SM/05/45

February 4, 2005

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Officially Supported Export Credits in a Changing World**

Attached for the **information** of Executive Directors is a paper on officially supported export credits in a changing world.

It is intended to publish this paper, with minimal changes, in the World Economic and Financial Survey series.

Questions may be referred to Mr. J.-Y. Wang (ext. 37675) and Mr. Mansilla (ext. 36644) in PDR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

Officially Supported Export Credits in a Changing World

Prepared by the Policy Development and Review Department

Approved by Mark Allen

February 3, 2005

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIG	American International Group
ATI	African Trade Insurance Agency
BIS	Bank for International Settlements
COFACE	Compagnie Francaise d'Assurances pour le Commerce Exterieur (France)
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
ECGC	Export Credit Guarantee Corporation of India
ECGD	Export Credit Guarantee Department (United Kingdom)
ECO	The New Zealand Export Credit Office
EDC	Export Development Corporation (Canada)
EFIC	Export Finance and Insurance Corporation (Australia)
EH	Euler Hermes Kreditversicherung (Germany)
IDB	Inter-American Development Bank
IFC	International Finance Corporation, The World Bank Group
IFI	International financial institutions
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
KfW	Kreditanstalt fur Wiederaufbau (Germany)
MIGA	Multilateral Investment Guarantee Agency, The World Bank Group
MDB	Multilateral development bank
NCM	Netherlandsche Credietverzekering Maatschappij (Netherlands)
NEXI	Nippon Export and Investment Insurance (Japan)
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation (United States)
SACE	Servizi Assicurativi del Commercio Estero (Italy)
SCM	WTO Agreement on Subsidies and Countervailing Measures
SINOSURE	China Export and Credit Insurance Corporation
US EXIM BANK	Export-Import Bank of the United States
WTO	World Trade Organization

EXECUTIVE SUMMARY

Financial flows facilitated by official export credit agencies are large in comparison with official development assistance and gross lending by international financial institutions to developing countries. However, the importance of officially supported trade finance has been declining relative to the rapid expansion of world trade and total capital flows to developing countries. Available evidence suggests that the private sector now provides most credit insurance in the short-term market in OECD countries. Medium- and long-term officially supported export credits relative to total capital goods exports in these countries has continued a declining trend since the late 1970s. In contrast, new ECAs have been set up in emerging market economies and their business has been growing, but their overall scale has remained relatively small. Low-income countries are getting a smaller share of officially supported export credits.

Underlying these developments is a sharp reduction/elimination of explicit subsidies in OECD countries through the Arrangement on Guidelines for Officially Supported Export Credits (OECD Arrangement), the privatization of ECA activity in industrial countries and state-owned enterprises in developing countries, the rapid growth of foreign direct investment and intra-firm trade, the increased availability of trade finance from local sources in emerging markets and the rise of the private sector and other new trade finance providers. These developments have led to changes in the role played by official export credit agencies, particularly those in industrialized countries, and raise the question of the need for continued government involvement in the future.

The assessment of the study is that, with the growing appetite and capacity of the private sector, the trend toward a reduced level of business supported by official export credit agencies in industrialized countries is likely to continue. However, private sector appetite at present remains limited in certain markets, particularly in long-term credits, very large projects, small- and medium-enterprises, and markets considered as high risk, such as a number of low-income countries. In these circumstances, official export credit agencies may be able to play a useful role by filling in the market gaps, where national and international interests warrant, while continuing to curtail distortionary subsidies under the OECD Arrangement and the WTO Agreement on Subsidies and Countervailing Measures.

The study highlights the key challenges facing official export credit agencies, including complementing the private sector, facilitating financing to low-income countries while helping maintain these countries’ debt sustainability; and playing a positive role in the area of trade finance in international efforts to address emerging market financial crises. Strengthening official export credit agencies’ ability as a re-insurer and co-insurer may help these agencies to meet the challenges. ECAs in developing countries face an additional challenge to ensure that limited public resources are best used for economic development. Joining the international effort to eliminate export subsidy competition including following the OECD Arrangement would help in this regard.

I. INTRODUCTION

1. Official export credit agencies (ECAs), once a key pillar of the international financial architecture in the second half of the 20th century, financed a significant share of exports from industrialized countries and provided larger debt financing for developing countries than either multilateral creditors or other official bilateral creditors. This situation prevailed until the early 1990s but since then, the world has changed dramatically. As observed by participants in a conference in 2000 to assess the U.S. Export-Import Bank's role in the 21st century, over the last decade, private credit insurance companies have "increasingly occupied the market" while "government-insured export business tends to account for a shrinking share of total exports in the major exporting countries."[1] Indeed, globalization, fueled by privatization and trade and capital liberalization, has significantly altered the landscape of international trade finance in recent years.[2] Yet the ECAs not only continue to exist, but there are more than ever as developing countries launch their own.

