specific loan is arranged between the lender and the buyer or some borrower in his country with whom he is connected. This is documented by a direct loan agreement between the lender and the borrower. The loan is usually drawn down and paid directly to the supplier when the supplier delivers to the lender the documents specified in the loan agreement and the commercial contract which show that the supplier is entitled to a payment under the terms of the contract. The credit period is defined, unlike the case under

a commercial loan agreement, as the period following completion by the suppliers of his contractual obligations until the date on which final re-payment is due. Because of the separation in legal terms of the loan agreement from the commercial contract, complex arrangements will be needed in the suppliers' country to document the obligations of the supplier, the agency, and the banks between themselves before the loan agreement can be signed.

A confirming house transaction is a hybrid form. The prime function of a confirming house in short-term credit arrangements is to confirm an irrevocable letter of credit issued in favour of the supplier by a bank in the buyers' country; some export credit systems make it possible for a confirming house to insure a part of the risk with the agency concerned. However, such an institution can also make a useful intervention in medium-term transactions which then assume some of the characteristics of both buyer and supplier credit. The supplier enters into a cash contract with the buyer, and the confirming house enters into a lending arrangement, documented by an arrangement and notes with the buyer. The confirming house is thus in a position to confirm the cash contract by signing a contract of confirmation with the supplier. To fund the arrangement, the confirming house will discount the notes with a bank, i.e., will get a supplier credit from the bank. The agency is likely to provide insurance support to both confirming house and bank.

The buyer credit mechanism lends itself to the concept of lines of credit. A line of credit is a single loan agreement which is set up to finance a number of separate contracts. It may be a general purpose (or shopping basket) line. In this case, the borrower is usually a bank in the foreign country which advertises the existence of the line to its domestic clients. When a contract is nominated to it, and through it to the lender and agency, a mechanism in relation to that contract analogous to a buyer credit has been created. Such a line may cover contracts for different types of goods, of different sizes and for several buyers. Hence, the length of the repayment period and its starting date are usually fixed for each individual contract under the line.

Many systems also recognize the concept of a project line of credit. This is a similar mechanism but applied to a single project. The borrower is more likely to be the project itself, and not some intermediary, and the main difference is that the repayment period will probably be the same for all contracts placed under the line, starting with the commissioning of the project.

Funding

Export finance presupposes funding. This can be provided either through the commercial banking system, or by a special export finance bank. The funds may be raised in the capital markets of the buyer's country or the supplier's country, or in the International capital markets. The choice of a funding source has traditionally depended on the economic circumstances of the exporting country and the currency of the export credit.

As with insurance, funding mechanisms differ widely in detail from country to another. Some countries, like the Nordic countries, separate funding (and financing) from insurance, while other countries combine funding and financing aspects and the insurance function in one organization like an Export/Import Bank or other similar entity, such as Canada's Export Development Corporation.

Export credit bank

The most cost-efficient way of raising funds is through an export credit bank. They may be government entities, partly state-owned or wholly private. The cost of funds in the international capital markets will be determined by the quality of the guarantee and the export credit bank's assets (disbursed export credits plus undisbursed funds). An export credit bank (ECB) can also invest its undisbursed capital to lower further the effective cost of funding.

The commercial banking system

The other main funding route uses funds raised through the commercial banking system and can conveniently be described as a triangular route. The three corners of the triangle are: the agency, the bank and the borrower (either the buyer or supplier). The bank raises funds in the normal way and lends them to the borrower. The agency guarantees the bank's assets and usually pays the banks for their work services.

This system is more expensive than using an export credit bank. The cost of funds is based on the interbank market. In recent years, the process of financial disintermediation (whereby borrower and lender meet directly in the capital market without resorting to bank intermediaries) has also meant that top quality exporting companies can borrow more cheaply than banks. The cost is also increased by the sum paid by the agency to the banks: these include fees and margins over cost of funds.

The advantage of this approach, however, may outweigh the additional cost. First, a smaller agency is required to conduct a given volume of business if the funding and financing are handled separately by a bank. Second, the bank, can provide services to exporters beyond straight forward finance, such as marketing and promotional advice. Third, the absence of a loan book of assets means that the agency need not have a capital base. Finally, in some government accounts, the export credit liabilities are treated as contingent, rather than actual.

Vehicle companies

A third approach is also available and combines the cost-savings advantage of the export credit bank with the convenience of having the commercial banks do most of the work. This uses "vehicle companies" which act as intermediaries between the agency and the capital markets. The most important feature in a vehicle company is the position of the agency's guarantee. This may be on the asset side of the vehicle (the agency guarantees that money owed to the vehicle will be paid) or on the liability side (the agency guarantees that investors in the vehicle will be paid). The liability side guarantee is most important, since it applies directly to investors, and will produce the lowest cost of funds.

Domestic capital market

The domestic capital market of the exporting country is in many ways the most natural source of the funds. It is still the major source for all developed country export finance systems and the only source for a number of the most important among them. Loans obtained from the domestic capital market of the exporting country will be denominated in the suppliers' currency.

External capital market

The most readily available external market is the Eurocurrency market.

If an export credit is funded from any capital market external to the exporting country, its balance of payments benefits immediately as the loan is drawn down. Domestic currency is purchased by the supplier using the foreign currency received. Thereafter, during the life of the loan, interest received is neutral in its effect (except to the extent of any subsidy, which has a negative effect). The

repayment is also neutral. A contingent foreign exchange liability is likely to be created to the extent that it is not possible to pass on to the buyer on a back-to-back basis certain funding risks conventionally carried out by borrowers in the Euromarket. The burden of this contingent liability is no harsher than the remote risks that accelerated repayment would be called for if the agency or its government had itself borrowed the funds directly. Additionally, the insurance and any bank guarantees are themselves contingent liabilities on the capital amount of the balance of payments, and any claim would have to be met by the sale of domestic currency to purchase the required foreign currency or by a debit to the reserves. A decrease over time in the real value of the external currency reduces the real burden of these contingent labilities.

D. The role of governments

The growth of export finance over the last two decades would not have been possible without the active support of governments. Faced with recession and the decline of domestic industry, particularly in the high employment sector of heavy industry, many OECD countries saw export promotion as a way to preserve employment and foreign currency earnings. At the same time, importing countries frequently provided a state guarantee to the exporter or his export credit agency.

The role of the government in this respect, however, depends mainly upon the prevailing economic circumstances. For instance, the credit wars of the 1970s and 1980s emphasized the role of governments since only they, and not insurers or banks, could afford the huge subsidies which became widespread. The restructuring of the economies of developed countries, including the heavy industrial sector, and the debt problems in many developing countries which meant many potential buyer countries could not give sovereign guarantees or are off cover from the OECD agencies, and more importantly, reforms to the OECD Consensus[2] have resulted in a considerable decline in the role of governments in export finance in all main areas: industry export risks, financing exports through buyer and supplier credits; and in providing blanket subsidies.

Government and export risks

The main role of government is to insure against political risks over the medium-term. This is most evident in

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[2] See p. 13 and annex section.

a country like the United Kingdom where a government department handles insurance. In some countries, like France and Germany, private companies arrange insurance but take only short-term commercial risks on their own books but take political risks as agents of their governments.

Export credit insurance is charged with operating at no net cost to public expenditure over the long term. However, the debt crisis has meant that all agencies have had to meet substantial claims often in excess of premium income. In some cases even accumulated reserves could not cover operating losses and those agencies were, therefore, technically bankrupt. But the credit standing of the national governments stands behind the agencies and governments have directly supported the export risks, or through an entity of equivalent standard. The credit risk is, therefore, effectively that of the exporters' country.

However, governments have intimated that they are no longer willing to accept losses of such magnitude and, in one way or another, have restricted the availability of insurance cover for certain markets, either by increasing premium rates or by taking countries off cover completely. They have also sought to encourage risk sharing with other interested parties: agencies of different governments; private sector insurers; financial institutions such as banks; and exporters themselves.

Government and export credits

Export finance is funded on the basis that the credit risk (from the side of the buyer) is guaranteed by an export insurance agency, and thus, implicitly by the supplier's government. Some countries allow the banking system to make larger loans available for exports than the authorities would normally accept, in line with national practices or internationally accepted standards. In some systems, direct refinancing facilities to the banking sector are available; the government is thus not only supporting the provision of export credits but, in refinancing, is acting as the eventual lender.

Government and subsidies

The general practice is for export credits to be extended at fixed rates of interest. This means that an export credit bank, with the explicit or implicit guarantee of the government, may borrow at fixed rates of interest for long periods. However, if funding is based on the banking system, interest rates will be floating. There is, therefore, a

danger that losses will be incurred if interest rates rise over the duration of credit.

During periods of high interest rates and low "Consensus" rates in the 1970s and early 1980s, the cost of subsidizing interest rates was a major burden on the treasuries of exporting countries.

Since then, the gradual reforms in the "Consensus" have reduced the cost of subsidies greatly while the availability of hedging techniques has enabled agencies and governments to fix their exposures. General subsidies have been largely squeezed out of export finance, while selective subsidies have assumed greater importance.

E. The Consensus

The terms and conditions on which official export finance has been made available in the last two decades have not been determined by market forces or even by individual governments. Instead there has been a consensus among the governments of the OECD nations- the world major exporters of capital goods- to adopt certain common terms and conditions. This Consensus is codified in the Arrangement on Guidelines for Officially Supported Export Credits, traditionally dignified with the name of the Consensus. It is, in strict terms, an informal arrangement which covers exports with a credit term of two years or more with the exception of: ships, nuclear and conventional power stations, ground satellite communications system and aircraft (which is the subject of special guidelines) and of military equipment and agricultural commodities (whose treatment depends on the strength of the military and agricultural lobbies of the individual OECD nations). Despite its limitations and imperfections, the Consensus has governed export finance during a remarkable period of international capital flows. But, what is the Consensus; its present state, and whether it is irrevocable or whether we are in a period of "Consensus fatigue?"

In its basic form, the "Consensus" lays down the terms and conditions on which OECD governments, through their export credit agencies, may extend export credits. Other countries, such as Korea, generally follow the terms of the Consensus.

The Consensus divides importing countries into three categories, based upon their per capita GNP:

Category 1 (relatively rich countries) includes most of the member countries of the OECD, the Middle Eastern Oil exporters and the (former) Soviet Union.

<u>Category 2</u> (Intermediate) covers mostly Eastern Europe, Latin America and North Africa.

<u>Category 3</u> (relatively poor) includes most of the countries of sub-saharan Africa and South-East Asia.

Minimum fixed interest rates were established for each of these categories so that a relatively rich country would pay some two percentage points more for an export credit than a relatively poor country. At the same time, maximum credit periods were fixed: up to 8.5 years for the relatively rich countries and up to 10 years for the relatively poor. The longer the credit period, the higher the interest rate.

Interest rates were codified in a matrix and revised every six months (in January and July) according to movements in the interest rates on public sector bonds in the currencies which entering into the SDR. If the SDR average rate moves by less than 0.5 per cent, there is no change in the matrix. This system dates from 1983 and is substantially the same today with the exception that official export credits are no longer available for category 1 countries. The weight of the dollar in the SDR and the importance of the dollar in export finance, has meant that, in a period of high dollar interest rates, the matrix rates have also been high. The French franc and sterling were also high interest currencies. The Consensus, therefore, allows low interest rate currencies to be used in export credits according to a List of Commercial Interest Reference Rates (CIRRs).

The second major aspect of the Consensus concerns the mixing of aid funds and export credits. The general trend has been to increase the mixing of aid funds and the grant element in the total credit, calculated according to the OECD's Development Assistance Committee, from 15 per cent to its present level of 35 per cent for developing countries, and 50 per cent for the least developed countries. At the same time, the method of calculating the grant element has changed from a straight discount applicable to all currencies to a discount rate reflecting the currency's market interest rate.

The reasons for these changes in the Consensus are not hard to find. The economic background to the debate in the years starting 1982 was very different from that which prevailed in the late 1970s and early 1980s. Of particular significance was the fact that growth rates in the developed countries were strong at a time when the developing world was incurring a net outflow of capital. In these circumstances, exporters inevitably turned their sight towards the major works available in their own countries or in other developed economies. The value of contracts in the developing world

fell, while investment programmes in the world grew in value and number (for more details on the Consensus see the Annex).

The Future

There is widespread disagreement over whether the Consensus debate, and even the Consensus itself, is dead or whether export finance has entered a period of Consensus fatigue. In some countries, there is a feeling that major exporters will arrange private finance for their sales in developed countries, while relying on aid, bilateral or multilateral, for contracts in the developing countries. The role of export credit agencies in these circumstances would be minimal.

The general trend within the Consensus has been to increase discpline and transparency in international export finance. This has taken two main forms: squeezing out general subsidies in export credits by bringing official minimum interest rates more in line with market rates, and by ending the provision of officially supported export credit for richer (category I) countries; and squeezing in selective subsidies by increasing the grant element and calculating it in a more realistic manner.

There is a general acceptance that the private sector can now accomplish what was previously the domain of public finance. The result of that change in attitude has been to sweep away the idea that major projects are financed cheaply because government can fund themselves cheaply. Instead, projects are assessed strictly on their viability, their greater efficiency compensating for the higher cost of funds, and the export credit agencies have started to address the problems of project finance.

The third trend concerns the pattern of world capital flows between the developed and the developing world. Capital flows from developing countries to developed countries during the 1970s encouraged industries to turn toward developing countries through providing export finance. After the debt crisis industry turned back toward its home base in the developed countries.

With this background, it was hardly surprising that treasury officials, faced with export credit agencies with huge running losses, should dominate the intellectual debate about the nature of subsidies and the need for a continuation of export credit support on the scale which prevailed in the years 1975-1982.

These three trends will determine the role of the export credit agencies. The Consensus has developed from being a mechanism to control expensive credit wars into a relatively efficient guide to normal practice- when export credit support is necessary. This is of crucial importance because large transactions in the developed countries do not need support and, without the possibility of subsidy, there is no advantage in official export finance.

The negotiations to reform the Consensus must now recognize that, for the most part, the terms of the Consensus apply only to poorer or heavily indebted middle-income countries, and need to look at ways to revive the agreement in lines with these countries' needs.

Such reform would reflect the reality of the use of funds which export credit provides. When large companies in the developed countries can use an array of techniques to arrange their finance in the most efficient way without official interference, it seems absurd that developing countries should still be restricted by guidelines that were adopted by the OECD nations for their own convenience.

The reform would also require the agencies to adopt the attitudes of investors: to assess not simply country credit risk but the viability of projects and the commitment of the buyer country.

The encouragement of the investing mentality is one aspect of the move towards project financing and thinking that prevailed the 1950s and 1960s of encouraging capital flows. The agencies must see themselves as the partners of multilateral-institutions and their agreements, the International Finance Corporation, for example, or the World Bank's MIGA investment insurance initiative- in order to assist in the flows of capital. The enabling environment already exists in many developing countries[3]/.

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[3]/ J. Ball & M. Knight (editors), The Guide to Export Finance 1989, published by Euromoney Publication Plc, pp. 1-19.

II. ALTERNATIVE TECHINQUES OF EXPORT FINANCE

The competitive climate, the debt crisis, the "Consensus" changes and the downturn in activity in the capital goods importing developing countries has led to a constant search for alternative ways of utilizing appropriate finance. This chapter reviews the most important among them: Forfaiting, Factoring, Export Credit and Political Risk Insurance from the Private Market and Project Finance.

A. Forfaiting[4]/

Forfaiting has been known for more than 20 years. In the late 1950s and early 1960s, when the seller's market for capital goods gradually changed into a buyer's market, importers increasingly demanded credit periods extending beyond the traditional 90 or 180 days. Additionally, with the expansion of worldwide trade, exporters were confronted with credit demands from countries in Eastern Europe and the developing countries which were difficult to assess at that time. Heavy investment commitments by Western firms prevented them from financing such medium-term supplier credits out of their own funds, and the existing banks were unable or unwilling to offer the services the exporter desired. This was the situation where forfaiting appeared and consequently became one of the more widely used sources of finance[5]/.

While there is no fixed definition of forfaiting, the following features are common to most forfait transactions:

a) No recourse to the exporter.

b) Fixed interest rate finance.

c) Guaranteed by a bank or other institution.

d) Discounting of bills of exchange or promissory notes.

e) Not insured by an official export credit agency or private insurance company.

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[4]/ From french "Forefait" implies non-recourse.

[5]/ C.J. Gmur, (co-ordinator), Trade Financing, published by the Euromoney publications, p.17.

The essential point about forfaiting is that it is flexible and the institutions providing the finance are ready to adopt the service to try to meet the needs of the exporter and the importer. Forfait means that the exporter is giving up his rights to the payment; the bank is waiving recourse to the exporter in the event of non-payment.

Forfaiting and how it works

Forfaiting is a form of supplier credit, whereby the supplier offers credit terms to the buyer and then sells the debt to the bank without recourse. Some non-banks operators also provide this service, in which case it is called "forfaiteur". It is probably more suitable for contracts where the supplier's obligations under the contract have been fulfilled by shipment of goods. Very large and complex contracts are usually better financed by a loan of some kind. Rather than insure the risk of non-payment by the buyer, the exporter asks for a bank guarantee of the trade paper. This provides for immediate payment in the event of buyer default. The guarantee is usually given by the importer's own bank which should know his financial condition best. Such a guarantee (or aval) makes the debt represented by bills of exchange or promissory notes more attractive to the forfaiting bank.

The bank guarantee can take the form of an "aval" or bills of exchange or a separate letter of guarantee. An aval which takes the form of a bank signature on the face of the bills preceded by words such as "Bon pour aval" is simpler and preferred by the forfaiteur. A guarantee is a document separate from the bills and needs to be assigned when the bills are forfaited.

Forfaiting is appropriate for the medium and larger export contracts, particularly for those involving medium-term credit. Short-term credit or contracts of low value seldom lead to bills or notes and bank guarantees without which a bank cannot so satisfactorily execute a discount.

These guaranteed bills or notes are negotiable instruments which can be bought and sold by banks and other investors. Having a secondary market for such forfait paper increases the ability of the bank providing forfait finance to the exporter to take on different risks and make quick decisions.

The bank "aval" removes the need to evaluate in depth the standing and credit worthiness of the buyer. The forfaiteurs have essentially to consider the guarantor bank's standing and, of course, the importing country's economic situation.

The commercial risk on the buyer has been eliminated for the forfaiteurs; but the bank risk remains and, more importantly, so does the country risk. Thus the forfaiteurs are able to come to quick decisions as to whether they will buy a debt or not.

There are two variations on this basic theme of forfaiting. The first is where the export transaction has already taken place and the trade paper is immediately available for discount, the second where the exporter seeks the assurance from the forfaiting bank that the latter will buy the trade paper when it becomes available for discounting in the future (after shipment). In the latter case, the exporter usually requires to know what discount rate will be applied to the bill or note in the future. This will mean that movements in interest rates in the particular currency between the time the bank commits itself to buy the trade paper at a particular discount rate and the time the actual discount takes place will not affect the exporter. This elimination of interest rate risk is similar to the protection against exchange rate movements which is provided by a forward exchange contract (or other similar hedging device). The forfaiteur is ready to assist the exporter with the calculation of the interest rate and amount to be incorporated into the commercial contract.

Cost and fees

A commitment fee is charged by the bank for undertaking to forfait a transaction and to hold a discount rate for a specified period of time, typically up to 12 months. Similarly, there is a fee for giving the exporter an option to enter into such a commitment. This is usually called a bidding fee and is similar in intent to the "Tender to contract" cover provided to exporters to cover them against exchange rate fluctuations during the time from the submission of their tender to the award of the contract.

Forfaiting quotations by banks are therefore expressed in terms of: discount rates; commitment fees and bidding fees.

The discount rate is a reflection of the cost of funds for the bank (usually expressed as LIBOR for the credit period concerned), plus a margin or premium for the risk the bank is taking and the profit it wishes to make. The discount rate will be applied to the face value of bills or notes being discounted, i.e., the principle and any interest added to it, and any fees charged will also be calculated by reference to the face value.

The only other major factor involved in a forfait quotation and therefore in the actual discounting is the so-called "days of grace". This is an estimate of the number of days' delay the forfaiting bank will experience before the funds reach the banks' own account. Any additional delays would otherwise cost the bank money which the bank would have difficulty recouping, since the exporter is no longer involved in the transaction and the importer is unlikely to be interested. There is usually no reference to interest for late payment on the bills or notes. The days of grace are added to each maturity date and the discount calculated to that latter date. The bank is thus deducting a charge for anticipated late payment.

The typical commitment fee is 1 per cent per annum, but to the actual level is a decision for the forfaiteur on the particular risk. The bidding fee is set at a similar level but will be higher on the riskier transactions.

Advantages of forfaiting

Forfaiting offers a number of advantages to the exporter and importer, though not all apply in any given situation. The most important advantages for the exporter's point of view are:

- the finance is provided without recourse;
- for the post-shipment period, therefore, there is no need to take out insurance;
- the exporter can offer 100 per cent finance;
- the re-payment schedule can be flexible to suit the importer and the importing country's regulations;
- there are no firm rules as to whether certain goods qualify for short or medium-term forfait finance. Each bank makes its own decision in this respect;
- the exporter's banking facilities are not affected by the forfait facility;

As for the importer or the buyer, the advantages are similar and inter-related:

- speed, flexibility and simplicity;
- 100 per cent finance may be available;
- goods from different countries can be financed in the same package;

- the re-payment schedule and interest rate can be made to conform to import regulations;
- finance can be made available in a wide range of currencies;
- availability of finance or credit despite the absence of insurance cover.

Forfaiting has also some appeal to banks and other institutions as the marketability of bills or notes gives the banks more flexibility.

There are a number of problems which make it difficult for forfaiting to operate in conjunction with the official export credit agencies. In many cases, these questions have been addressed only in recent years and differing and sometimes unclear answers have emerged[6/].

Forfaiteurs in the market

A growing number of banks and other financial institutions are offering forfaiting. It is very much an international market, with banks in Switzerland assisting Italian exporters, banks in Luxembourg doing it for German exporters and so on. The secondary market where banks can trade the bills or notes among themselves is largely concentrated in London, but Zurich remains an important centre and there are forfaiteurs in Paris, Geneva, Vienna, Brussels, etc.

There are three activities within the market: investing (buying trade paper with a view to holding it until maturity); trading (buying with a view to reselling in the near future) and brooking (simultaneously buying and selling). Most banks tend to concentrate on one of these activities, whether they are buying directly from exporters or from other banks.

Market trends and outlook

The demand for forfait finance is related to the level of interest rates in as much as the demand is high at a time of rising interest rate, since forfaiting is done with fixed rates. At times of falling interest rates and of high liquidity, demand for forfaiting is smaller. Changes in interest rates, however, are one of a number of influential

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6/ J. Ball & M. Knight (editors), The Guide to Export Finance 1989, op. cit., pp. 65-73.

factors. The demand for this type of finance is also greatly affected by the need of companies to substitute their medium-term risk related claims for cash. This risk assuming function of the forfait aids the development of a diversified industrial sector represented to a large extent by small and medium-sized manufacturing companies with an innovative product range. In these days of rapid structural economic change, providing risk capital is of vital importance to those companies which find themselves on the threshold of internal reorganizaton and adaptation. Forfaiting offers the possibility of financially weathering this period of transition. The forfaiting market will probably never take on huge proportions: it is likely to remain relatively small (in 1989 1/4 per cent of world trade)[7]/.

B. Factoring

The use of factoring to finance international trade is a recent phenomenon, but the volume of export factoring business is increasing steadily, and the service is penetrating new markets.

Traditionally, exporters have traded on open account or obtained an insurance policy to protect themselves against the credit risk of trading on open account. Such a policy has enabled them to obtain relatively cheap finance from their banks. However, this can significantly increase the administrative burden for exporters, especially small ones, new to the export market. Therefore, for smaller exporters factoring is attractive as a one-stop credit, finance and administration facility[8]/.

Factoring does not represent a credit to the supplier of goods. The "factor" usually purchases his client's claims and assumes the commercial risk in them. It is primarily not the seller but the recipient of the goods who must be creditworthy. For this reason, cross-border factoring is usually carried out through a network of factoring companies in various countries who, with the help of their local knowledge, assess the economic risk of claims which their foreign partners wish to assume. As a rule, they take over the commercial risk from the export factor and, if necessary, the local collection. This service is known as import factoring.

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[7]/ C.J. Cmur (co-ordinator), Trade Financing, published by Euromoney publications, pp. 131-132.

[8]/ J. Ball & M. Knight, (editors), The Guide to Export Finance 1989, op.cit., p. 113.

Factoring is a package of services which is known today by various terms, according to the combinations used. These include: the taking over of claims by assignment on purchase; the taking over of commercial risk; advance payments; collection; debtor book-keeping, and the compilation of statistics on debtor turnover, regional developments, etc.

Genuine Factoring or old-line factoring occurs when the "factor" takes over the commercial risk as well as collection, and usually also makes an advance payment on the claim. In Pseudo-factoring or re-course factoring, the factor is involved more as a collection office. Insofar as the factor does not take over the commercial risk, he is in the strict sense not a purchaser of the claims, but merely the administrator[9]/.

The factor services were originally developed to serve the needs of the huge domestic textile industry in the United States in the 1920s, but is now increasingly used to finance cross border trade which constitutes only a small proportion of the total volume of factored trade. The cumulative turnover figure for worldwide domestic factoring was $131 billion in 1987.

Factoring enables a business to finance the period between selling its product and receiving payment. The business assigns its sales invoices to a factoring company which then makes available a certain proportion, typically up to 80 per cent of the invoice value. The factoring company is then responsible for collecting payment on the invoices and passes the balance due back to the business on receipt of payment or, more usually, on an agreed date, which is most often 120 days after accurate date.

Factor services are available on a re-course or non-recourse basis. The factor can provide 100 per cent protection against bad debt on approved accounts, credit management and collections, multi-currency sales accounting, regular management reports to exporters, finance geared to turnover and exchange rate protection. Finance available is linked to sales and this increases automatically as sales grow.

The facility usually covers all of the exporter's sales on credit terms. Once shipment has taken place, the factor becomes the exporter's sole debtor; moreover, factors can provide their clients with information on the status of any customer account.

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[9]/ C.J. Gmur, (co-ordinator), Trade Financing, op.cit., pp. 73-74.

If an exporter is dealing in foreign currencies, it is possible to obtain payments in the currency for 100 per cent of the invoice value.

The charge levied for a factor's services ranges in most countries between 0.5 - 3 per cent of factored sales. The variation is associated with the factor's assessment of workload and perception of the credit risk associated with each supplier.

Factor are especially keen to service the needs of suppliers who are capable of growing, since they then benefit from the administrative economies of scale concomitant with such growth, as well as earning more income. Factoring is not suitable for financing, long term contracts, as it is especially tailored for trade in consumer goods; nor should a factored business engage in sale or return or consignment selling, while it should have assignable debtors.

International (cross border) factoring is most usually undertaken through a correspondent system where export factors sub-contract part of their services to a factor in the importer's country. The relationship of supplier-factor-customer is replaced by that of supplier-export factor-import factor-customer. This greatly increases the speed and quality of service available since the import factor deals with what is effectively a domestic receivable and is therefore operating in a familiar market and legal system. The import factor underwrites customer trade credit risk, collect receivables (taking legal action where necessary), covers any unpaid credits and transfers funds to the export factor in the currency of the invoice. However, the supplier has no legal relationship with the import factor. All legal responsibility rests with the export factor.

As a response to the particular demands of cross border factoring, factors have organized themselves into correspondent networks or chains. Since the banks moved into factoring in the mid-1960s these correspondents have tended to be bank owned.

For many prospective users of factoring facilities, it is the availability of additional finance that is most attractive to them. If a mature business has developed sound accounting and credit management functions but still needs credit protection, a factor may offer an agency or bulk factoring facility.

International factoring is now growing in volume terms by as much as 20 per cent per year, and factoring operations are

penetrating new markets in Eastern Europe and South-East Asia[10]/.

C. Export Credit and Political Risk Insurance from the Private Market

Exporters have traditionally insured credit and political risks at national export-credit agencies. Over the last 15 years, however, private sector underwriters have developed policies similar to those offered by national schemes. Originally these complemented the services available from the national agencies. Later, however, the private sector began to compete with the national schemes.

Resort to the private market has been helped by the increasing willingness of banks to accept the private market policies as collateral protection for finance and of the private market to insure banks directly. While access to fixed interest rate medium-term export finance under the terms of the OECD Consensus is still only available through the national schemes, the use of cover from the private market underwriters, as security for short-term export finance raised by the exporters, is now acceptable to several banks. Increased competition between the public and private sectors in this field is matched by increased co-operation. The debt problems of the developing countries and the resulting restrictions on the capacity of insurance cover available from the national schemes for many markets has encouraged the possibility of risk-sharing between the national schemes and private sector underwriters. Both sides recognize that such co-operation can bring them business which separately neither would obtain.

Insurers in the private insurance market undertake different types of business. Some only underwrite the credit risks i.e. insolvency or non-payment. Some underwriters only cover political risks and the leading insurer in this field is Lloyd's of London. Other insurers underwrite both credit and political risks, although not necessarily together in one policy.

The main advantage offered by the private market, by comparison with national schemes, has been its flexibility. The exporter can largely choose which countries, buyers, contracts and causes of loss to insure. He can also vary the proportions in which he shares risks with the underwriter. Some of the national schemes have as a result become much more

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[10]/ J. Ball & M. Knight, (editors), The Guide to Export Finance 1989, op.cit., pp. 113-116.

flexible themselves in these are; however, the private market remains more adaptable in terms of covering new forms of credit and political risk.

Unlike most national schemes, private sector underwriters are not constrained by the need to support the export of goods or the provision of services from their own countries. They can, therefore, insure exporters of virtually any nationality and there is no limitation on the amount of foreign content which can be insured.

The capacity of the private market, however, is limited by the capitalization of the entities invovled, by the premium income limit, and by the re-insurance available. The underwriting capacity available from the national schemes is considerably greater than that available from the private market. Private sector underwriters are most reluctant to commit themselves to provide cover for long periods. In the political risk market, the maximum period for which cover is provided is normally three years; in high risk territories the maximum period of cover may be only 12 months.

As far as the future of the private market is concerned, the changes in the pattern of world trade in the last 10 years following the outbreak of the debt crisis have affected private sector underwriters' attitudes toward the availability of credit and political risk insurance. The increase in exports to OECD markets and the reduction in exports to the developing countries has given private sector underwriters an opportunity to develop their whole turnover covers in competition with the national export credit agencies. The latter are already responding to this competition and to the benefit of exporters. The downturn in the volume of overseas projects has affected the political risk insurers; thus, underwriters will seek to develop new types of cover for particular situations in those markets which are acceptable risks[11]/.

F. Project Finance

Project finance relates to a specific technique in which the backers-private or institutional investors and financing banks - take every risk on an untried scheme or a new company for the sake of a future income. In short, they have no re-course except to the project itself. The most obvious examples of suitable projects include powerstations, hotels and toll roads.

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[11]/ Ibid, pp. 77-84.

This method was used for centuries as the main way of financing capital investment. But as governments and local authorities assumed greater role in financing investment, its importance diminished until it virtually disappeared in the 1970s and early 1980s as all sorts of large projects were financed either directly by governments from their own revenues or indirectly with the support of sovereign guarantees.

Recently, however, project finance has returned to fashion because of the global trend towards reduced public sector involvement and the wave of privatization. The changing nature of projects during the last 20 years has also meant that the export credit agencies have also had to change their attitude towards major projects. It is now no longer adequate or even possible for an agency to provide insurance cover for a project in the developing countries on the basis of a sovereign guarantee. They have therefore begun to examine the possibility of supporting project financings. The lead has been taken by ECGD (Export Credit Guarantee Department) of the United Kingdom and Hermes of Germany[12]/.

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[12]/ Ibid, pp. 117-121.

III. EXPORT FINANCE SYSTEMS IN SOME DEVELOPED AND DEVELOPING COUNTRIES

A. Export finance systems in some developed countries

1. Japan

The Japanese system is unusual in two aspects:

1. It was the first to offer formalized rates below Consensus matrix level.

2. It gives support to importers as well as to exporters. Although there is no mixed credit system, Japanese exporters can tap vast low interest funds provided by the Overseas Economic Co-operation Fund (OECF). It is financing by this organization that other countries find it so difficult to match.

Institutions

Export insurance is provided by the Export-Import Insurance Division (EID) of the International Trade Administration Bureau of the Ministry of International Trade and Industry (MITI). EID started its operations in 1930. Export finance is provided by Japanese commercial banks acting together with the Export-Import bank of Japan (Eximbank). Exim was founded in 1950. It is wholly owned by the government and is extensively represented overseas with offices in 15 countries.

Exporters seek insurance from (EID) and finance from Exim. The agencies concerned are thus in a position to monitor closely and co-ordinate the process of arranging export support. Overall policy in this field is co-ordinated by MITI, and the Ministry Of Finance takes a keen interest in the application of policy.

Insurance:

The present insurance system was modelled partly on the export insurance system in operation before World War II. But throughout the 1930s, Japanese companies applied continuous pressure to improve the cover available and to obtain some measure of protection against pre-shipment risks. This was needed because of Japan's relatively poor export performance. The pressure led to the introduction of a further facility. However, in the period immediately after the war, exporters

were shielded totally from exporting risks. All exports were contracted for by, and in the name of, the government. Japanese supplies had no exposure to overseas buyers.

A full range of policies now exists. These aim to cover the spectrum of trade risks not commercially insurable. In all cases the insurer is the government acting through EID.

The basic policies are: general export insurance; export proceeds insurance; export bill insurance; foreign exchange risk insurance; export bond insurance; and pre-payment import insurance and intermediary trade insurance. These policies represent a comprehensive but not an excessively generous set of facilities for the protection of Japanese banks.

General export insurance

Under this type of insurance, there are four kinds of policies; (i) The general export insurance for exporter (or supplier) where he/she is the ensured party. (ii) General export insurance (mass contracts) where certain basic industrial products are qualified for mass contract insurance. Under this scheme, the exporter's trade association stands between the exporter and EID and for the exporter the trade association is seen as the insurer. (iii) General export insurance for the export goods producer where a domestic manufacturer of equipment that will sell abroad through a sub contract with a Japanese contractor can insure his sub contract against normal export risks directly with EID. (iv) General export insurance-increased expenditure insurance which covers the cost of extra freight and insurance charges if some events outside Japan means that goods have to be re-routed, leading to unforeseen costs for the supplier.

Export proceeds insurance

This covers post-shipment credit risks for contracts when extended terms are granted. Equipment covered includes capital goods, ships, construction contracts and consultancy and other similar services. Commercial risks are covered for up to 90 per cent of the contract value and up to 97.5 per cent for political risk. Under the Export bill insurance policy EID will pay a bank (if the export bill purchased by it is dishonourd) up to 82.5 per cent of loss for political reasons.