A. Objectives and Scope of the Study

2. This study takes stock of developments in officially supported export credits since 1995. Following a precipitous decline in the overall level of activity during the 1980s, new export credit commitments by official export credit agencies quadrupled between 1988 and 1995.[3] Since then, the export credit business has been affected by several financial crises in emerging markets. At the same time, ECAs' activity has evolved, shaped importantly by the environment in which ECAs operate, particularly government policies and the willingness and capacity of the private sector to provide trade finance.

3. These developments raise important issues. In particular, with the recent changes in global finance, what role do official export credit agencies play today? Are there needs for continued government involvement in international trade finance? What are the key challenges facing public agencies in industrialized countries? What are the implications for developing countries and the new agencies that have been set up there to promote export development? This paper aims to address these questions by assessing the available statistical evidence, synthesizing

[1] See Hufbauer and Rodriguez (2001), p. 8.

[2] The changing world of trade finance has been widely recognized (see Berne Union Yearbooks in the last several years) and the subject of review by export credit agencies and industrial experts (e.g., see ECGD (2000a); ECO (2002); EFIC (2001); OECD (1998, 2001, 2003); Becker and McClenahan (2003); Cruse et. al. (2003); Moran (2003); Barovick (2004)). Among others, Stephens (1999) and Stephens and Smallridge (2002) observed that developments during the period have been "more rapid, more frequent, and more significant" than before. Aspects of the developments were described in recent staff reviews of official financing to developing countries (Ross and Harmsen, 2001, Gilman and Wang, 2003).

[3] See Kuhn, Horvath, and Jarvis (1995).

the various responses by public and private trade finance providers, and drawing out some policy implications that may have consequences for member countries. In doing so, this is not to deny the well-known political and budgetary constraints in dealing with the issues. Adequately addressing the problems would help ensure balanced and sustainable trade and growth in the world economy.

4. This study is based on discussions with representatives of the export credit agencies in the period October 2003 to May 2004. Valuable insights were gained through a survey in which 27 agencies participated. The paper's statistical analysis relies primarily on data provided by export credit agencies to the Berne Union and the Organization of Economic Cooperation and Developments (OECD). These data are not without limitations (see Appendix II for more details) and caution thus is needed in the interpretation. In particular, the databases may not capture export credits supported by agencies and/or eximbanks in developing countries that are either small or not primarily credit insurers. Analysis of the changing trade finance market place is also made difficult by the lack of comprehensive and reliable data on other trade finance providers, particularly private sector providers.[4]

B. Structure of the Paper

5. The remainder of the paper is organized as follows: Chapter II presents available evidence on the levels and composition of officially supported export credits from both developed and developing countries, as well as recent structural changes in key segments of the market. Chapter III analyzes the factors contributing to the developments, particularly the decline in officially supported export credits relative to exports in OECD countries. The changing roles of, and the main constraints faced by, official export credit agencies, in comparison with the private sector and multilateral development banks, are discussed in Chapter IV. Finally, the paper concludes with discussions of the challenges facing official export credit agencies, pointing to the areas in which official agencies' role may be enhanced.

II. Trends and Developments in Export Credits

6. Official export credit agencies were established originally to promote national exports in situations where the private sector was reluctant to do so due to high political and commercial risks. As their support for exporters also gives importers access to finance (through buyer credit

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[4] Aside from the lack of reliable sources, several problems in private sector trade finance data are noteworthy, which make it virtually impossible to estimate the global amount of external trade finance provided to developing countries. For commercial banks, only a subset of developing countries' external borrowing is identified by purpose, and of that, only data on commitments (not disbursements, repayments, or the stock of debt) are reported. In addition, it is difficult to distinguish bank loans that are guaranteed or insured from those that are not. There are clearly some overlaps between bank lending data and exposure data reported by credit insurers. Finally, survey data from suppliers and purchasers do not usually distinguish between domestic and international sources of finance (see World Bank, 2004).

or supplier credit), and most agencies also provide insurance for outward direct investment, these institutions have played a significant role in financing for developing countries. However, official export credit agencies are not a homogenous group. Their key mandates and the institutional arrangements for providing official export credit support are summarized in Boxes 1 and 2. Box 1 also contains the background materials on the trade finance market, including key trade finance providers besides official export credit agencies.

A. Volume of Export Credits

7. Official support for export credits has remained the most important instrument of debt financing for developing countries by official bilateral creditors. New commitments by official export credit agencies have shown a procyclical pattern, falling substantially following the financial crises in Asia and Eastern Europe in the second half of the 1990s (Figure 1). Nevertheless, the volume of export credits has remained large in comparison with official development assistance and gross lending of the IFIs.[5] Total exposure by official ECAs averaged about US$380 billion during 2000-2002 (Figure 2). Export credits represent a large share in developing countries' external debt, accounting for 34 percent of the US$1 trillion in total external indebtedness to official creditors in 2002, down slightly from about 37 percent a decade ago (Figure 3).