Foreign exchange risk insurance

This policy provides Japanese exporters with some measure of protection against exchange rate fluctuations during the life of the contract. It applies to those receivables due between two and 15 years after the date of signature of the contract. All losses caused by adverse currency movements of between 3 per cent and 20 per cent are covered and any gain within these limits must be surrended to EID. Only contracts of major capital equipment and projects are covered.

Finance

The central role in financing exports is taken by Exim, which has, until recently, been involved as a lender in all medium and long-term export finance transactions.

Exim offers four main types of credit:

- export credit (supplier credits);
- import credits;
- investment credits; and
- direct credits in the form of buyer credits, credit to international organizations or united loans.

Apart from its capital resources, Exim makes substantial calls on the Japanese government's trust fund, which handles savings received through the governmental postal savings system. It can borrow from this fund at rates which are normally below prevailing market levels and for periods typically of 10 years. Exim is authorized to borrow in foreign capital markets in foreign currency.

Supplier credits

A loan is made by Exim in conjunction with one or a group of commercial bank(s). Supplier credit usually makes 90 per cent of the deferred payment. Except in the case of ships, Exim usually provides up to 70 per cent of the credit and the commercial banks the remaining 30 per cent. The later lend at the market rate of interest. Exim has traditionally lent at a rate which is, when blended with the commercial money, the average rate to the supplier is consistent with the OECD Arrangement Criteria.

Buyer credits

Buyer credit is made directly by Exim to foreign entities or through an intermediary financial institution, in which case they are called bank-to bank-loans. They are tied to the purchase of Japanese goods and services and are lent on terms consistent with the OECD Arrangement. The credit is usually extended in conjunction with commercial banks in Japan. Commercial banks will receive EID insurance.

Import credits

A loan is made by Exim in conjunction with one or more commercial banks to a Japanese corporation wanting to import goods recognised as conducive to the sound development of the national economy.

The Japanese borrower lends the proceeds to the foreign exporter who in turn uses them to finance production. Loans for the same purpose can be also extended to foreign corporations for export to Japan. Although 10-year loans are usual, loans have been made for considerably longer periods.

Credit for manufactured imports

Following a cabinet decision of October 1983 on reducing Japan's trade surplus, Exim launched a finance scheme for promoting the import of manufactured goods. This was boosted by the "Action Programme" on emergency imports announced in July 1985, under which Exim softened its terms for import credits for manufactured goods and introduced a facility for financing them in foreign currency. To improve the effect through wider use, this facility has a broadened eligibility of borrowers, i.e. including branches in Japan of foreign corporations.

Overseas investment credits

Exim can make loans to Japanese corporations for overseas investment activities and overseas projects. Overseas investment credits can also be extended to overseas joint ventures involving Japanese, and to foreign governments for their capital contributions and/or loans to these joint ventures involving Japanese capital. Exim's share in a total loan, and the interest rates and maturity available, are similar to those which apply for import credits. Overseas investment credits are used as well in conjunction with import credits in the finance of major resource development projects in which Japanese institutions are investing, and part or all

of the output of which is designed for Japan[13].

2. France

The French system is envied by exporters elsewhere. France pioneered the use of mixed credits- blending aid with export finance. Moreover, low interest rate protocols are a major feature of the French aid programme and are unlikely to be cut back. Recent changes have included the abolition of subsidies to rich countries under the Consensus. Pure commercial funding and the use of offshore capital markets are also being encouraged for the first time.

Institutions

Credit insurance is provided by the Compagnie Francaise d' Assurance pour le Commerce Exterieur (COFACE). Founded in 1948, it is a company owned by public institutions. COFACE acts for its own account only on short-term commercial risks; otherwise it acts on behalf of the government. COFACE's range of policies is rivalled only by Britain's Export Credits Guarantee Department (ECGD) and has a reputation of being generous in the cover it will offer. As well as COFACE, the Directeur des Relations Economiques Exterier (DREE), which forms part of the Ministry of Economics, is usually involved.

The Banque Francaise de Commerce Exterieur (BFCE), a government-owned bank, backs up commercial banks providing export finance. BFCE is split into two operations covering respectively, commercial banking and medium-and long-term export financing. It funds long-term loans directly and is involved in re-financing banks making medium-term credit.

Insurance

As well as providing pre-and post- shipment credit insurance, COFACE covers against cost escalation, exchange risk, investment risk and the risk that a marketing campaign or trade fair will not pay.

Credit insurance

The three basic types of policy offered by COFACE are:

- Specific policies. These relate to individual

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[13] J. Ball & M. Knight (editors), op. cit., pp 218-225.

transactions and are appropriate for the sale of heavy capital equipment, civil engineering contracts and some services contracts.

- Subscription policies. These are appropriate for the sale of mass or semi-mass produced industrial goods or materials where the manufacturer does not want to guarantee all sales.

- Global policies. These normally cover the whole turnover of the exporter. The exporter may wish to nominate certain countries for exclusion from the policy which COFACE may accept. Cover is limited to a 180-day credit period for consumer goods, and to three years for capital goods.

These policies are further sub-divided according to type of risk (pre- or post- shipment) type of finance (supplier or buyer credit) and the nature of the risk, whether commercial or political.

Issue of guarantee

Exporters making single sales must apply for a guarantee within two weeks of signing the contract. The application is either submitted to an interministerial group, or examined by COFACE which has been delegated authority to a large extent. After a decision is made, COFACE gives an agreement in principle to issue a guarantee. This is usually valid for six months. COFACE handles commercial risks of up to three years, so long as no individual transaction is worth more than FFr 9 million. The Commission des Garanties consists of representatives from Banque de France, Caisse Centrale de Cooperation Economique (the aid agency), COFACE and the ministries of Finance, Foreign Affairs, Industry, Economic Cooperation, Equipment and Transport. It is chaired by the Direction des Relations Economiques Exterieur (DREE), part of the Ministry of Finance. The key contacts for the exporter are; DREE, COFACE, and the Ministry of Industry. DREE has the power to decide whether an exception should be made to a rule, while the Ministry of Industry will, in marginal cases, see how valuable a contract is to the economy. COFACE's role, is for the most part, technical.

The percentage insured varies according to the type of policy and risk. Cover of 100 per cent is never given. On pre-shipment risks, claims are paid on the basis of costs; on post-shipment risks, on the basis of the selling price. The mandatory delay before a claim is paid has just been standardized to two months for all policies except for the first claim on all supplier credit and that pertaining to

commercial risk on buyer credit, which is six months.

Cost. In determining premiums, COFACE distinguishes between public and private buyers, and between three categories of credit available: short-term of up to 180 days from delivery and short-term of between 180 days and three years from delivery, and medium- and long-term-more than three years.

Under short-term cover there are three types of policies: global policy, political risk only policy and simplified global policy. Premiums on the former vary according to the nature of the exporter's business, his-turnover, his loss record, his geographical sales spread, his maximum exposure and the quality of his foreign customers. The premiums ranges from 0.155 per cent and 0.598 per cent. The premium on political risk policy is 0.47 per cent for private buyer and 0.939 per cent for public buyer. The premium on simplified global policy is a flat 1 per cent. All premiums are paid monthly on the amount declared by the insured.

For credit of six months to three years, premiums are calculated for each deal as a funtion of the length of risks covered.

Pre-shipment and post-shipment premium on credit for more than three years are caluclated in a complicated way.

Other insurance schemes

COFACE offers the most complete range of supplementary schemes of all export credit agencies. Among these schemes are:

1. Cost escalation cover: aims to protect contractors against abnormal increases in costs during the execution of a major contract. The claim that is paid is based on the difference between the rise in French costs and international costs for the same goods.

2. Exchange risk guarantee: guarantees are available against the depreciation of currencies in which contracts are denominated. In all cases, the exporter must pay COFACE if he makes a gain on exchange rate movements. Under this type of guarantee there are different variations:

    a) The tender date guarantee: covers the fluctuation of either the spot rate or the forward rate of exchange between the dates the exporter remits a tender denominated in a foreign currency and the dates of sale of the foreign currency, on the spot or forward market.

b) The contract signature date guarantee: covers fluctuations of either the spot rate or the forward rate between the date of signature of the export contract and the dates of sales of the foreign currency, on the spot or forward market.

c) The catalogue guarantee: covers the fluctuation of the spot rate between the date of establishing the prices shown in a foreign currency on a catalogue that an exporter sends out to his customer and the rates at which the corresponding currency is effectively sold for orders received with one year from the first issues of the catalogue.

d) The framework contract guarantee: covers fluctuations of the rate in which a global offer or a global contract is denominated between the date of contract and the actual rates at which the corresponding currencies are effectively sold, resulting from orders thereunder over a period of five years.

Marketing guarantees

Marketing guarantee and trade fair insurance are two unusual and ingenious policies offered by COFACE. Claims can be made if expenses are not covered by a proportion of sales generated over a set period.

Finance:

Export finance is provided by the commercial banks, backed up by the Banque Francaise du Commerce Exterieur (BFCE) on behalf of the Treasury. However, recent reforms have restricted the availability of officially supported export financing. This has encouraged the development of alternative forms of finance, such as forfaiting, while foreign banks have become increasingly involved in the provision of tailor-made financing packages.

Support for category I countries was suspended completely. Under the new system finance for category II countries is also provided commercially. For categories II countries during the credit period up to seven years and for category III countries during the period of progressive payments and the credit period up to seven years[14/], BFCE operates an interest rate make-up system. This compensates

[14/] For the scope for these categories see the Annex.

the banks for the difference between the Consensus rate (whether matrix or Commercial Interest Reference Rate) and the cost of funds to the banks. This cost is calculated on the basis of an average of three benchmark rates (one-and five-year money market rates and the yield on comparable bonds in the secondary market) for French franc credits.

As for credit of more than seven years, the part of credit beyond the seventh year is provided by BFCE.

Although banks earn a 1 per cent margin, they are not as secure against losses as British banks. They must hold 5 per cent of the risk themselves and are not allowed to lay this off elsewhere.

Foreign currency finance

In the foreign currency financing system, the BFCE acts on behalf of the Treasury to manage an equalization scheme for the credit period up to seven years. On behalf of the state it makes up for or receive the difference between the fixed rate of the credit and the cost of funding, which is PIBOR quoted for the relevant currency by three banks plus the margin of the bank (1 per cent) and the BFCE fee (0.05 per cent)[15]/.

Finance of work in progress

The French export credit system is unique in being able to finance the execution of specific contracts before the corresponding payments are due from the buyer. It is available either at market, or supported fixed, rates. All manufacturing and financing costs can be covered under this scheme. COFACE insurance underwrites the credit risk requires, Prior Banque de France consent. Contracts for the supply of primary products and consumer goods are not included but consultancy contracts are.

Short-term refinance credits

The Banque de France can refinance short-term credit (up to two years) whatever the kind of credit may be, but only for a limited fraction of the credit and for firms having the highest Banque de France rating; COFACE cover is available but is not obligatory.

[15]/ PIBOR: Paris Interbank Offer Rate.

Special credits

Credits are available to cover special componenets costs of overseas sales including market research, overseas stocks (credit that ease the burden of keeping stocks abroad as long as there is a real possibility that they will be sold), and the cost for waiting for a COFACE claim to be paid.

Mixed credits

The French were the first to mix aid with export credit in the 1960s. Mixed credits have formed the backbone of their aid policy since then. The system is based on protocols-credit lines at low interest which are allocated on the basis of development criteria. For francphone countries the aid portion comes from the Caisse Central de Cooporation Economique (CCCE); for other countries, it is administered by a development bank, Credit National, on behalf of the Treasury. There is no aid agency apart from the CCCE. Export credit comes through the BFCE system with a standard repayment term of 10 years. The aid portion can extend longer and is given at about 2.5 per cent. The aid/finance mix ranges from 60 per cent for the poorest countries to 25 per cent for the better off ones[16]/.

3. Germany[17]

The German system is one of the most laissez-faire in the world. Explicit subsidies are not allowed and insurance premiums are kept up to avoid deficits. Germans do, however, benefit from a strong capital market as well as powerful aid agency.

Institutions

Export credit insurance is provided by a consortium (Hermes) consisting of Hermes Kreditversicherungs AG and Treuanbiet AG Wirtschaftsprufungsgesellschaft. The consortium acts as the mandated instrument of the government and Hermes is the leader.

Hermes was founded at the end of World War I and received its first mandate from the state on export insurance matters

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16/ Ibid, pp 180-190.

17/ Reference is to the system in effect prior to the unification of Germany.

in 1926. The export insurance system instituted after World War II adopted many of the features of the pre-war system. The legislative basis for the activities of Hermes has been contained in the annual budget law since 1960. Before the war, Hermes acted as a direct insurer, reinsuring with the state. Subsequently, Hermes has insured under a mandate in the name of the state.

One important institution is the standing Inter-Ministerial Committee for Export Credit Insurance which was formed in 1949 and is the body through which decisions relating to export insurance matters are taken. Statutory power rests with the minister of the economy, who consults the ministers of finance, of economic co-operation and of foreign affairs. The standing Inter-Ministerial Committee meets fortnightly; representatives of the ministries are joined by representatives from Hermes and spokesmen for the Bundesbank. Participants from industry, the banking sector and export trade are invited as advisers.

Private insurance institutions insure commercial risks only and on commercial terms without government intervention. They cover risks exclusively in neighboring industrial countries.

A sizeable volume of finance is provided by a consortium of 54 German banks which was founded in 1952. Its exclusive function is the arrangement of finance facilities in support of export business for the German exporter or his foreign buyer. It is believed that the consortium finances less than half of Germany's capital goods exports.

Long-term credit facilities are made available by (KfW), a bank with a political-economic character was established in 1948 as a corporation under public law. The bank, on the one hand, promotes the German economy by granting investment loans and export credits and by giving guarantees. On the other hand, it extends loans and makes grants under the government's aid programme to developing countries.

KfW's export finance role consists of providing longer-term buyer credits, principally to developing countries. It also finances ship sales and promotes the sale of German civil aircraft, as well as the sale of Airbus aircraft.

Activities

Officially insured export business covers a smaller proportion of total German exports than in most industrial countries. Hermes mainly covers risks related to trade with developing countries rather than industrialized countries.

Insurance

Hermes differentiates between insurance cover for private sector buyers and for government or other public sector buyers. Pre-shipment cover ensures the exporter against losses incurred in the event of frustration of his export contract before shipment. This may be due to political or commercial reasons. Losses in this context refer to cost incurred less any proceeds arising from disposal of the goods elsewhere.

Post-shipment cover for a private sector buyer assures the exporter against failure to receive the amounts due to him under the terms of the contract. Destruction or loss of goods caused by political events in the buyer's country are also covered to the extent that they are not commercially insurable. In specific cases (credit period more than two years) protracted default is also covered.

Post-shipment cover for a government or other public sector buyer (Burgschaft) defines uncollectibility as being due to commercial causes in relation to delays experienced in receipt of payment. A claim can be made if the payment is six months overdue. Political events which render the debt uncollectable are the seizure, destruction or loss of the goods themselves due to political events in the buyer's country, to the extent that they are not commercially insurable. Since 1987, cover has been made available for soundly based project financing ventures. It gives support to exporters pursuing business where finance is secured on the viability of the project.

Hermes does not insure the entire exporter's risk. The minimum risk percentages for exporter's account are 10 per cent for pre-shipment cover, 15 per cent for commercial and 10 per cent for political post-shipment cover.

Hermes, uniquely among credit insurers, does not differentiate in the premium it charges for the perceived quality of the risk. The charges are DM 30-500 as application fee (whether or not an order ensures) and a policy fee of 0.1 per cent (payable in addition to premium on business valued in excess of DM5 million). The charges on pre-shipment cover is 1 per cent of cost covered and 1.25 per cent if pre-shipment period exceeds one year. For private post-shipment cover there is a fixed fee of 1.5 per cent, covering six months, and 0.1 per cent per month as time premium for subsequent period of cover. For public post-shipment cover, the fixed fee is 1 per cent and 0.055 per cent per month as time premium starting the first month.

The German export insurance system was originally designed to insure specific export contracts. The two main non-specific forms of cover currently available are:

Global policies. From mid-1981, an exporter has been able to take out a global policy if he was prepared to offer for cover all his exports to private buyers outside the OECD countries or in particular OECD countries. The premium is fixed on the basis of an individual assessment of the spread of risk, but the rate is usually significantly lower than that rate if he insures on a specific basis. The global policy covers the risk of protracted default.

Revolving policies. An exporter may take out a revolving policy to cover regular repeat orders from the same foreign buyer. Special insurance policies are available for foreign leasing, foreign civil contracting and ship-building. Cover is available for the risk of unfair calling of bonds. A form of exchange risk insurance was instituted in 1972. This applies to maturities in excess of two years only. Any loss or gain on maturities exceeding two years, resulting from a more of 3 per cent or less in the rate insured, remains with the exporter. If the loss or gain is greater than 3 per cent, Hermes will take the whole of it. Cover is available on request against the United States dollar, Pound sterling, and Swiss franc, and can, on occasions, be offered against other currencies apart from EC currencies. Direct exchange risk guarantees are not available to lending banks for buyer credits.

Finance

German export finance is mainly provided by a consortium of German banks (AKA), KfW (a corporation under public law) and the commercial banks. It can now also be provided by foreign banks. Government subsidies are available for only one AKA programme, limited in size, and by means of the ERP Special Fund, through KfW. These are the only two types of finance in Germany which fall within the parameters laid down by the OECD Consensus.

Forfaiting deals can also now be guaranteed by Hermes to transfer the credit risk from the importing country to Germany. However, Hermes retains the right to make ultimate recourse to the exporter, which means that the forfait notes cannot be traded in the market.

The bank members of the AKA consortium are required not only to contribute to its capital, but also to make available credit lines which can be used for export finance. These lines make up the unsubsidized resources of AKA, consisting of

the A- plafond for supplier credits and the C- plafond for buyer credits. Official financing support is provided by the B- plafond under a re-discount arrangement with the Bundesbank.

A- plafond provides two facilities, one for specific and one for comprehensive business. For specific financing, only exports qualifying for a minimum credit period of 12 months are eligible. The total credit period matches the length of Hermes cover. The maximum proportion that can be financed for a private buyer is normally 85 per cent and for a public buyer 90 per cent of the exporter's outstanding claims. AKA may occasionally extend 100 per cent financing. Comprehensive business can be financed at a fixed rate or a floating rate. Finance is limited to 70 per cent of the value and has a life of two years.

B- Plafond for supplier credit was introduced in 1985 through which the Bundesbank made available a limited re-discount facility for AKA. Goods must be sold on credit between one and four years; only specific business can be covered. This line is used mainly for sales to developing countries.

The finance covers up to 80 per cent of the contract value and the rate is officially supported at 0.75 per cent above the Bundesbank discount rate of up to two years. For medium-term credit, exporters tend to mix A and B plafond funds, using B- plafond money for the earlier maturities before switching to A-plafond.

C- Plafond. This provides the funds that AKA uses for Hermes-covered buyer credits. These funds come from credit lines made available by the member banks. In contrast to most systems, the German scheme does not allow the funds to be drawn down before shipment of the goods except under certain conditions. The manufacturing period may be financed by a supplier credit mechanism using A or B plafond funds or a mixture of the two. Both fixed and floating-rate loans are available.

Other cost

Certain additional commissions and fees are payable for AKA facilities. A commitment fee is charged under all three lines.

KfW's export credit schemes

KfW's export finance is available in the form of medium

or long-term loans to finance German goods and services supplied abroad, with the main emphasis on supplies to developing countries. Supplier credits are given in exceptional cases only. The buyer credit may be drawn on a pro rata basis as the goods or services are supplied.

KfW's export credits are mostly funded by the German capital market. For goods and services exported to developing countries, funds can be made available under the KfM/ERP export financing programme. ERP funds, which had their origin's in the Marshall Plan, are supplemented by resources raised by KfW in the market.

KfW has always endeavoured to offer the exporter or the buyer a fixed interest rate even before the actual conclusion of the loan agreement. Interest rate fixing is governed by the OECD Consensus, under which Germany is treated as a low interest country. Specially designed credit schemes help to finance the supply of ships and the sale of Airbus at reduced interest rates.

KfW's loans usually require a Hermes cover. In appropriate cases, however, KfW is also prepared to grant market funds without a Hermes cover, either to finance interim down payments or the whole transaction.

Although any commercial bank can finance German exports guaranteed by Hermes, such lending is clearly at commercial rates. In practice, however, most German commercial banks which have an interest in such lending already participate through their lines to AKA. The mortgage banks have a greater than normal ability to lend at fixed rates of interest. They benefit from special Hermes conditions when they participate in an export credit financing under the leadership of one of the commercial banks. The Landesbanken, constituted under public law with ready access to the capital market, will, on occasions and apart from its involvement in AKA, also offer fixed rate export finance to overseas buyers.

Mixed credits

As KfW can provide export finance as well as aid, it can give mixed credit on its own. Such credit is offered only for projects that meet German aid criteria. All mixed credits stay within OECD guidelines, with a minimum concessionality level of 35 per cent[18/].

18/ Ibid, pp: 191-197.

B. Export finance systems in some developing countries

This section covers the export finance systems in three developing countries, namely: Argentina, India and South Korea.

I. Argentine

The Compania Argentia de Seguro de Credito a la Exportation (CASCE) is a private company owned by 140 insurance agencies operating in Argentina. It was established by law in 1966 and authorized by the government to administer the export credit insurance system in July 1969.

CASCE assumes insolvency risk on its own account and is empowered to insure political and other non-commercial risks on the government account.

Finance of "promoted exports" is provided by lines of credit from the Central Bank. Traditional goods receive no preferential financing, and must be paid for in advance.

CASCE provides short and medium- term cover for sales of consumer goods, capital goods and other services directly to any Argentine exporter for credit granted to foreign buyers; and indirectly to banks and financial institutions as beneficiaries of the rights of the policies issued to exporters covering the financing of credit.

CASCE's maximum liability for commercial risks is determined by the secretary for International Trade, and that for political risks stands at $2 million. Amounts exceeding this are only covered by means of facultative reinsurance. CASCE offers no comprehensive risks policy. Exporters may insure either "commercial risks only" or "non-commercial risks only".

Commercial risks only

Specific policy covers credit risks (post-shipment) on exports sold on credit terms; and applicable credit risks during manufacturing (pre-shipment) period.

Comprehensive policy is a whole-turnover policy covering credit risks. The exporter is required to insure all eligible shipments except those paid for by irrevocable letters of credit. This is normally for short-term sales of less than 180 days, but it can be

extended to cover maturities of up to 360 days. The comprehensive policy does not cover pre-shipment risks.

Non-commercial risks only

CASCE offers two policies which cover political and other non-commercial risks. One provides cover for public buyers only, and the other for private buyers only. Consumer goods are covered for credit periods of up to 180 days; consumer durables and capital goods for longer credit periods (according to the product, unit value, etc.) but not exceeding five years (for commercial risks).

The cover for commercial risks is from 70 - 80 per cent of loss. Cover for extraordinary and political risks varies according to buyer type. For public buyers, the maximum cover is for up to 90 per cent of loss; for private buyers the maximum cover is 100 per cent. The premium varies according to the risk insured. No information is available on commercial risk premiums, while those for political and non-commercial risks range from 0.2 - 0.8 per cent.

Finance

Finance for "promoted exports" is provided by means of dollar-denominated bills, which are discounted by the commercial banks at up to 6.75 per cent interest (including costs and commissions) and then rediscounted in the same currency by the Central Bank at current interest rates.

Both short and medium - term finance is available (one to eight and a half years) depending on the categorization of the goods to be exported. The maximum amount of finance given also depends on type of export and provided the sum total of raw materials, materials of foreign origin for direct use, overseas representatives.' commission, gifts, overseas marketing, cost and profit do not exceed 40 per cent of their FOB value, is 85 per cent for capital goods, 80 per cent for other manufactured goods and 90 per cent for tehcnical services, research and study. In addition, 100 per cent of the cost of carriage, insurance and freight will be financed.

If the sum total of the additional costs exceeds 30 per cent of the FOB value of the export, the maximum amount of the financing available is reduced by the amount by which it has exceeded the limit. The

unfinanced part of the deal may be financed through normal commercial channels[19]/.

2. India

There are two state agencies concerned with finance and credit insurance to support Indian exports. Credit insurance is provided by the Export Credit Guarantee Corporation of India Ltd (ECGC), set up by the government of India in 1957. Finance and guarantees are provided by the Export-Import Bank of India (Eximbank) which was established in 1982 for the purpose of financing, facilitating and promoting the foreign trade of India. The bank is wholly owned by the government. ECGC's authorized capital is Rs (Indian Rupee) 500 million ($35 million) and it is fully paid-up while, Exim's authorized capital is Rs5 billion ($390 million) and in 1987 its paid-up capital, wholly subscribed by the government of India, stood at Rs 1945 million ($151.7 million).

Activities

Insurance

ECGC policies cover a wide range of exports from manufactured goods and services to turnkey projects. The extent of cover depends on the type of policy and varies from 75 - 100 per cent. Premium levels range from 0.2 - 1.9 per cent for short-term business and from 1 - 3 per cent for medium-term coverage. Seven main policies are available from ECGC:

- Standard policy. is designed for whole-turnover business on short-term credit. It provides cover for either comprehensive (political and commercial) or political risk only from the date of shipment or contract. The maximum credit that can be covered is 12 months.

- Specific policy. covers supply contracts on medium and long-term credits. It can provide 90 per cent cover on either comprehensive or political risks.

- Service policy. offers protection to Indian firms against the risk of non-payment for services rendered to foreign contractors; the services both technical and professional. It also provides 90 per cent cover on either comprehensive or political risks.

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[19]/ Ibid, pp. 149-151.

- Construction work policy. covers civil construction jobs as well as turnkey projects; it provides cover of 85 per cent against non-payment.

- Exchange fluctuation risk policy is for exports with deferred payment terms. Cover is available for payments scheduled over a period between 12 months and a maximum of 15 years. Contractors can take bid cover which insures against fluctuations from the date of submission of the bid, and contract cover, which provides cover against currency movements over the credit period. In both cases cover is 100 per cent of an adverse exchange rate movement of between 2 - 35 per cent.

- Buyer's credit/lines of credit a loan extended to overseas buyers for financing a particular export contract from India. Under a line of credit, a loan is extended to the government or financial institution in the importing country for financing the import of specified items from the lending country. ECGC covers both the political and commercial risks involved in the credit for up to 90 per cent of loss.

- Exchange fluctuation policy scheme for covering exchange rate fluctuation risk relating to certain export-linked import transactions and advance payments. The scheme is designed to give a measure of protection to exporters who receive advance payments which are to be adjusted by exports over a period exceeding 12 months, and to those who import raw materials over a period of longer than 12 months to manufacture goods for export against order on hand. Cover is available for a maximum of 10 years for 100 per cent of an adverse movement of between 5 - 35 per cent. Currencies covered included the United States dollar, Pound sterling, Deutchemark, French franc, Swiss franc, Japanese yen and Australian dollar.

Guarantees

ECGC provides the banks financing exports at pre-shipment and post-shipment stages with guarantees. Cover varies from 60 - 90 per cent. In addition, there is a Transfer Guarantee which covers banks in India confirming letters of credit. It covers up to 90 per cent of political risk and 75 per cent of commercial risk.

As well as providing finance for Indian exports, Eximbank extends non-funded assistance in the form of

guarantees, mainly for construction and turnkey projects. The Bank participates with commercial banks in India in the issuance of foreign currency guarantees on behalf of Indian exporters. Performance, advance payment and retention guarantees are issued, as are guarantees for raising finance abroad.

Finance

Exim bank extends finance for the export of engineering, and manufactured goods, software and consultancy services, turnkey and construction projects, export-oriented projects in India and overseas joint-ventures.

Eximbank's financing programmes are targeted at three groups: Indian companies, foreign governments, companies and financial institutions and commercial banks in India[20].

3. Republic of Korea

Export credit insurance and finance is provided by the Korean Export-Import Bank (Eximbank) which was established in 1976 and commenced in 1977 the export insurance programme on behalf of the government. Eximbank has an authorized capital of Won 500 billion ($744.6 million) of which Won 487.9 billion ($726.6 million) was paid-up at the end of 1987. The bank's maximum liability in its insurance business is set annually by the government and submitted to the National Assembly for approval.

Insurance

Eximbank covers losses arising from political, commercial and managerial risks. Managerial risks are those which arise when, due to unforeseen events, actual business performance falls below the projected level. It offers both specific and whole-turnover insurance policies. Maximum cover is usually 90 per cent of the contract value. Eximbank offers two insurance programmes: Export credit insurance and overseas investment insurance. The following types of insurance are available under the programmes:

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[20] Ibid, pp. 202-204.

Export credit insurance programme

General export insurance. This provides mainly pre-shipment cover for exporters and manufacturers against commercial and political risk. It also covers against increased shipping costs due to the interruption of the voyage as a result of political causes. Maximum cover given is 90 per cent of the contract value less down-payment.

Export finance insurance. This provides both political and commercial risk cover to financial institutions against losses from loans extended to exporters and manufacturers. The maximum cover is 90 per cent of the loan amount.

Export bill insurance. This covers banks against loss of funds in D/A or D/P transactions. Medium and short term whole-turnover cover is available when transactions involve developing countries and when deferred payments terms are from 180 days to three years. Cover is fixed at 90 per cent of the value of the bills.

Medium and long-term credit insurance. This covers against losses arising from inability to collect outstanding sums after shipment. It covers capital goods, plants and technical services provided on deferred payment terms from six months to 10 years. Whole turnover is also available. The maximum coverage is 90 per cent of the deferred amount and interest on it. Under the whole-turnover policy, cover is fixed at 70 per cent.

Buyer credit insurance. This covers Korean banks financing foreign banks for re-lending, or directly financing foreign buyers against losses arising from commercial and political risk. Maximum coverage is 70 per cent of the principal and interest on loans extended.

Consignment-sale export insurance. This covers exporters selling on a consignment basis against losses arising from managerial causes. Maximum cover is 90 per cent of the value of the goods exported and the expenses incurred.

Overseas constructional work insurance. This covers against loss incurred from failure to receive proceeds due to political or commercial causes. Maximum cover is 80 per cent of the contract value, less downpayment.

Export bond insurance. This covers banks against losses arising from the calling of bonds issued by them in

favour of importers and overseas employers in connection with tenders or contracts for the sale of goods, overseas constructional works or services. Bonds issued in connection with the latter tenders may only be insured under the whole-turnover policy. Maximum cover is 70 per cent of the value of the bond under the specific policy, and fixed at 50 per cent under the whole-turnover policy.

Overseas investment insurance programme

This covers Korean enterprises against losses from investments abroad due to political causes. Eligible investment include equity investment for management participation, long-term loans for acquisition of stock, public bonds or company debentures and rights relating to real estate. The maximum insurance period is 15 years which can be extended under exceptional circumstances and maximum cover is 90 per cent of the investments and earniongs there on.

Finance

Eximbank's main programmes are:

Export credit: This is a supplier credit which covers sales of certain capital goods made on credit terms of up to 10 years. A guarantee from the importer's governmental or financial institution or a prime international bank is essential, as is a cash downpayment of 15 per cent for plant and machinery and 20 per cnet for all other items. For pre-delivery financing, Eximbank and the co-financing commercial bank will provide 70 - 90 per cent of the export contract value less down payments. Eximbank extends financing for the local portion, while the co-financing commercial bank extend financing for the materials and equipment to be imported. For post-delivery financing, Eximbank will provide 85 per cent of the export contract value less a minimum 15-20 per cent down-payment; the commercial bank must provide the rest. Consensus minimum interest rate is applied for Eximbank financing, while the market rate is charged for commercial bank's co-financing.

Re-lending facility. This is a buyer credit covering sales on terms of up to 10 years. It is a United States dollar line of credit extended by Eximbank to banks in developing countries for on-lending to exporters in that country. Goods included are industrial plants and heavy machinery. An advance payment of at least 15 per cent of the contract amount is required, with Eximbank financing

100 per cent of the contract price minus the down payment. The interest rate is set by Eximbank and is normally equivalent to the applicable Consensus minimum interest rate. The interest rate imposed by the borrowing bank on each loan must not exceed 2 per cent above Eximbank's interest rate.

Overseas investment credit. This is provided to Korean investors to assist their subscription of capital in foreign firms, acquisition of stock and extension of long-term credit for overseas projects of foreign firms in which Korean investors have an interest. This credit covers 80 per cent of the investment value at a fixed interest rate and has a maximum 10 years repayment period.

Other Eximbank programmes include import credit, major resources development credit and direct loans[21/].

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[21]/ Ibid, pp. 251-253.

IV. EXPORT FINANCE IN COUNTRIES OF THE ESCWA REGION

The preceding chapter showed that interest in export finance schemes originated some time ago in developed countries, and goes back as far as the 1960s in several developing countries. In the countries of the ESCWA region, however, export finance programmes are either non-existence or were recently established because of two main reasons, First, many member countries such as Iraq and the GCC countries are major oil exporters where more than 90 per cent of their exports are petroleum and petroleum products, i.e, strategic goods which are not usually subject to export finance. Second, member countries with more diversified economies such as Egypt, the Syrian Arab Republic and Jordan, concentrated for a long time on import substitution policies with little attention given in practice to export promotion.

While the interest of the first group of countries in establishing and developing export finance programmes is not yet evident (apart from Oman), some countries in the second group as well as some regional organizations have been showing increasing interest and have already taken concrete steps in this direction.

At the country level, Egypt stands in the forefront. At the regional level, there is the Arab System for Export Credit Guarantee of the Inter-Arab Investment Guarantee Corporation, and the Arab Trade Financing Programme of the Arab Monetary Fund. Moreover, the idea is still under consideration in other member countries like the Syrian Arab Republic, Lebanon, Jordan, and in other regional organizations such as: the Islmic Corporation for the Insurance of Investment and Export Credit of the Islamic Development Bank, and the Gulf Organization for Industrial Consulting.

In the light of discussions with concerned officials, and published and unpublished information, this chapter focuses on the following:

- Examination of the need of ESCWA countries for export finance schemes;

- Existing national and regional schemes: their features, shortcomings and ways of improvement;

- National and regional schemes at the proposal stage: features, shortcomings and ways of improvement.

A. Need of ESCWA countries for export finance

It was shown in the preceding chapter that successful export finance schemes are very costly financially and administratively. Therefore, before establishing such a

scheme on a national or regional level, a proper assessment should be made of its necessity to promote exports in order to avoid the establishment of ineffective and consequently, short-lived schemes.

The countries of the ESCWA region are usually classified into three main categories:

(i) Major oil exporters which include Iraq and the GCC countries;

(ii) countries with more diversified economies which include Egypt, the Syrian Arab Republic, Lebanon and Jordan;

(iii) the least developed country, namely, the Republic of Yemen[22]/.