8. However, relative to total capital flows to developing countries or exports, export credits supported by export credit agencies in industrial countries have been on the decline. Preliminary estimates suggest that new commitments by official ECAs amounted to near 35 percent of total official and private lending plus foreign direct investment to developing countries in the early 1990s; the ratio declined to about 20 percent in 2000-2002. Continuing with a trend that started in the 1980s, export credits supported by official ECAs in OECD countries relative to their exports fell from 2-3 percent in 1992 to below 1 percent in 2002 (Figure 4). A more relevant measure, medium- and long-term officially supported export credits relative to capital goods exports, shows an even stronger declining trend in these countries. Such credits accounted for 7 percent of capital goods exports in OECD countries in 1992, but only slightly above 2 percent in 2002 (Figure 5). This decline took place across all major ECAs but has been particularly pronounced in the United Kingdom, France and the United States (Table 1).

9. This broad picture masks significant differences between ECAs in developed and developing countries. Officially supported export credits have become available in more developing countries following the establishment of new agencies in these countries. There are

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[5] Available data indicate that new commitments (mostly medium- and long-term) by Berne Union members averaged about US$85 billion each year in 1998-2002; gross ODA and gross IFI lending amounted to about US$67 billion and US$60 billion per year respectively over the same period. Figures on export credit are based on Berne Union data which do not capture agencies or eximbanks that are not members of the Berne Union. Official development assistance and gross lending by international financial institutions are based on data reported in Gilman and Wang (2003) and World Bank (2004).

indications that official export credits supported by these agencies, at least in a few large ones (some of them—export-import banks—are not members of the Berne Union), have recorded impressive growth in their business over the last decade (Box 3). Available data suggest that officially supported export credits relative to exports in emerging market ECAs had risen in the late 1990s. But in recent years, although continuing to increase in absolute terms, export credits supported by these agencies may have been outpaced by exports from these countries (Figures 4 and 5).

B. Allocation of Export Credits

10. Notwithstanding the Asian and Russian crises, emerging markets have received an increasing share of officially supported export credits. Emerging-market debtors accounted for about 73 percent of the total stock of officially-supported export credits in 2000-2003, up from 65 percent in the first half of the 1990s. Export credits tend to be concentrated in a few countries—the top 20 recipients in emerging markets accounted for over 80 percent of the total exposure of ECAs in the last 10 years (Figure 6).

11. New export credit commitments to low-income countries have been declining since 1995 and this trend has not been affected by the world economic cycle. The share of new commitments to low-income countries (excluding India) has declined from 15 percent in 1995-96 to about 8 percent in 2000-2003. This trend is consistent with the findings of the survey of 27 key official ECAs (Annex II). ECAs in general tend to be quite cautious toward taking risks in low-income countries, especially highly indebted poor countries (HIPCs) because of concerns about creditworthiness and business opportunities. Indeed, a number of ECAs have remained off-cover in many low-income countries, including HIPCs that have passed the completion point (thereby receiving irrevocable debt relief committed under the HIPC Initiative). 2002-03 saw a recovery, but this was concentrated in countries such as Vietnam that are not recipients of HIPC debt relief.

12. The sectoral allocation of medium- and long-term export credits has also undergone significant changes since the early 1990s. The share of credits going to the transport sector almost doubled, while the share of financing for communications, energy and mineral resources projects, as well as services has declined (Figure 7). Underlying this development is continued financial support for aircraft sales by key OECD ECAs (Annex III).

Box 1. Official Export Credit Agencies and the Trade Finance Market

The Trade Finance Market

International trade and investment transactions entail risks and require financing and related services. A host of private and public sector intermediaries and guarantors are active in support of trade finance. Key private sector players include commercial banks, suppliers and customers, private insurers and reinsurers. Other private sector trade finance providers include nonbank finance companies and capital markets, including the bond and forfaiting markets. Official export credit agencies and multilateral development banks are the main public sector providers of trade finance.

Commercial banks play a central role in the traditional trade finance system. Under this system, banks provide not only the channel by which payment is transferred from importer to exporter, but also financing against the security of traded goods. While banks may take some risks in the process, insurance by private or public insurers is typically required when transactions entail higher non-payment risks.

Export finance involves two types of risks: Commercial risks include the default or insolvency of the buyer and, sometimes, the refusal of the buyer to accept the goods (repudiation); Political risks are the risks of nonpayment on an export contract or a project due to actions by an importer's host government. Such actions may include intervention to prevent the transfer of payment, cancellation of a license or acts of war or civil conflict, and enactment of laws and other actions of the host country government.