During the 1970s and early 1980s, i.e., the golden age of export finance in both developed and some developing countries, one can hardly argue that the countries of the ESCWA region were in need of this type of schemes to improve the performance of their exports although the financial situation of many of them was suitable for establishing and financing such schemes. That is because exporters of petroleum and petroleum products given the nature of the commodities involved and transactions, did not need them; while the two least developed member countries had hardly anything to export. The more diversified economies, on the other hand, were mainly pre-occupied with import substitution, although they made good use of export finance facilities from the rest of the world to increase their imports of consumptions and investment goods.

However, because of a number of reasons, among them pressure on oil prices in the early 1980s, and their collapse in the mid decade, countries of the first group started to think more seriously of diversifying their exports; while countries of the more diversified economies, mainly as a result of their foreign debt and changes in the world economic and trade environment, have been pursuing restructuring programmes where trade liberalization and building an export-oriented industrial sector are important components. As a result, a number of export-oriented industries have emerged, but mainly in consumer goods such as textiles, clothing, food processing and consumer durables such as furniture and electrical appliances.

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[22]/ The Republic of Yemen came into existence in May 1990 following the unification of Democratic Yemen and Yemen.

However, many of these industries are still in their infancy and a large investment is needed to expand their production and improve quality in order to meet international standards. Accordingly, what the region needs first in order to build viable export-oriented industries is regional and/or national financial mechanisms which provide long and medium-term investment and pre-shipment working capital finance to industries which have comparative advantage.

Although exporting to developed countries does not usually need export finance facilities as they have no problem in cash payment, the attempts made so far by some Arab countries, including those in the ESCWA region, to enter the European and other developed countries' markets have been very costly. Arab producers not only have to put up with quotas and meet very high standard requirements; but they also have to reduce costs to painfully low levels to compete with products from other sources. Such a situation not only cannot be sustained for a long time, but will also adverse growth and development instead of promoting them especially as competition is expected to become tougher with the further liberalization of world trade following the Uruguay Round finalization.

Therefore, it is more advantageous to ESCWA countries to explore the potential of Arab markets (inside and outside ESCWA region, i.e., intra-Arab trade), other developing countries' markets and East European markets to absorb Arab exports through providing post-shipment finance at reasonable terms[23/].

However, taking into account the difficult financial situation of many Arab countries, a suitable export financing mechanism needs not to be strictly in the form of traditional supplier and buyer credit alone, but use should be made of other export financing techniques as well, with contributions from both the public and the private sectors.

B. Existing national and regional schemes: features, shortcomings and ways of improvement

1. National schemes:

At national level, there are two operational systems

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[23]/ During an interview with the Director of Industrial Products in the Egyptian Export Promotion Centre, she said Africa is a great potential market for Egptian products especially of durable consumer goods if deferred payments become available.

of financing and guaranteeing exports: one in Egypt and the other in Oman.

Egypt

The Export Development Bank of Egypt, (EDBE) was established as a private joint-stock company by a special law (95/1985) at the initiative of the government. The main purpose of the Bank is to create an export sector in various economic activities: agriculture, industry and services through providing medium and long-term project financing and working capital financing for export-oriented projects as well as import substitution. Apart from providing traditional short-term export finance, the charter of the Bank, however, does not explicity refer to pre-and post-shipment export finance activities. Its legal status is that of an investment bank, but in practice it functions as a bank for foreign trade.

The Bank started its activities in February 1985. Its authorized share capital is LP100 million and the paid-up capital is LP50 million of which 25 per cent is in foreign currencies. The shareholders are the National Investment Bank, with a share of 40 per cent, the National Bank of Egypt, Banque Misr, Banque due Caire and Bank of Alexanderia, each with a share of 15 per cent.

The Bank is assigned to carry out four different, though complementary, types of activities: trade finance and re-finance (which is mainly concerned with providing short-term banking services and facilities to exporters and related activities); financing and promoting projects; export credit guarantee and insurance (through participating in establishing a specialized agency); and finally establishing an export information centre[24]/.

In an interview with the chairman of the Bank in December 1991, he said the Bank grants some post-shipment credit but lack of suitable arrangement for guaranteeing export credit is an obstacle. The Bank sometimes resorts to the facilities of the Inter-Arab Investment Guarantee Corporation.

In May 1992, the Egyptian Company for Export Guarantee was established to guarantees Egyptian exports against commercial and non-commercial risks. The

[24]/ Information and Modern Banking: a speach given by the Director of EDBE, Dr. H. El-Beblawi at ADVISTA ARABIA' 87 Conference; and EDBE, Annual Report, 1990.

Company, according to its charter, can re-insure its transactions with national and foreign insurance companies.

The authorized capital of the Company is LP 50 million and the paid-up capital is LP 10 million. The Export Development Bank of Egypt (EDBE) participates with 55 per cent, the National Investment Bank with 15 per cent, the Egypt Company for Insurance, the Mashraq Company for Insurance and the Egyptian Domestic Company for Insurance with 10 each.

After a year from the issuance of the law, banks, other natural entities and individuals have the right to buy up to 20 per cent of the issued capital of the Company, which should be deducted from EDBE's share.

Other than capital, the Company can raise money by issuing export guarantee bonds with easy return of a value of LP 50 million to be bought by the National Investment Bank. Other financial resources consist of annual financial allocations from the public budget, loans and credit facilities, grants and aid.

Some details of the company's activities are not given in the charter but were obtained during an interview with two senior officials at the Company's headquarters in Cairo. The Company insures up to 80 per cent of the value of a transaction and there are two types of policies: the comprehensive policy which covers all the exporter's transactions with the outside world; and the single policy which covers one at a time. Obviously, the latter is more expensive than the former. The Company mainly deals with non-traditional exports. An exporter can use the Company's facilities whether he needs an export credit or not.

The government contributes in two different ways to the company's financial resources:

- Easy loans or export guarantee bonds provided by the National Investment Bank. It is an irregular source which is provided at the establishment of the company and can be repeated whenever the Company's financial situation requires.

- Annual allocations in the public budget to meet obligations against guaranteeing commercial and non-commercial risks when re-insurance is not available.

The Company pays interest on funds from the first source, while the budget receives profits whenever realized,[25].

The Export Development Bank is not an export finance agency in the real meaning of the word, but is mainly an investment bank. Its capital is too small for carrying out large-scale operations, and in particular that portion in foreign currencies. The capital of the Egyptian Company for Export Gurantee, LP 10 million or $ 3 million, is also too small for the size of activities expected to be carried out by the Company.

Oman

Oman is the only GCC country which has established its own programme of financing and guaranteeing exports. The programme is attached to the Omani Bank for Development and started its activities in November 1991. It aims to encourage exports of national products, or products where more than 40 per cent value-added is of domestic oringin. The published information available on the programme is very scarce which renders its evaluation difficult. All what is known is that it extends credit to exporters at subsidized interest rates, and guarantee 80 per cent of commercial risks and 85 per cent of non-commercial risks. The programme determines the risks of each case individually in the light of the information it gathers on the buyers and the economic and political strength of their countries[26].

2. Regional schemes

At the regional level, there are two operating programmes: the Arab System for Export Credit Guarantee of the Inter-Arab Investment Guarantee Corporation, and the Arab Trade Financing Programme of the Arab Monetary Fund.

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[25] The Republic of Egypt's Official Newspaper, No. 21, May 21, 1992.

[26] "The Role of Export Guarantee in Promoting Intra-Arab Trade", (a paper in Arabic).

- The Arab System for Export Credit Guarantee / the Inter-Arab Investment Guarantee Corporation

The Inter-Arab Investment Guarantee Corporation is a regional organization which was established in April 1974 as a joint Arab venture and started its activities in 1975. The Corporation's nominal capital is $92 million and the paid-up capital is $76.5 million, while reserves and profits reached $112.7 million in 1992.

Besides its main task as a regional organization for Investment Guaranteeing, the Corporation launched in 1983 a programme for export guarantee against non-commercial risks, and in 1986 commercial risks were addded. The geographical scope of the programme is the Arab countries and its aim is to promote intra-Arab trade.

Any exporter that signs a guarantee contract with the Corporation can obtain the required finance from an Arab or a Joint Arab / foreign bank. Accordingly, the compensation right shifts from the exporter to the bank.

The Corporation undertakes five types of export credit guarantee:

- A comprehensive guarantee contract Covers all types of commercial and non-commercial risks for all actual or expected export transactions or with Arab importers and require short-term credit.

- A single guarantee contract Covers all types of commercial and non-commercial risks for a single transaction despite the terms of the credit. This kind of contract is suitable when the buyer is not a governmental party.

- A single contract against non-commercial risks Covers non-commercial risks only for a single export transaction, the terms of the credit notwithstanding. This kind of contract is suitable when the buyer is a governmental party or a credit-worthy private buyer but belongs to a high risk country.

- A buyer credit guarantee contract Covers both commercial and non-commercial risks for export credit extended by Arab and Joint Arab / foreign banks directly to Arab importers or buyers. The Joint Arab / foreign banks usually extend credit to capital goods only, while Arab banks finance both consumer and capital goods. It is worthmentioning that if the buyer is a governmental party the risks involved are only non-commercial; while for the private sector, commercial risks are determined by the

method of payment, i.e, letter of credit vis-a-vis other methods as well as by the credibility and the finance position of the buyer.

- Goods stored for the purpose of export Covers non-commercial risks for goods stored by an exporter in another country for the purpose of re-selling or re-exporting[27]/.

The coverage provided by the Corporation differs widely for different types of commercial and non-commercial risks and ranges between a minimum 70 per cent and a maximum of 90 per cent of the transaction value. The premium also differs not according to the type of goods but according to the type of risk, i.e, commercial vis-a-vis non-commercial risk and according to the degree of risk in each country. Arab countries are classified into four categories: A, B, C and D according to the level of risk associated with each one. The premium is also determined by the term of the credit, i.e, short-term as against long-term credit.

The guarantee procedures

The registrary application

An exporter interested in applying for a single or a comprehensive policy should approach the Corporation by sending a telegram or a telex containing the following information:

- name, address and nationality.
- buyer's (or buyers') name, address and nationality.
- value of the transaction and its distribution among imported countries and among buyers in each country.
- types of goods exported.
- terms and ways of payment.

The Corporation produces its initial approval if the outcome of the enquiry on the transaction is satisfactory. It then notifies the exporter and asks for more information if necessary and to pay a registration fee of 50 Kuwaiti dinars (equivalent to $168) on each application.

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[27]/ Inter-Arab Investment Guarantee Corporation, (series of leaflets on): the Arab System for Export Credit Guarantee.

Notification of registration

With all the information completed and the registration fee paid, the Corporation notifies the exporter to send the registration application form together with the following information:

- A copy of the charter in case he has an exporting company.
- A copy of the export contract and/or letter of credit.
- A certificate of the origin of the goods subject of guarantee.

The determination of transactions accepted for guarantee: fees and installments

Upon studying each application and the supporting documents separately, the Corporation puts the pre-conditions of its offer to the exporter. These pre-conditions contain:

- The value of the transaction it is ready to guarantee for each country and each importer.
- The premium.
- The association fees.
- The information gathering fees (if the buyer is from the private sector).

When the offer is accepted by the exporter, the guarantee contract comes into effect and the exporter can start shipping the consignment.

Member countries' contributions to the Corporation's capital determine the size of guarantees available to them. However, for each transaction, the Corporation is constrained by three-ceilings:

- The gross ceiling which is equal to 5 times the Corporation's total capital and reserves;
- the country's ceiling;
- the single operation ceiling.

The Corporation re-insures 50 per cent of non-commercial risks and 75 per cent of commercial risks.

The main problem facing the Corporation now is its limited financial resources. It cannot expand its activities unless its capital is increased. The Corporation has been studying the possibility of inviting the private sector to participate in its capital; but in this case its charter has to be amended or a special arrangement be worked out such as establishing a special fund for private investors[28]/.

The Arab Trade Financing Programme of the Arab Monetary Fund

The Arab Trade Financing Programme was launched by the Arab Monetary Fund in 1989 but started operation in 1991. The programme aims at encouraging intraregional trade and achieving the objectives of the "Agreement of Facilitating and Developing Trade Transactions among Arab Countries". The programme's main feature is the provision of lines of credit to national agencies (banks and other financial institutions) which are appointed by member countries to provide Arab exporters with pre-shipment and post-shipment export credit as well as with buyers' credit. The programme, accordingly, does not deal directly with exporters or importers but only indirectly through these agencies or institutions. In general, the re-financing period set by the programme should not exceed 180 days. However, the Executive Director of the Programme has the right to extend the terms to 365 days for certain types of goods which take longer time to be sold than ordinary goods. The terms of export credit provided on perishable goods like fruits and vegetables should not exceed 45 days. The re-financing terms for pre-shipment export credit should be decided upon according to the period required for production, but that should not exceed the day when the shipment takes place or not more than 365 days, which ever comes first.

The programme's financial resources consist of: capital, reserves, deposits of financial and financing organizations with the programme, borrowing from financial markets and other sources agreed upon by the programme's general assembly.

The programme's nominal capital is $500 million and the paid up capital is $453 million. The contributors to the capital are 34 organizations which are classified in three categories:

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[28]/ The Inter-Arab Investment Guarantee Corporation; the Arab System for Export Credit Guarantee (a leaflet on the guarantee procedures); and the results of interviewing some senior officials at the Corporation's temporary headquarters in Cairo, in May 1992.

Category A. Includes the Arab Monetary Fund, Joint Arab financing institutions and governmental Arab financial and banking instituions.

Category B. Includes non-governmental Arab Financing and banking institutions.

Category C. Includes international financial and banking institutions and Joint Arab / foreign ones.

The interest rate charged by the programme is the Libor plus 0.25 per cent.

The programme's institutional framework consists of: the General Assembly, the Board of Administration and the technical staff.

The substantive rules and regulations of the programme are usually made by the Board of Administration which decides among other things on the following:

- The basic determinants of each member country's use of the programme's resources.
- The procedures of granting credit lines and the formula of credit line agreement with each national agency.
- The terms of re-financing, the rates of interest and stamps and commissions charged for each transaction.
- The type of guarantee required for each transaction and the insuring party.
- The final approval of credit-line agreements and the follow-up on withdrawls from these lines by national agencies.

The Programme's two basic documents: the rules and procedures of credit lines, and the agreement of the credit line between the Programme and the national agencies, have been designed in the light of the experience of similar organizations other parts of the world.

The Programme has appointed 25 national agencies in 16 member countries, some countries having more than one agency.

In order to protect its lines of credit, the Programme, has reached an agreement with the Inter-Arab Investment Guarantee Corporation to give the programme and its national agencies priority over other insuring parties. The arrangement is justified on the ground that the Corporation

offered the Programme the best insurance available. However, the Corporation because of its limited resources cannot meet all the Programme's needs for insurance and the latter has to arrange with other parties to fill the gap.

The Programme published, and for the first time, a kind of self-evaluation in its 1992 annual report, and mentioned that the practical experience revealed some gaps in the working of the Programme which need attention such as:

- Some of the financing terms need clarification and improvement to become more suitable to the conditions of intra-Arab trade.

- More efforts are needed to make the programme's activities known to Arab exporters and importers.

- The governments of member countries should activate the role of national agencies as contact points between the Programme and the beneficiaries of its services.

From its side, the Programme has introduced a number of important changes with respect to its functioning and financing conditions. The latter cover, among other things, the financing period, types of guarantee accepted by the Programme and the cost of financing[29]/.

During the period January 1991-mid February 1993, the programme received applications for re-financing totalling $279 million but approved only $169 million[30]./

The Programme has a number of shortcomings which could minimize its effectiveness in achieving the target of promoting intra-regional trade. The most important of these shortcomings are:

1. The high rate of interest which the Programme imposes on national agencies, i.e. Libor plus, obliges the national agencies to charge exporters and importers even higher rate of interest. This is the reason why national agencies in member countries which have no problem in providing foreign exchange or borrowing from the international financial markets at lower rates have not used the Programme's facilities and may not be expected to do so. The only member countries which have been using the Programme's credit lines so-far are those which have foreign exchange shortages and the credit standing

[29]/ Arab Trade Financing Programme, Annual Rreport, 1992, p.3.

[30]/ Al-Hayat Newspaper, April 24, 1993.

of their commercial banks in the international financial markets is very low, (such as Algeria, Morocco and Tunisia).

2. In addition to the high rate of interest, the Programme charges national agencies immediatly after applying for a credit line and even before they use it; a matter which eventually makes borrowing from the Programme very costly.

3. The longest term for credit available under the Programme is one year, which is too short as an effective means for promoting exports.

4. The programme lacks an effective export guarantee scheme to support its financing mechanism; relying on the facilities of the Inter-Arab Investment Guarantee Corporation is not enough as capital is a big constraint on the Corporation's activities.

5. The Programme works on purely commercial basis, i.e., no subsidies are allowed, while export finance in developing countries requires some government support, since promoting exports has wider government policy implications especially on growth and employment.

C. <u>National and regional schemes: at the proposal stage: features, shortcomings and improvements</u>

There is a number of national and regional schemes which are still at a proposal stage.

1. <u>Jordan</u>

Apart from traditional short-term trade financing facilities undertaken by commercial banks, Jordan does not have any export finance or export guarantee schemes. In 1991, the Central Bank of Jordan, in co-operation with other governmental bodies, formulated a draft law on establishing the Jordanian Corporation for Export Credit Guarantee. The draft law has been submitted by the Cabinet to the Parliament for approval.