Export credits are generally divided into short term (usually defined as business with a maximum credit length of one year, although in practice most short term business involves 180 days or less) and medium- (between one year and 5 years) and long-term (5 years or more) project business. The maturities of credits are closely linked to the type of exports. Short-term credits are provided for consumer goods, spare parts and raw materials, medium- and long-term credits for capital goods and large projects.

Official ECAs' Key Mandates

All official ECAs, in industrial countries or emerging markets, share a common goal—to promote national exports and international investment. Quite a few ECAs have other public policy objectives, such as being a "shock absorber," stepping in during times of economic crisis and financial market contractions, or an instrument of government international policies (see Annex I).

The rationale for official involvement is often that there are some market failures in private export credit insurance (e.g., due to the lack of information or constraints on the size or tenor of transactions). The official sector may have advantages in obtaining certain information (e.g., on sovereign risk) and in dealing with debt servicing difficulties collectively through the Paris Club. Public funds are allocated to support the national ECAs to promote exports where the private sector (the importer, exporter, private insurer, and financial institutions) are unwilling to cover all risks associated with an export credit at an acceptable price.

Official ECAs' Scope of Operation

The most important program of ECAs to promote exports is export credit insurance or guarantees. A few ECAs have a direct lending scheme, where an export loan is provided by a government-owned or controlled export-import bank.

Only a relatively small part of world trade benefits from officially supported export credits. Over 90 percent of world trade takes place on the basis of cash or on very short-term credit. The need for credit insurance increases as the risk of non-payment or delayed payment rises, usually owing to the lack of credit standing of a trading partner, uncertainties in the importing country, and/or long duration of trade credit. Credit insurance thus tends to be used in trade with developing countries, trade in capital goods, and projects with medium- and long-term financing.

Box 2. Institutional Environment of the Arrangements of Officially Supported Export Credits

The first official ECA, Export Credit Guarantee Department (ECGD) of the United Kingdom, was established in 1919. By the 1970s, most OECD countries had an ECA. More recently, official ECAs have been set up in many developing countries as an important tool for export development.

Major Institutional Models

- Government department/facility. Within the OECD countries, the United Kingdom and Switzerland operate their export credit agencies as government departments. In certain developing countries, special export credit facilities are offered either via the central bank or the commerce/industry ministries.

- State-owned corporations/agencies. The most common form of delivery for export credit facilities is via an autonomous institution which is owned by the government. However, there are many different versions of this institutional arrangements. Some only provide insurance or lending, others combine both under one roof. In Asia, many countries have separate institutions to handle direct lending and insurance (e.g., China, India, Japan, Indonesia, Korea, Malaysia, and Thailand).

- Private company acting as an agent. In some countries, the government has an exclusive arrangement with a private company (e.g., Coface in France, Euler- Hermes in Germany, and Atradius (formerly Gerling-NCM) in Netherlands). The company concerned provides the initial risk analysis and issues policies for the government account. When acting as agent for the government, all risks are taken by the government.

Regulatory Authorities

Official ECAs organized as a government department or a state-owned entity often operate under charters or legislation that gives them clearly defined powers and responsibilities. They have varying but often high degrees of independence. However, all agencies that rely on financial support from governments are ultimately accountable to those governments or parliaments. For private insurers acting as agent, a government ministry is usually the “guardian authorities” who direct overall policies for government account business. Their private account business is regulated by the relevant (corporate and/or insurance) authority.

Under the auspices of the OECD, the Participants to the OECD Arrangement negotiate and implement the disciplines of the Arrangement. The Arrangement sets limits on the terms and conditions for export credits provided by OECD member countries and an institutional framework for orderly use of export credits (Appendix III).

The Berne Union and Prague Club

The Berne Union (known formally as the International Union of Credit and Investment Insurers) has as members of all of the OECD ECAs and many of the ECAs in emerging market economies. As of November 2004, there were 54 Berne Union members from over 40 countries, of which the majority are the official ECAs of their respective countries. The Berne Union operates as a forum for information exchange on the trade finance industry and on particular countries.

The Prague Club was formed in early 1990s to support the development of new ECAs in central and eastern Europe that were too small to become members of the Berne Union. As of end-2003, it had 25 members and two observers from over 20 countries in Europe, Africa and Asia.

Figure 1. Officially Supported Export Credits: New Commitments, 1988–2003 1/
(In billions of U.S. dollars)

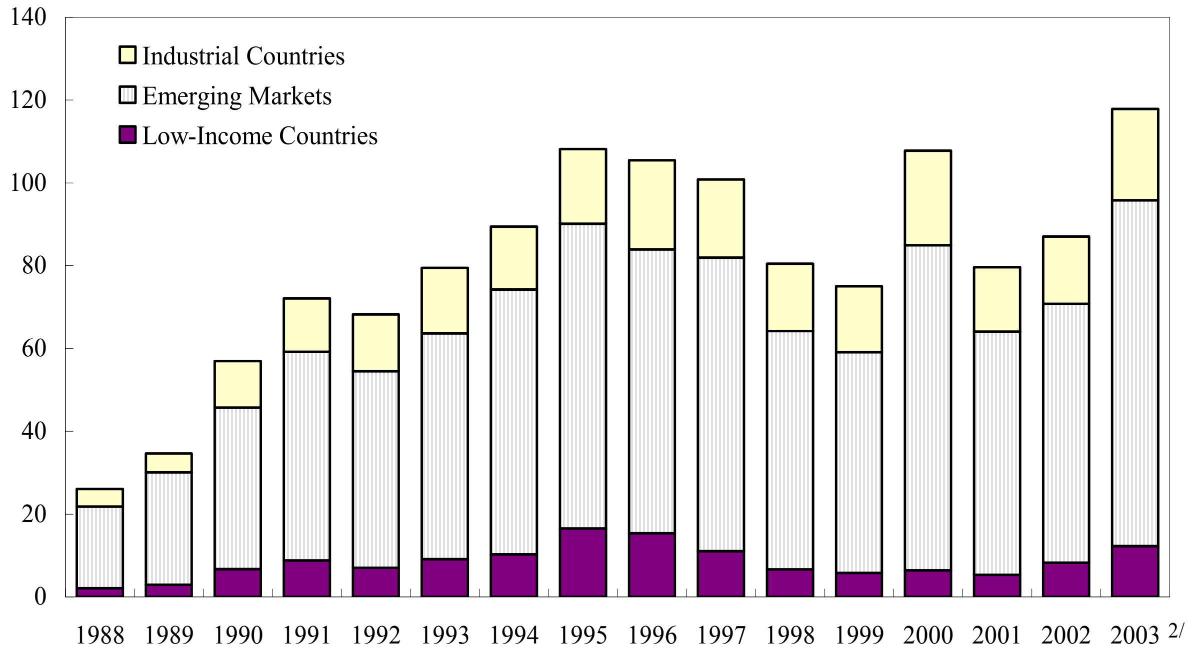
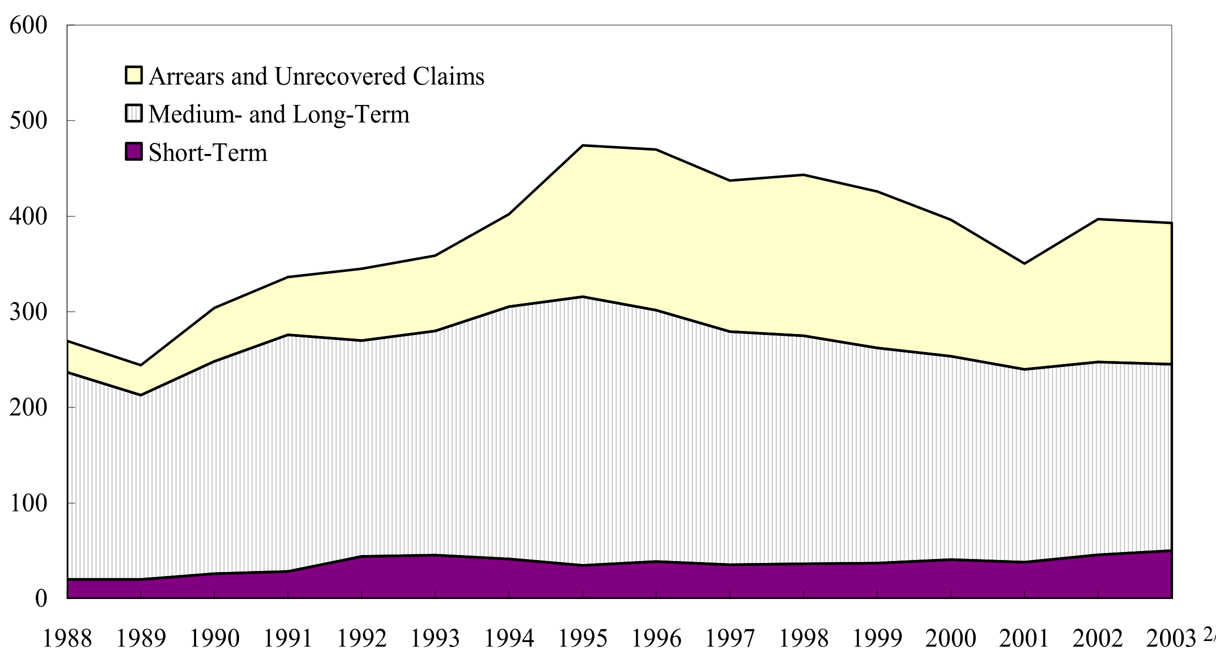