The proposed Corporation will guarantee commercial and non-commercial risks for all Jordanian exports of goods and services. The Corporation will bear the full responsibility of insuring commercial risks; while insurance against non-commercials risks will be undertaken only on behalf of the government and upon its request, i.e, payment for the losses will came from the budget.

While the Corporation is to operate on commercial basis, it will enjoy all the privileges that other governmental organizations enjoy, such as tax and stamp exemption.

A number of shortcomings are already apparent in the draft law including:

- The word "credit" should be removed from the Corporation's name so it reads "The Jordanian Corporation for Export Guarantee", since not all exporters need export credit facilities. Some exporters have enough liquidity to finance their exports if suitable guarantee arrangements are available.

- The Corporation's low level of paid capital, i.e., JD 7 million, which makes only 1 per cent of the country's average total exports for the years 1990-1992, would be a big constraint on the Corporation's target of encouraging Jordanian exports.

- Since the Central Bank, the Ministry of Finance and other governmental entities, own 71 per cent of the Corporation's capital, there is no need for discriminating between who pays for commercial risks and who pays for non-commercial ones; in both cases the government would directly or indirectly pay for most of the losses.

- The law needs to expand on types of services transactions the Corporation will guarantee and the mechanisms of the guarantee, since guaranteeing exports of services is more complicated than guaranteeing goods.

- Since not every commercial bank is willing to engage in export finance activities, because of the risk involved and / or the length of the engagement, the law should have tackled the matter of export finance as well.

- Since promoting exports has strong government policy implications, especially for economic growth and employment, the scheme needs some kind of government subsidies, especially at its early stages, and should not work purely on commercial basis.

2. The Syrian Arab Republic

The Syrian Arab Republic, like most countries in the region, does not have any export finance programme. During interviews with officials, the country's financial situation was stressed as the major obstacle for exporting at deferred payment. The country faced actue shortages of foreign exchange and needs the proceeds of exports to pay for imports. Representatives of the private business sector (Chamber of Commerce and Chamber of Industry) agreed with the official opinion and expressed their satisfaction with the relaxation of some government restrictions which boosted the private sector investment and exports.

However, in a recent development it has been announced that the UNDP office in the Syrian Arab Republic has launched a project which aims to support trade policy and promote exports. The project is timely as Syrian exporters are trying to divert exports from the former Soviet Union and other East European markets to new markets in Arab and Western countries. The UNDP's contribution in the project is $0.66 million, while the Chambers of Commerce and Industry in Damascus and Alppo will participate with $0.05 million. The project will work, among other things, to develop an effective system of export finance and export guarantee[31/].

3. Lebanon

Lebanon does not have any programme for export finance and export guarantee. During meetings with government officials, representatives of commercial banks and the private business sector, the first two groups showed their disapproval for establishing such a programme on the ground that what Lebanon needs to boost its exports is more investment to re-construct the economy especially the industrial sector. Moreover, at present, the Lebanese government, which traditionally has pursued a Laissez-fair economic policy, is not in a position to give any financial support to such a project. The Chairman of the Lebanese banks Union, on the other hand, expressed the banks' unwillingness to get involved in such a risky and long term project.

The representatives of industrialists and businessmen community, on the contrary, were very enthusiastic for establishing such a project. They were particularly interested in pre-shipment working capital

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[31]/ Al-Hayat Newspaper, April 22, 1993.

credit and post-shipment credit.

As for export guarantee, the Chairman of the Federation of Lebanese Industrialists suggested that industrialists and businessmen can establish a private insurance company for this purpose. They are willing to participate by up to 70 per cent of the capital, while the government put the rest. The proposal is not unrealistic and might gain official approval since the government already showed interest when in 1982 it issued Law No. 84 in which it authorized the National Council for Foreign Economic Relationships, to run a programme of guaranteeing export credit for Lebanese exports.

The Programme was proposed to cover political risks only and to compensate for losses which exceed 15 per cent of the insured value. An important feature of the Programme is that each country has a guarantee ceiling determined by the Lebanese Council of Ministers; and any exporter cannot benefit by more than 10 per cent of the total amount allocated to a country. The Council determines also the premium that exporters have to pay on each transaction, i.e, different premiums for different transactions.

The administration of the Programme was to be appointed by the Council's Chairman and was supposed to run the Programme on commercial basis. The government guarantees all the Council's commitments and after an insured party being compensated, its legal rights automatically becomes the Council's.

The most apparent shortcoming of the proposal is the exclusion of commercial risks which for many exporters are more important than non-commercial risks. However, the success of the proposal, if it is put into effect, would depend on two main issues:

a) The budget's annual allocation for this purposes, i.e, a small allocation would be of little use.

b) The level of premiums; high premiums would discourage exporters from using the programme's facilities.

The problems which faced the export of Lebanese fresh horticultural products to the Gulf states following the Gulf war was brought to the attention of the UNDP office in Beirut by the government (Ministry of Agriculture and Central Bank) and by business associations (Chamber of Commerce and Industry, Lebanese

Economic Forum, Regional Chambers of Commerce, Lebanese Business Leader's Group, and the Bankers' Association). The UNDP, as a result, suggested a project to provide: (a) institutional credit through commercial banks for working capital needed by farmers, especially small and medium-scale farmers, and (b) export credit insurance facilities.

Furthermore, the development of the horticultural industry, including post-harvest handling and storage facilities, to enable it to respond to the new product diversification and quality standards demanded in Gulf-markets will require the provision of medium and long-term finance for fixed capital to farmers and packers.

Likewise, in the industrial sector, there is an acute need for term finance for fixed capital. Therefore, it is expected that at the end of the project the Lebanese financial sector would have the institutional capacity: (a) to provide long-term finance for fixed capital, together with related non-financial services, to both agricultural and manufacturing enterprises on terms that will encourage investment in them; and, (b) to provide short-term pre-shipment and post-shipment finance for working capital on competitive terms. In addition, there will be an export credit insurance facility provided by a government-sponsored institution.

The project is business-sector oriented as it was proposed to be executed in collaboration with the Central Bank, and the Banker's Association and in consultation with the business sector-associations. The design of the finance and guarantee mechanism was left to the Central Bank, the Banker's Association and Lebanese Business Leaders' Group.

It is relevant to mention here that in the context of the steady rise in the country's foreign exchange reserves, the Central Bank showed interest to provide re-financing facilities to the banking system to enable it to provide medium and long-term finance to the production sectors of the economy, provided institutional arrangements can be made to ensure the proper utilization and monitoring of the resources made available.

The only worry expressed by the UNDP, however, was the delay in issuing the special legislation required to bring the proposal into being.

The cost of designing the finance and guarantee mechanisms, providing advisory services to the parties

concerned, training of personnel and conducting seminars was estimated in 1991 at $0.227 million to be provided by the UNDP[32]/.

B. At regional level

1. The Islamic Corporation for the Insurance of Investment and Export Credit/ the Islamic Development Bank

The Corporation was established in February 1992 by the Islamic Development Bank but has not started its activities yet. The objective of the Corporation is to encourage the flow of investment into, and to enlarge the scope of trade transactions among, member countries. For this purpose, the Corporation shall provide in accordance with the principles of Shariah, export credit insurance or re-insurance in respect of the goods which shall satisfy the conditions specified in Article 16, hereof by paying the policy holder a reasonable indemnity in respect of losses resulting from commercial risks.

The resources of the Corporation consist of: subscriptions to the capital stock, insurance and re-insurance contributions donated by policyholders to the Corporation to the extent required by the Corporation to meet claims; sums and other assets to which the Corporation shall become entitled after payment of claims, and the return on the investment of the resources of the Corporation.

The authorized capital stock of the Corporation is 100 million Islamic Dinars (Islamic Dinar = 1 SDR) divided into 100,000 shares. The Bank subscribes to 50,000 shares; and each member state subscribes by 500 shares at least.

Rules relating to operations

In carrying out its operations, the Corporation aims to:

(a) achieve mutual cooperation among policyholders through their collective sharing of the losses while any one policyholder may suffer on the materialization of the risk or risks insured or reinsured by the Corporation;

(b) distribute to policyholders the surplus that may

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[32]/ UNDP, Beirut Office, Project Formulation Framework.

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(b) distribute to policyholders the surplus that may

32/ UNDP, Beirut Office, Project Formulation Framework.

accrue from the insurance and reinsurance operations on such basis as may be determined by the Board of Governors of the Islamic Development Bank.

Export credit eligiblity for insurance

All export credit pertaining to goods exported from a member state to another member state shall be eligible for insurance provided that the goods have been produced, manufactured in whole or in part, assembled or re-processed in one or more member states and provided that a reasonable value-added will accrue to the member state from which such goods are exported. The Board of Directors of the Islamic Development Bank shall, from time to time, issue regulations determining the types and specifications of goods in respect of which the Corporation may insure export credits and the minimum value-added that must accrue to the member state in which such goods have been produced, manufactured, reprocessed or assembled.

The duration of the credit shall not exceed five years.

Limits of Insurance

Unless the Board of Governors shall, by a majority of its members, otherwise decide, the aggregate amount of contingent liabilities which may be assumed by the Corporation shall not exceed 150 per cent of the Corporation's subscribed capital and its reserves plus such portion of its reinsurance cover as the Board of Directors may determine.

Co-operation with national, regional and international insurance and reinsurance entities

The Corporation may enter into arrangements with national private and public insurers and reinsures in member states to enhance its own operations and encourage such entities to provide coverage of commercial and non-commercial risks on conditions similar to those applied by the Corporation.

Funds

The Corporation shall maintain and administer two separate funds: the policyholders' Fund and the shareholders' Fund.

Assets of the policyholders' Fund shall consist of:

- insurance and reinsurance contributions and collected fees;
- claims received from reinsurance;
- the surplus that may accrue from the operations of the Corporation;
- the reserves established by setting aside part of the surplus;
- the profits realized on the investment of the reserves attributed to the policyholders' Fund; and
- The share of profit on the investment of the shareholders' Fund accruing to the policyholders' Fund;
- sums acquired by the Corporation as subrogee up indemnifying policy holders.

Assets of the shareholders' fund shall consists of:

- The paid up capital as well as the reserves attributed to the shareholders' Fund; and
- Profits on investment of the paid-up capital and the reserves attributed to the shareholders' Fund.

Reserves and allocation of net income

All the surplus and profits accruing to the policyholders' Fund and shareholders' Fund shall be allocated to these Funds' reserves until such reserves reach five times the subscribed capital of the Corporation. After that the surplus and profits accruing to the policyholders' Fund and shareholders Fund may be allocated to reserves or distributed to policyholders and shareholders[33]/.

It is worth noting that a number of ESCWA countries such as Jordan and the Syrian Arab Republic have already signed the agreement of the Corporation.

Similar to the remarks that have already been made in connection with other schemes in the region, the Coprporation's capital of 100 million Islamic dinars or SDRs can be a constraint on its activities since the

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[33]/ The Islamic Development Bank, Articles of Agreement Establishing The Islamic Corporation For The Insurance and Export Credit (Draft), March 1991.

charter limits the size of the guarantees the Corporation is allowed to undertake at any time by not more than 150 per cent of the capital.

On the other hand, the Corporation 's interest in what share holders and policy holders will get overshadows its main target of providing export guarantees at reasonable cost.

Finally, the charter does not clarify whether the Corporation will guarantee any export credit or only credit extended by Islamic banks. If the case is the latter, that will constrain the Corporation's activities unless special arrangements are made with Islamic banks in the region to actively participate in extending export credit at reasonable cost.

2. <u>The Gulf Organization for Industrial Consulting</u>

The Gulf Organization for Industrial Consulting (GOIC) suggested in April 1993 the establishment of a corporation for financing and guaranteeing the Gulf countries' exports to Arab countries. The corporation is to start activities in 1995 with contributions from central banks, commercial banks and insurance companies in the GCC countries. The GOIC, in co-operation with the Indian Eximbank has, just completed a feasibility study on the subject which emphasizes the importance of establishing such corporation with a nominal capital of $750 million and a paid-up capital of $100 million. GOIC is interested to hear the opinions of economic departments in member countries before launching the project. The feasibility study showed that banks in the GCC countries have enough liquidity to finance those countries exports if a suitable guarantee mechanism is developed[34]/.

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[34]/ <u>Al-Hayat Newspaper</u>, April 25, 1993.

Annex[35]

Arrangement on Guidelines for Officially Supported Export Credits[36]

1. **Form and Scope of the Arrangement**

1. **Export Credit Transactions Covered**

a) Participants shall apply the guidelines contained in this informal Arrangement to officially support (*) export credits with a repayment term (*) of two years or more relating to contracts for sales of goods and/or services or to leases equivalent in effect to such sales contracts.

b) Special Guidelines apply to the following sectors in accordance with the provisions of paragraph 9:

1) Ships

2) Nuclear Power Plants

3) Power Plants other than Nuclear Power Plants

4) Ground Satellite Communications Stations

5) Aircraft

c) This Arrangement does not apply to export credits relating to exports of:

1) Military Equipment

2) Agricultural Commodities

2 **Participation** Present participants are listed in Annex I to this Arrangement. Countries willing to apply these Guidelines may become participants upon the prior invitation of the then existing Participants.

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[35]/ Reproduced from: J. Ball & M. Knight (editors), Export Finance 1989, published by Euromoney publications, Plc, pp: 20 - 37.

[36]/ Arrangement on Guidelines for Officially Supported Export Credits or the Consensus is a codification of a consensus among the governments of the OECD nations - the world's major exporters of capital goods - to adopt certain common terms and conditions on which official export finance should be made available.

II. Guidelines for Basic Export Credit Terms and Conditions

3 Cash Payments Participants shall require purchasers of exported goods and services receiving officially supported export credits to make cash payments (*) at or before the starting point (*) equal to a minimum of 15 per cent of the export contract value (*). Participants shall not provide official support for such cash payments other than insurance and guarantees against the usual pre-credit risks.

4 Repayment Participants shall apply the following Guidelines for the repayment of export credits that are officially supported by way of direct credit, refinancing, eligibility for an interest subsidy, guarantee or insurance.

a) Maximum Repayment Term

For the three categories of countries (*) of destination, the following maximum repayment terms shall apply. The export credit agreement and ancillary documents shall not permit the extension of the relevant repayment term.

Countries of destination:			Maximum repayment terms
Category I:	relatively rich	=	five years, but after prior notification in accordance with paragraph 14b)1) eight and a half years;
Category II:	intermediate	=	eight and a half years, but ten years for countries to which footnote 1 to paragraph 5 applies;
Category III:	relatively poor	=	ten years

b) **Repayment of Principal and Payment of Interest**

1) Principal of an export credit shall normally be repaid in equal and regular installments not less frequently than every six months commencing not later than six months after the starting point. In the case of leases, this repayment procedure may be applied either for the amount of principal only or else for the amount of principal and interest combined.

2) Interest (*) as set forth in paragraph 5 below shall normally not be capitalised during the repayment term but shall be payable not less frequently than every six months commencing not later than six months after the starting point.

3) If a participant intends not to follow the normal practices for repayment of principal or for payment of interest set forth in 1) and 2) above, the participant shall give prior notification in accordance with the procedure set forth in paragraph 14b)1).

5 **Minimum Interests Rates** Participants providing official financing support by way of direct credit, refinancing or interest rate subsidy shall apply the following minimum rates of interest:

a) **Matrix Minimum Interest Rates**

1) **Minimum interest rate/maximum repayment term guidelines:** Without prejudice to b) below, as of 15th January 1985 and until they are adjusted in accordance with the provisions of 2) below, the following minimum annual rates of interest shall apply:

Countries of destination	Number of Years in Maximum Repayment Terms		
	2-5	over 5 to 8.5	over 8.5 to 10
Cat.I:	SDR(1)+205 basis points	SDR+230 basis points	n.a.
Cat.II:	SDR+75 basis points	SDR+125 basis points	n.a.(2)
Cat.III:	SDR+10 basis points	SDR-10 basis points	SDR-10 basis points

2) The above minimum annual rates of interest shall be reviewed semi-annually and adjusted according to the following method:

(i) An initial adjustment shall be made if the SDR-weighted average of the monthly interest rates referred to in footnote (1) for the last

month of any semi-annual period from the first half of 1986 onwards differs by 50 basis points or more from the SDR-weighted average of the interest rates for the month of December 1985. When such a change occurs, the levels of the minimum rates of interest shall be adjusted by the same number of basis points as the change in the SDR-weighted average, the recalculated minimum rates being rounded off to the nearest five basis points.

(ii) Subsequently, minimum rates of interest shall be adjusted semi-annually according to the aforementioned method if there is a change of 50 basis points or more in the SDR-weighted average interest rate underlying the preceding adjustment in minimum rates of interest. (3).

(iii)The interest rates for the currencies constituting the SDR-weighted average are the secondary market yields of financing instruments reported to the OECD pursuant to paragraph 18a) 1).

b) **Minimum Interest Rates for Commercial Interest Reference Rate Currencies**

If commercial lending rates of interest for a currency fall below the relevant minimum level at a) 1) above, any participant may provide such official financing support for export credit in that currency carrying interest at rates below those set out in a) 1) above provided that the interest rate charged for the export credit that is being financed, as a whole or in part with such official support, is not less than the commercial interest reference rate (*) for that currency increased by 20 basis points.

c) **Interest Rate System Choice**

Participants are prohibited from taking any action that allows banks to offer throughout the life of a floating rate loan the option of either 1) the CIRR (at time of the original contract), 2) At the Arrangement rate, or 3) the short-term market rate, whichever is lower.