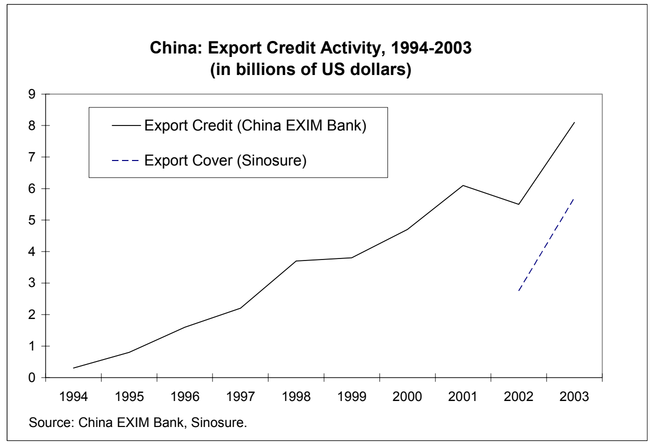
Figure 2. Officially Supported Export Credits: Outstanding Commitments, 1988–2003
(In billions of U.S. dollars)



Sources: IMF staff estimates based on Berne Union data.
1/ All maturities, not including refinanced and rescheduled amounts.
2/ Preliminary estimates based on quarterly reports from agencies.

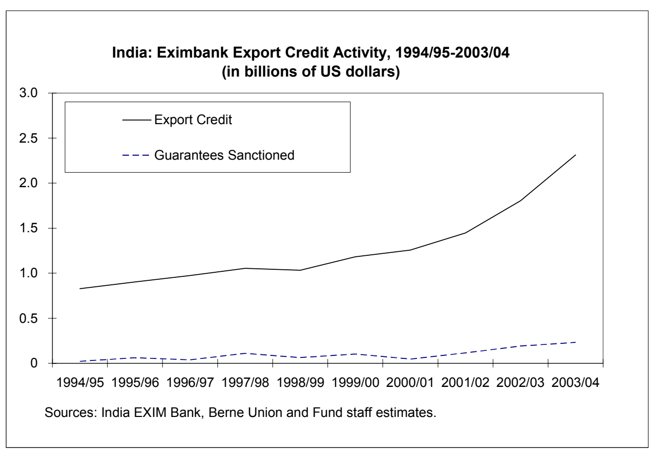
Box 3. Official Export Credit Agencies in Emerging Market Economies: The Case of China and India

China has two official export credit agencies: The Export-Import Bank of China (China Exim Bank) and China Export and Credit Insurance Corporation (SINOSURE); the latter is a member of the Berne Union. China Exim Bank was founded in 1994 and is solely owned by the central government, with a mandate to promote national exports and support Chinese enterprises' investment abroad. It provides direct lending (to exporters in China and foreign importers of Chinese capital goods and services) and guarantees (for export-related transactions). Although not a member of the Berne Union, China Exim Bank's medium- and long-term export credit operations generally follow the OECD Arrangement according to its 2003 Annual Report. China Exim Bank has established and maintained correspondent relationship with 140 foreign banks world wide. Its export lending has expanded rapidly, from below US$1 billion in 1995 to about US$8 billion in 2003 (see Chart). Key sources of funding for the Bank includes bond issuance in domestic and international capital markets. China Exim Bank enjoys the same credit rating as the sovereign rating of China.



SINOSURE started operation in 2001, with capital from the state budget. Aiming to support Chinese exports and investment abroad, SINOSURE offers credit insurance against country risks and buyer risks. Country risks include foreign exchange restrictions, expropriation, nationalization, and war. In 2003, the volume of new business reached a record high of US$5.7 billion, accounting for 1.3 percent of China's total exports. Of this amount, short-term credit insurance totaled US$4.3 billion, increasing by 143 percent from 2002. Total premium income also grew rapidly, up 83 percent over last year. 2003 also witnessed SINOSURE's first overseas investment covers (including Palembang Power Project in Indonesia).

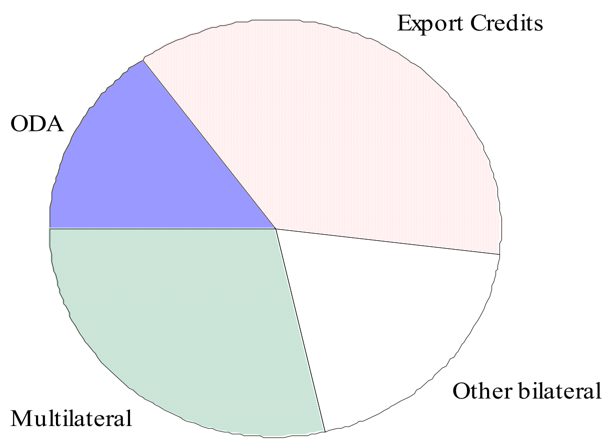
India also has two official export credit agencies: The Export-Import Bank of India (Eximbank India) and the Export Credit Guarantee Corporation of India (ECGC). Of the two, the ECGC is a member of the Berne Union. Wholly owned by the Indian government, Eximbank India was established in 1981 to facilitate and promote foreign trade. The Bank provides financial assistance to its customers through funded (lines of credit, foreign currency and other loans) and non-funded (guarantees) programs. It also offers Indian companies a range of services including identifying new business propositions, searching for overseas partners, negotiating alliances through its network of institutions around the world and developing joint ventures in India and abroad. Between 1994/95 and 2003/04, the Bank's loan disbursements grew almost 30-fold from US$48 million to US$1.5 billion.