6 **Local Costs (*)**

a) **Category II or Category III Countries**
Participants shall not finance, guarantee or insure credit for more than 100 per cent of the value of the goods and services exported, including goods

and services supplied by third countries. Thus, the amount of local costs supported on credit terms and conditions will not exceed the amount of the cash payment. They shall not grant such support for local costs financed on conditions more favourable than those supported for the exports to which such costs are related.

b) **Category I countries**
The provisions of a) above shall apply, provided that any official support is confined to insurance or guarantees.

7 Maximum Period of Validity of Commitments (*) and prior Commitments
Participants shall not fix credit terms and conditions for an individual export credit or of a credit line (*), whether new or one that is being renewed or prolonged, for a period exceeding six months. Commitments in effect prior to a modification of the Guidelines of this Arrangement and that become non-conforming because of this modification may not remain in effect for more than six months following the date of modification.

8 Tied and Partially United Aid Financing (*) If a participant intends to support tied or partially untied aid financing, the participant shall, without prejudice to official development assistance procedures administered by the Development Assistance Committee, give notification in accordance with the procedures set forth in paragraphs:

a) 14c) 1), if the grant element is less than 50 per cent;
b) 14d), if the grant element is 50 per cent or more.

9 Special Sectors Participants shall apply the following special Guidelines to the sectors listed below:

a) Ships
The Guidelines of this Arrangement shall apply to ships covered by the OECD Understanding on Export Credits for Ships (Annex II to this Arrangement). Efforts shall be pursued to arrive at common provisions for all ships. Until common provisions for all ships are agreed upon, if for any type of ships that is covered by that Understanding and therefore not by the Guidelines of the Arrangement, a participant intends to support terms that would be more favourable than those terms permitted by this Arrangement, the participant shall notify all other participants of such terms in accordance with the procedure set forth in paragraph 14b) 1).

b) **Nuclear Power Plants**
This Arrangement shall apply; except that where relevant, the provisions of the Sector Understanding on Export Credits for Nuclear Power Plants (Annex III to this Arrangement), which complements this Arrangement, shall apply in lieu of the corresponding provisions of the Arrangement.

c) **Power Plants other than Nuclear Power Plants**
This arrangement shall apply; except that the maximum repayment term shall be twelve years. If a participant intends to support a repayment term longer than five years in transactions with Category I countries or a repayment term longer than the relevant maximum term set forth in paragraph 4a) for Category II and III countries, the participant will give prior notification in accordance with the procedure set forth in paragraph 14b) 1).

d) **Ground Satellite Communications Stations**
This Arrangement shall apply; except that the maximum repayment term to any country may not exceed eight years, i.e the maximum repayment term provided for in the OECD Understanding on Export Credits for Ground Satellite Communications Stations (Annex IV to this Arrangement).

e) **Aircraft**
This Arrangement shall apply; except that where relevant, the provisions of the Sector Understanding on Civil Aircraft (Annex V to this Arrangement), which complements this Arrangement, shall apply in lieu of the corresponding provisions of the Arrangement.

10 Best Endeavours

a) Objectives

1) The Guidelines set out in this Arrangement represent the most generous credit terms and conditions that participants may offer when giving official support. All participants recognize the risk that in the course of time these guidelines may come to be regarded as the normal terms and conditions. They therefore undertake to take the necessary steps to prevent risk from materializing.

2) In particular, if in an individual branch of trade or industrial sector to which this Arrangement applies, credit terms and conditions less generous

to buyers than those set forth above in the Arrangement are customary, participants shall continue to respect such customary terms and conditions and shall do everything in their power to prevent these from being eroded as a result of recourse to the credit terms and conditions set forth in this Arrangement.

b) **Firm Undertaking**

In keeping with the objectives in a) above, the Participants, recognizing the advantage which can accrue if a clearly defined common attitude toward the credit terms and conditions for a particular transaction can be achieved, firmly undertake:

1) to respect strictly the existing procedures for notification and in particular to give prior notification at the latest at the stipulated moment before commitment as well as to supply all the information in the detail called for in the form set forth in Annex IV;

2) to make maximum use of existing arrangements for exchanging information at an early stage with a view of forming a common line towards credit terms and conditions for particular transactions;

3) to consider favourably face to face consultations if a participant so requests in the case of important transactions as set out in the protocol to this Arrangement.

c) **Maximum Delays for Replies**

If in an exchange of information referred to under b) above, a participant informs another participant of the credit terms and conditions that it envisages supporting for a particular transaction and requests similar information from the other participant, then, in the absence of a satisfactory reply within seven calendar days, the enquiring participant may assume that the other will support the transaction on the most favourable credit terms and conditions permitted by these Guidelines. In cases of particular urgency, the enquiring participant may request a more rapid reply.

11 **Matching** A participant has the right to match credit terms and conditions notifiable under paragraph 14, as well as credit terms and conditions offered by a non-participant. A participant intending to match credit terms and conditions:

a) notified by another participant shall follow the procedures set forth in paragraph 15a) or c) as appropriate:

b) offered by a non-participant shall follow the procedures set forth in paragraph 15b).

12 No-Derogation Engagement Participants shall not:

a) derogate with respect to maximum repayment terms (whatever the form of support), to minimum interest rates or to the limitation of the validity of commitments to a maximum of six months or extend the relevant repayment term through an extension of the grace period before the start of the repayment beyond the normal practice of six months after the starting point: or

b) avail themselves of the possibilities provided under paragraph 14c) 1) of this Arrangement to support tied or partially untied aid financing having a grant element of less than 25 per cent.

13 Action to Avoid or Minimize Losses The provisions of this Arrangement are without prejudice to the right of the export credit or insurance authority to take appropriate action after the export credit arrangement and ancillary documents become effective to avoid or minimize losses.

III. Procedures

14 Prior and Prompt Notifications

a) Derogations: Procedure for Prior Notification and Discussion

1) If a participant intends to take the initiative to support terms and conditions not in conformity with this Arrangement, the participant shall notify all other participants of the terms and conditions it intends to support at least ten calendar days before issuing any commitment. If any other participant requests a discussion during this period, the initiating participant shall delay an additional ten calendar days before issuing any commitment on such terms. Normally this discussion will be by telex.

2) If the initiating participant moderates or withdraws its intention to support the notified non-conforming terms and conditions, it must immediately inform all other participants accordingly.

3) A participant intending to match notified derogating terms and conditions shall follow the procedure set forth in paragraph 15a) 1).

b) Deviations: Procedure for Prior Notification without Discussion

1) A participant shall notify, at least ten calendar days before issuing any commitment, all other participants of the terms and conditions if it intends:

(i) to support a credit with a repayment term of more than 5 but not exceeding eight and a half years to a relatively rich country, or

(ii) not to follow normal payment practices with respect to principal or interest referred to in paragraph 4b), or

(iii) to support a credit for a power plant other than a nuclear power plant with a repayment term longer than the relevant maximum set forth in paragraph 4a), but not exceeding twelve years, or

(iv) to support for any kind of ships to which the OECD Understanding on export credits for ships applies, credit terms and conditions that would be more favourable than those credit terms and conditions permitted by this Arrangement.

2) If the initiating participant moderates or withdraws its intention to give such support to the notified deviating credit conditions, it must immediately inform all other participants accordingly.

3) A participant intending to match notified deviating terms and conditions shall follow the procedure set forth in paragraph 15a) 2).

c) Procedures for Prior Notification of Aid Financing

1) The procedures set out in paragraph 14b) shall apply where a participant intends to provide or support tied aid or partially untied aid financing involving a grant element of less than 50 per cent; except that wherever paragraph 14b) refers to a period of ten calendar days, a period of twenty working days shall apply and that participants intending to match shall use the procedures of paragraph 15a) 3).

2) A participant shall notify all other participants of the terms it intends to support at least twenty working days before issuing any commitment if the participant intends to provide or support trade related aid and financing transactions involving a grant element of less than 50 per cent that are fully and freely available to finance procurement from the recipient country, from substantially all other developing countries and from participating countries. Participants intending to match such financing shall use the procedures of paragraphs 15a)3).

d) Procedure for Prompt Notification(*)

As soon as a participant commits itself to support a tied or partially untied aid financing transaction having a grant element of 50 per cent or more, the participant will promptly notify all other participants accordingly.

e) Exception for Small Projects and Technical Assistance

The reporting requirements of paragraph 12b) and 14c) and d) do not apply to the following transactions:

1) Aid financing where the official development aid component consists solely of technical cooperation that is less than either 3 per cent of the total value of the transaction or one million US dollars, whichever is lower, and

2) Capital projects of less than one million US dollars that are funded entirely by development assistance grants.

15 Procedures for Matching

a) Matching Terms and Conditions Notified in Accordance with Par. 14.

1) Matching of notified derogations: On and after the expiry of the first ten calendar day period referred to in paragraph 14a) 1) if no discussion is requested (or on and after the expiry of the second ten calendar day period if discussion is requested) and unless the participant intending to match has received notice from the initiating participant that the latter has withdrawn its intention to support non-conforming terms and conditions, any participant will have the right to support:

(i) in a case of 'identical matching', terms and conditions that include the identical non-conforming element but that otherwise conform to the Guidelines; provided that the matching participant gives as early as possible of its intention to match; or

(ii) in a case of 'other support' prompted by the initial derogation, any other non-conforming element of the terms; provided that the responding participant introducing a fresh derogation, initiates a five calendar day prior notification and five calendar day discussion procedure and awaits its completion. This period can run concurrently with

that of the prior notification and discussion procedure initiated by the originally derogating participant but cannot elapse before the end of the applicable ten or twenty calendar day period referred to under paragraph 14a)1).

2) **Matching of notified deviations:** On and after the expiry of the ten calendar day period referred to in paragraph 14b) 1) and unless the matching participant has received notice from the initiating participant that the latter has withdrawn its intention to support the terms and conditions notified in accordance with paragraph 14b) 1), any participant will have the right to support:

(i) in a case of 'identical matching', terms and conditions that include the identical element notified in accordance with paragraph 14b) 1) but that otherwise conform to the Guidelines, provided that the matching participant gives notification as early as possible of its intention to match.

(ii) in a case of 'other support', any other element of the terms which does not conform to the Guidelines; provided that the responding participant initiates a five calendar day prior notification procedure without discussion and awaits its completion. This period may run concurrently with that of prior notification procedure started by the initiating participant, but may not elapse before the end of the ten calendar day period referred to under paragraph 14b) 1).

3) **Matching of a prior notification of aid financing:** The procedures set out in paragraph 15a) 2) shall apply where a participant intends to match aid financing; except that where paragraph 15a) 1) refers to a period of ten calendar days, a period of twenty working days shall apply.

4) **Matching of a prompt notification:** No prior notification need be given if a participant intends to match terms and conditions that

were subject to a prompt notification according to paragraph 14d).

b) **Matching Export Terms and Conditions Offered by a non-Participant**

1) Before considering meeting non-conforming terms and conditions assumed to be offered by a non-participant, a participant shall make every effort to verify that these terms are receiving official support. The participant shall inform all participants of the nature and outcome of these efforts.

2) A participant that intends to match non-conforming terms offered by a non-participant shall follow the prior notification and discussion procedures under paragraph 14a) 1).

c) **Matching non-Conforming Prior Commitments**

1) A participant intending to match a prior commitment shall make reasonable efforts to determine whether the non-conforming terms and conditions of the individual transaction or credit line in question will be used to support a particular transaction. This participant shall be considered to have made such reasonable efforts if it has informed by telex the participant assumed to offer such non-conforming terms and conditions of its intention to match but in reply to the telex has not been informed within three working days, exclusive the day of reception, that this prior commitment will not be used to support the transaction in question.

2) A prior credit line may be matched by an individual transaction or by means of credit line. In both cases, the dates of expiry of the matching offer shall not be later than that of the credit line being matched.

3) A participant intending to match another participant's non-conforming prior commitment shall, in case of:

(i) 'identical matching', follow the procedure set forth in paragraphs 15a) 1) i) when matching a derogation and paragraphs 15a) 2) i) when matching a deviation;

(ii) 'other support', follow the procedure set forth in paragraph 15a) 1) ii) when matching a derogation prior commitment and the procedure set forth in paragraph 15a) 2) ii) when matching a deviating prior commitment.

16 Information on Commitment As soon as a participant commits credit terms and conditions it had notified in accordance with paragraph 14 or 15, it shall, in all cases, inform all other participants accordingly by including the notification reference number on the relevant Berne Union le form.

17 Information to be Supplied under the Notification and Matching Procedures The notifications called for by the above procedures shall be made in accordance with and contain the information set out in the 'standard form' in Annex VI and be copied in the Secretariat of the OECD.

IV. Operational Provisions

18 Regular Notification and Circulation of Information on Selected Interest Rates

a) Yields on Government or Public Sector Bonds

1) Participants shall notify by telex each month to the Secretariat for distribution to all participants the monthly information on yields of government or public sector bonds as described in the Annex VII to this Arrangement. This information shall reach the Secretariat at the latest five days after the end of the month covered by this information.

2) Upon receipt of this information from the five countries whose currencies constitute the IMF's Special Drawing Right, the Secretariat shall calculate the SDR-weighted average of interest for immediate circulation to all participants.

3) At the beginning of July and of January, the Secretariat will in accordance with the method set forth in paragraph 5a) 2), calculate on the basis of the SDR-weighted averages the semi-annual adjustments to be made to the minimum interest rates set forth in paragraph 5a) 1).

b) Commercial Interest Reference Rates

1) Commercial interest reference rates for currencies that are subject to the provisions of paragraph 5b) shall be telexed at least monthly to the Secretariat for circulation to all participants.

2) Such notification shall reach the Secretariat not later than five days after the end of each month covered by this information. The Secretariat shall then inform immediately all participants of the applicable rates. Any changes in these rates shall enter into effect on the fifteenth day after the end of each month.

3) When market developments require the notification of a change in a commercial interest reference rate in the course of a month, the changed rate shall be implemented ten days after the date of receipt of the notification of this change.

4) If a currency's commercial lending rates of interest fall below the relevant level of interest

rates set forth in paragraph 5a) 1) the relevant participant shall provide to the Secretariat for distribution to all participants its proposal of how the commercial interest reference rate for this currency is to be established. This proposal shall be examined by other participants and shall be considered as adopted when all participants have agreed on the formula for establishing that rate.

19 Reviews

a) Annual Review

1) The participants shall review at least annually the functioning of the Arrangement. The reviews will normally take place in the northern Spring of each year. In the review, they shall examine **inter alia** notification procedures, derogations, questions of matching, prior commitments, practices on credits for agricultural commodities and possibilities of wider participation in this Arrangement. They shall also review possible modifications of the matrix rates, notably with the aim to bring the matrix interest rates closer to market interest rates.

2) These reviews shall be based on information on participants' experience and on their suggestions for improving the operation and efficacy of the Arrangement and shall take account of the objectives of the Arrangement and the prevailing economic and monetary situation. The information and suggestions that participants wish to put forward to this end shall reach the Secretariat not later than forty-five days before the date of review.

b) Review of Commercial Interest Reference Rates

1) The participants shall review periodically the operation in practice of the commercial interest reference rates with a view to ensuring that the notified rates reflect current market conditions and meet the aims underlying the establishing of the rates in operation. Such reviews shall also cover the premium to be added when these rates are applied.

2) Any participant may submit to the Chairman a substantiated request for an extraordinary

review in case this participant considers that the commercial interest rates for one or more currencies no longer reflect current market conditions.

20 **Validity and Duration** The provisions of this Arrangement are applicable without time limit, unless revised as a result of the review referred to in paragraph 19.

21 **Withdrawal** Any participant may withdraw from this Arrangement upon not less than sixty calendar days prior written notice to the other participants.

V. Definitions and Interpretations

22 For the purpose of this Arrangement, the participants agreed to the following definitions and interpretations.

a) **Cash payments** means payments to be received for goods and services exported by the completion of the exporter's contractual obligations, the date of completion being determined by the starting point.

The quantum of the minimum cash payments is established by reference to the total export contract value; except that in the case of a transaction involving some goods or services supplied from outside the exporter's country, the total export contract value may be reduced proportionately if the official support from which the exporter benefits does not cover those goods and services.

Retention payments due after the latest appropriate starting point referred to under k) below do not count as cash payments for the purpose of conformity with the Guidelines.

b) **Export Contract Value** means the total amount to be paid by the buyer; exclusive of interest in the case of an export sale of goods and/or services or to be paid by the lessee, exclusive of the portion of the lease payment equivalent to interest in the case of a cross border lease.

c) **The Classification of Countries** into categories in paragraph 4a) and 5a) is based on the following criteria:

Cat. I: Countries with a GNP per capita income of over $4,000 p.a. according to the definite 1979 figures shown in the 1981 World Bank Atlas.

Cat. II: Countries not classified with categories I or III.

Cat. III: Countries eligible for IDA credits plus any other low income countries or territories, the GNP per capita of which would not exceed the IDA eligibility level.

d) **Repayment term and interest rates**

1) Repayment term means the period of time commencing at the starting point and terminating on the contractual date of the final payment.