The ECGC was established by the Indian Government in 1957 to provide insurance to Indian exporters against trade related country and buyer risks. It also provides information and guidance in export-related activities (including country credit ratings and creditworthiness of overseas buyers) and assists exporters in recovering bad debts. ECGC earned a gross premium income of US$95 million during 2003-04 as compared to US$80 million in 2002-03. The net profit after tax for 2003-04 was at US$14.7 million, compared to US$10.4 million the previous year.

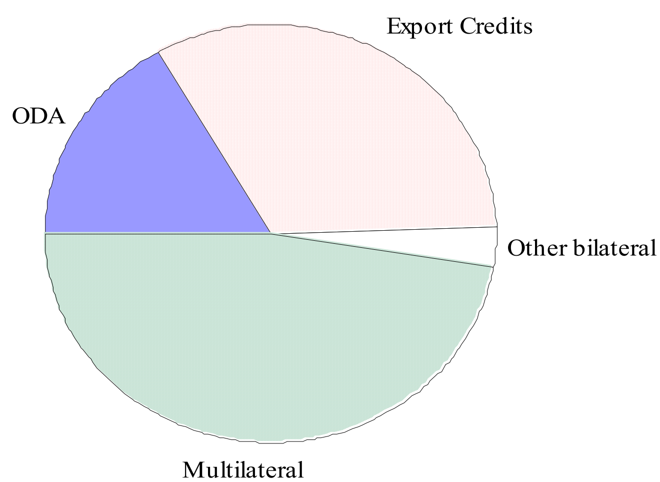
Figure 3. Composition of External Debt of Developing Countries Owed to Official Creditors, 1992 - 2002

1992



Total Official Debt: $966 billion

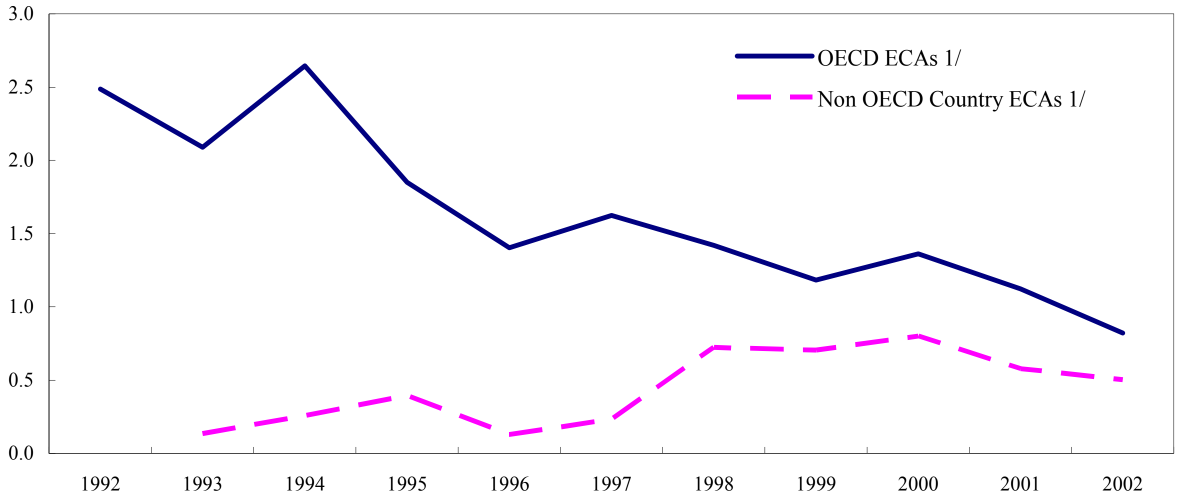
2002



Total Official Debt: $1,003 billion

Source: OECD and IMF staff estimates.