2) **Interest excludes:**

(i) any payment by way of premium of other charge for insuring or guaranteeing supplier credits or financial credits;

(ii) any other payment by way of banking fees or commissions associated with the export credit, other than annual or semi-annual bank charges payable throughout the repayment term; and

(iii)withholding taxes imposed by the importing country;

3) in the case of an export through **a relay country;** the relevant interest rate and repayment term set out in paragraphs 4 and 5 are those corresponding to the country of final destination in cases:

(i) where the 'relay country'. makes payment, if and when received from the country of final destination, to the exporting country on the basis of the latter's portion in the total export value; or

(ii) where there is security or payment by the country of final destination.

e) **Commercial Interest Reference Rate** means an interest rate established in accordance with Annex VIII to this Arrangement

f) **Local Costs** means expenditure, excluding commissions payable to the exporter's agent in the buying country, for the supply from the buyer's country of goods and services, that are necessary either for executing the exporter's contract or for completing the project of which the exporter's contract forms part.

g) **Commitment** means any arrangement for or declaration on credit conditions, in whatever form, by means of which the intention or willingness to refinance, insure or guarantee supplier credits or to grant, refinance, insure or guarantee financial credits is brought to the attention of the recipient country, the buyer or the borrower, of the financial institution.

h) **Line of Credit** means any understanding or statement, in whatever form, whereby the intention to grant credit benefiting from official support up to a ceiling and in respect of a series of transactions, linked or not to a specific project, is brought to the attention of the

recipient country, the buyer or the borrower, or the financial institution.

i) **Tied aid financing** (4) is defined as loans or grants or associated financing packages involving a grant element greater than zero per cent that is in effect tied to procurement of goods and services from the donor country. **Partially untied aid financing** (4) is defined as loans or grants or associated financing packages involving a grant element greater than zero per cent that is in effect tied to procurement of goods and services from the donor country and from a restricted number of countries. (5)

1) Such financing can take the form of either:

(i) Official Development Assistance loans;

(ii) Official Development Assistance grants;

(iii) Other Official Flows (including grants and loans but excluding officially supported export credits that are in conformity with this Arrangement); or

(iv) Any association in law or in fact (6) either in the hands of the donor, lender or borrower among two or more of the following:

- Official Development Assistance loans;

- Official Development Assistance grants;

- Other Official Flows (including grants and loans but excluding officially supported export credits that are in conformity with this Arrangement);

- An export credit that is officially supported by way of direct credit, refinancing, eligibility for an interest subsidy, guarantee or insurance to which this Arrangement applies, other funds at or near market terms or cash payments from the buyer's own resources.

2) Such financing is defined to be in effect tied to procurement of goods and services from one or a restricted number of countries as soon as:

(i) one of the financial components listed above is not freely and fully available to finance procurement from the recipient country.

substantially all other developing countries and from participating countries, whether by a formal or informal understanding to that effect between the recipient and the donor country, or

(ii) it involves practices that the Development Assistance Committee of the OECD or the Participants may determine to result in such tying. (7).

3) The definition of 'Official Development Assistance' is identical to that in the 'Guiding Principles of the Development Assistance Committee of the OECD for the Use of Aid in Association with Export Credits and Other Market Funds'.

4) The grant element of the ODA portion or Other Official Flows is calculated in accordance with the method adopted by the Development Assistance Committee of the OECD with the sole exception that the base date for calculating the grant element is the Berne Union starting point of credit.

5) The grant element of the export credit portion or other funds at or near market rates is considered to be zero. The grant element of an associated financing package is determined by dividing i) the sum of the results obtained by multiplying the face value of each component of the associated financing package by the respective grant element of each component by ii) the aggregate face value of the components.

j) **Prompt Notification** means a maximum delay of two working days following the date of commitment within which notification is to be given.

k) **Starting point** is the same as the Berne Union definition currently in use and is as follows:

1) In the case of a contract for the sale of capital goods consisting of individual items usable in themselves (e.g. locomotives), the starting point is the mean date or actual date when the buyer takes physical possession of the goods in his own country.

2) In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the starting point is the date when the buyer is to

take physical possession of the entire equipment (excluding spare parts) supplied under the contract.

3) In the case of construction contracts where the contractor has no responsibility for commissioning, the starting point is the date when construction has been completed.

4) In the case of any contract where the supplier or contractor has a contractual responsibility for commissioning, the starting point is the date when he has completed installation or construction and preliminary tests to ensure that it is ready for operation. This applies whether or not it is handed over to the buyer at that time in accordance with the terms of the contract and irrespective of any continuing commitment which the supplier or contractor may have, e.g. for guaranteeing its effective functioning or for training local personnel.

5) In the case of paragraphs 2), 3) and 4) above where the contract involves the separate execution of individual parts of a project, the date of the starting point is the date of the starting point for each separate part, or the mean date of those starting points, or, where the supplier has a contract, not for the whole project but for an essential part of it, the starting point may be that appropriate to the project as a whole.

l) **Interest Rate and Official Support:** Apart from agreement on the definition of interest set forth in paragraph 22d) 2) it has not proved possible to establish common definitions of interest rate and official support in the light of differences between long-established national systems of export credit and export credit insurance now in operation in the participating countries. Efforts shall be pursued to elaborate solutions for those definitions. While such definitions are being elaborated, these guidelines do not prejudice present interpretations. In order to facilitate these efforts, notes concerning actual practices in this area, including information on annual or semi-annual bank charges payable throughout the repayment term and considered as part of interest, as they result from the different national systems, were transmitted to the Secretariat of the OECD and distributed to all participants in document TD/CSUS/78.12 and Addenda.

Notes and Reference

(*) The asterisk refers to the relevant definitions or interpretations set forth in paragraph 22.

1. SDR means the IMF Special Drawing Right weighted average of the interest rates notified pursuant to paragraph 18a). These currencies are the US dollar, Deutsche mark, Japanese yen, French franc and pound Sterling. In the calculation of the average interest rate, each currency shall be given the weight set by the IMF for the valuation of the Special Drawing Right.

2. For countries which were classified in Category III before 6th July 1982 but as of that date are classified in Category II, the maximum repayment term shall be ten years; the minimum interest rate applicable for repayment term of over eight and a half to ten years being the same as that for repayment terms of over five to eight and a half years.

3. After any semi-annual period, a change in the SDR-weighted average interest rate shall be computed only on the basis of the IMF weightings of the SDR valuation basket in effect at the end of the semi-annual period.

4. It is understood that the terms 'tied aid financing' and 'partially untied aid financing' exclude aid programmes of multilateral or regional institutions.

5. These definitions do not prejudge the distinctions made in the DAC on the quality of aid as concerns tied, partially untied aid.

6. Association or linkage 'in fact' is determined by such factors as:

   I) The existence of informal understanding between the recipient and the donor country.

   II) The intention by the donor country through the use of ODA to facilitate the acceptability of a financing package.

   III) The effective tying of the whole financing package to procurement in the donor country.

   IV) The tying status of ODA and the modality of tender and/or of the contract of each financing transaction.

   V) Any other practice, identified by the DAC or Export Credit Group, in which a de facto liaison exists between two or more financing components.

None of the following practices shall prevent the determination that an association or linkage 'in fact' exists:

I) Contract splitting through the separate notification of component parts of one contract.

II) The splitting of contracts financed in several stages.

III) The non-notification of interdependent parts of a contract.

IV) The non-notification arising from the partial untying of a financing package.

7. In cases of uncertainty as to whether a certain financing practice falls within the scope of the above definition, the donor country shall furnish evidence in support of any claim to the effect that such a practice is untied.

Protocol

The Participants to the Consensus,

Whereas at the OECD Ministerial meeting of 17th-18th May 1983, the Ministers enjoined the competent bodies of the Organization for Economic Co-operation and Development to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in the area of aid and trade related concessional finance by all appropriate means;

Whereas the Participants to the Consensus recognize the advantage which can occur if a clearly defined common attitude toward the credit terms for a particular transaction can be achieved and if maximum use is made of the existing arrangements for exchanging information at an early stage;

Whereas the OECD Exchange of Information System of 1972 lays down rules for exchanging information amongst members of the OECD Group on Export Credits and Credit Guarantees;

Whereas this system outlines procedures to be followed in the event that all members taking part in an exchange of information agree to accept that the credit terms for a particular transaction should be the subject of a binding obligation;

Whereas although government grants, tied official developments assistance loans on concessional terms are excluded from the system, members agreed, in a protocol attached to the OECD Council Decision implementing the System of Exchanging Information, that they would use their best efforts to give as far as possible the same information on tied development assistance loans on concessional terms as for transactions covered by the system, and that any binding obligation would apply also to tied official development assistance loans on concessional terms;

Whereas at a meeting of the OECD Consensus Group in April 1984 all Participants firmly undertook to consider favourably face-to-face consultations if a participant so requests in the case of important transactions;

Whereas this undertaking was motivated by the unsatisfactory functioning of existing procedures for exchanging information in a number of important transactions;

Whereas the implementation of the provisions of the Consensus can be jeopardized if procedures for exchanging information do not function efficiently;

Whereas any weakening in Consensus discipline risks provoking wasteful export credit and/or tied aid credit competition and increasing subsidies;

Whereas the search for a common attitude, does not prejudice the possibility for participants to retain their rights and liberty as to whether to insure or finance credits for a particular transaction, in the framework of their international obligations.

Have decided as follows:
Within the framework of existing procedures in the field of officially supported export credits and tied aid credits, and with a view to improving transparency, the Participants:

1) Confirm that they will strive to provide the fullest possible details on the credit terms and conditions which they may be considering offering for any transaction which is the subject of an exchange of information;

2) Acknowledge that the interest of all participants are best served if agreement can be reached at an early stage on a common attitude on the export credit conditions for a particular transaction and if the provisions of that agreement are maintained.

3) Reaffirm, therefore, the need to promote common attitudes; particularly on important transactions;

4) Recognize that in certain instances, notably when existing exchange of information procedures are perceived to be functioning in an unsatisfactory manner, face-to-face consultations could facilitate the adoption of a common line;

5) Undertake, in such circumstances, to respond favourably to any such request for early face-to-face consultations and to attend any meeting arranged in order to reach a common attitude on credit terms in conjunction with other interested participants. In this respect, particular attention will be paid to the observance and common interpretation of the guidelines;

6) Confirm moreover the importance they attach to a strict observation of the formal notification procedures provided for in the Arrangement.

This Appendix comes from the Third Edition of The Export Credit Financing Systems in OECD Member Countries published in Paris in 1987.

OECD Consensus Country Classification

Category I

- American Samoa
- American Virgin Islands
- Andorra
- Australia
- Austria
- Bahrain
- Bermuda
- Brunei
- Canada
- Czechoslovakia
- European Community (except Portugal)
  - Belgium
  - Denmark
  - France (including Martinique, French Guyana, Guadeloupe And Reunion)
  - German Federal Republic
  - Greece
  - Irish Republic
  - Italy
  - Luxembourg
  - Netherlands
  - Spain (including Ceuta Melilla and the Canary Islands)
- Faroe Islands
- Finland
- French Antarctic Territories
- French Polynesia
- German Democratic Republic
- Gibraltar
- Greenland
- Guam
- Iceland
- Israel
- Japan
- Kuwait
- Libya
- Liechtenstein
- Mayotte
- Monaco
- Nauru
- New Caledonia
- New Zealand
- Norway
- Puerto Rico
- Qatar
- Ross Dependency
- St Pierre et Miquelon
- San Marino
- Saudi Arabia
- Sweden
- Switzerland
- United Arab Emirates
- United States
- USSR
- Vatican
- Wallis & Futuna

Category II

Albania
Algeria
Anguilla
Antigua & Barbuda
Argentina
Bahamas
Barbados
Belize
Botswana
Brazil
British Antarctic Territories
British Indian Ocean Territory
British Virgin Islands
Bulgaria
Cayman Islands
Chile
Columbia
Cook Islands
Costa Rica
Cuba
Cyprus
Dominican Republic
Ecuador
Falkland Islands & Dependencies
Fiji
Oman
Panama
Papua-New Guinea
Paraguay
Peru
Poland
Portugal (including Azores and Madeira)*
Romania
Seychelles
Singapore
South Africa
St Helena & Dependencies
St Lucia
Gabon
Guatemala
Hong Kong
Hungary
Iran
Iraq
Ivory Coast
Jamaica
Jordan
Kiribati
Korea (North)
Korea (South)
Lebanon
Macao
Malaysia
Malta
Mauritius
Mexico
Mongolia
Montserrat
Morocco
Namibia
Netherlands Antilles
Nigeria
Niue
Surinam
Syria
Taiwan
Trinidad & Tobago
Tunisia
Turks & Caicos Islands
Turkey
Trust Territory of the Pacific Islands (US)
Uruguay
Venezuela
West Indian Associated States
St. Kitts - Nevis
Yugoslavia

*) Matric rates not applicable
Newly intermediate countries in italics[37]/

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[37]/ Due to lack of italics letters, the newly intermediate countries are re-produced here in bold letters.

Category III

Afghanistan
Angola
Bangladesh
Benin
Bhutan
Bolivia
Burkina Faso
Burma
Burundi
Cameroon
Cape Verde Islands
Central African Republic
Chad
China
Comoro Islands
Congo
Djibouti
Dominica
Egypt
El-Salvador
Ethiopia
Gambia
Ghana
Grenada
Guinea
Guinea-Bissau
Guinea-Equatorial
Guyana
Haiti
Honduras
India
Kampuchea
Kenya
Laos
Lesotho
Liberia
Madagascar
Malawi
Maldives
Mali
Mauritania
Mozambique
Nepal
Nicaragua
Niger
Pakistan
Philippines
Pitcairn Islands
Rwanda
St Vincent & The Grenadines
Sao Tome & Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
Sri Lanka
Sudan
Swaziland
Tanzania
Thailand
Togo
Tokelau
Tonga
Tuvalu
Uganda
Vietnam
Western Samoa
Yemen Arab Republic (Sanaa)
Yemen People's Democratic Republic (Aden)
Zaire
Zambia
Zimbabwe

Maximum Credit Lengths

Category I (Relatively Rich) countries - 5 years or, in exceptional cases and only for very large projects, 8 1/2 years.

Category II (Intermediate) countries - 8 1/2 years or 10 years for only newly intermediate countries (in bold).

Category III (Relatively Poor) countries - 10 years.

Developing Countries and Territories by Income Category Ordered by 1987 per Capita GNP in US$

This listing is used by the OECD Secretariat for analytical purposes.

Least Developed Countries

Country	GNP	Country	GNP
Equatorial Guinea	-	Sao Tome * Principe	280
Burma	-	Niger	280
Afghanistan	-	Somalia	290
Tuvalu	-	Benin	300
Vanuatu	-	Togo	300
Djibouti	-	Sierra Leone	300
Ethiopia	120	Maldives	300
Mozambique	150	Rwanda	310
Bhutan	150	Guinea	(320)
Chad	150	Sudan	330
Malawi	160	Central African Rep.	330
Nepal	160	Lesotho	360
Bangladesh	160	Haiti	360
Laos	160	Comoros	380
Guinea-Bissau	170	Yemen Dem.	420
Burkina Faso	170	Mauritania	440
Mali	200	Kiribati	480
Gambia	220	Cape Verde	500
Tanzania	220	Western Samoa	560
Burundi	240	Yemen	580
Uganda	260	Botswana	1 030

Other Low - Income Countries

Country	GNP	Country	GNP
Kampuchea	-	Guyana	380
Viet Nam	-	Ghana	390
Mayotte	-	Sri Lanka	400
St. Helena	-	Solomon Islands	420
Zaire	160	Liberia	440
Madagascar	200	Indonesia	450
Zambia	240	Senegal	510
India	300	Bolivia	570
China	300	Philippines	590
Kenya	340	Zimbabwe	590
Pakistan	350	Morocco	620
Nigeria	370	Egypt	(700)
		Swaziland	700

Lower Middle - Income Countries

Country		Country	
Turks & Caicos Ils.	-	Cote d'Ivoire	750
Albania	-	Honduras	780
Mongolia	-	Nicaragua	830
Auguilla	-	Thailand	840
Angola	-	El Salvador	850
Korea, Dem.	-	Congo	880
Namibia	-	Guatemala	940
Tokelau	-	Cameroon	960
Pacific Islands.Trust Terr-		Jamaica	960
Cuba	-	Paraguay	1 000
Wallis & Futuna	-	Ecuador	1 040
Cook Islands	-	St. Vincent & Gr.	1 070
Tonga	720	Turkey	1 200
Dominican Republic	730	Tunisia	1 210
Papua New Guinea	730	Colombia	
		Belize	1 220

Upper Middle - Income Countries

Country		Country	
Lebanon	-	St. Kitts-Nevis	
1 700			
Niue	-	Malaysia	1 800
Iraq	-	Syria	1 820
Guiana	-	Mexico	1 820
Macao	-	Brazil	2 020
Cayman Islands	-	Uruguay	2 180
Guadeloupe	-	Panama	2 240
Iran	-	Surinam	2 360
Montserrat	-	Argentina	2 370
Reunion	-	Yugoslavia	2 480
Gibraltar	-	Antigua and Barbuda	2 570
Martinique	-	Korea	2 690
New Caledonia	-	Gabon	2 750
Aruba	-	Algeria	2 760
Netherlands Antilles	-	Portugal	2 890
Falkland Islands	-	Seychelles	3 180
Saudi Arabia	-	Venezuela	3 230
Virgin Islands	-	Malta	4 010
Polynesia, French	-	Trinidad & Tobago	4 220
St. Pierre & Miquelon	-	Taiwan	4 310
Bahrain	-	Greece	4 350
Nauru	-	Cyprus	5 210
Brunei	-	Barbados	5 330
Bermuda	-	Libya	5 500
Chile	1 310	Oman	5 780
Grenada	1 340	Israel	6 810
St. Lucia	1 370	Singapore	7 940
Peru	1 430	Hong Kong	8 260
Dominica	1 440	Bahamas	10 320
Mauritius	1 470	Qatar	12 360
Fiji	1 510	Kuwait	14 870

Jordan	1 540	United Arab Emirates	15 680
Costa Rica	1 590		

Jordan	1 540	United Arab Emirates	15 680
Costa Rica	1 590		