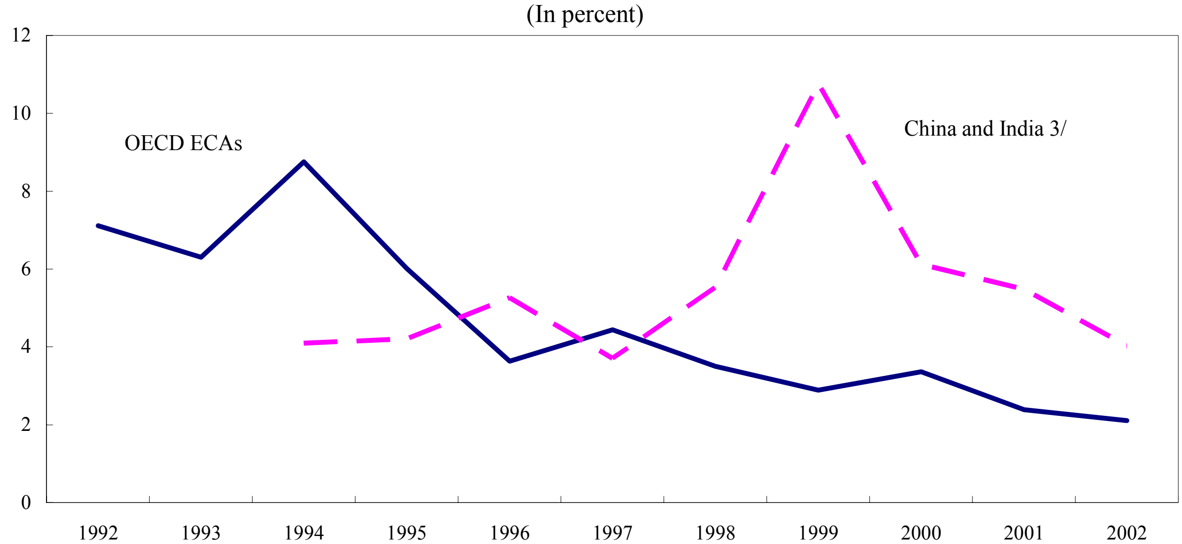
Figure 4. Officially Supported Export Credits: New Commitments Relative to Total Exports, 1992─2002
(In percent)



Sources: OECD; Berne Union; and UN Comtrade databases.

1/ Simple average all countries in the sample. A list of all export credit agencies included in OECD and Non-OECD samples is provided in Appendix II.

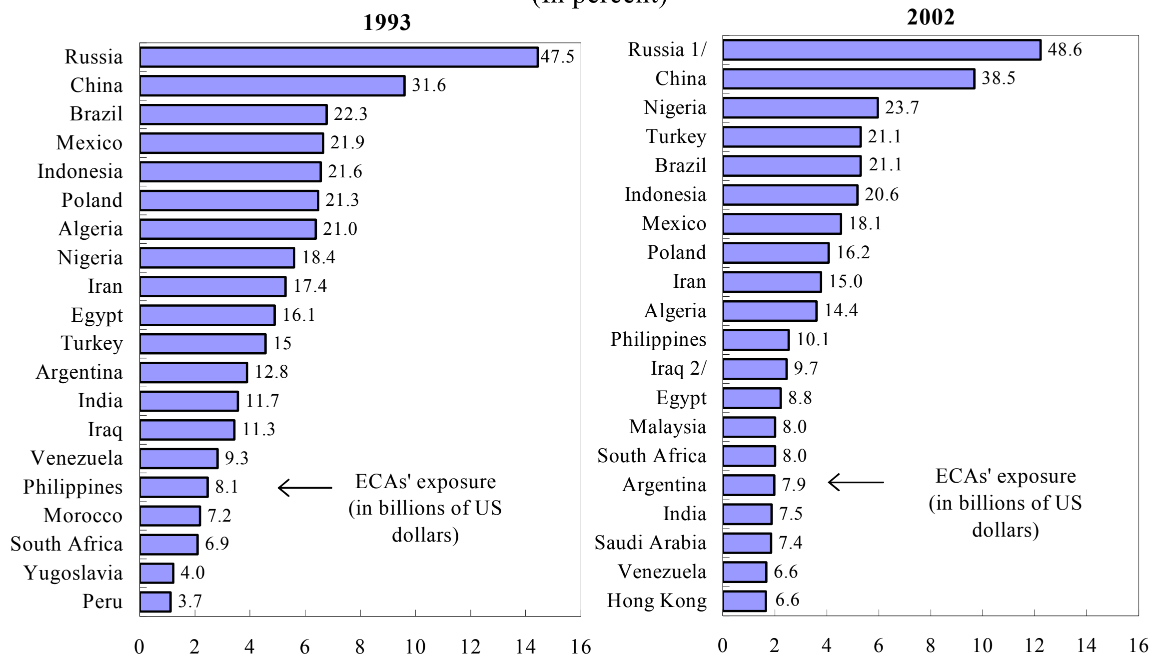
Figure 5. Medium-and-Long Term Export Credits: New Commitments Relative to Capital Goods Exports, 1992─2002 2/
(In percent)



Sources: Fund staff estimates based on data from OECD, China Export-Import Bank, Berne Union and UN Comtrade database.

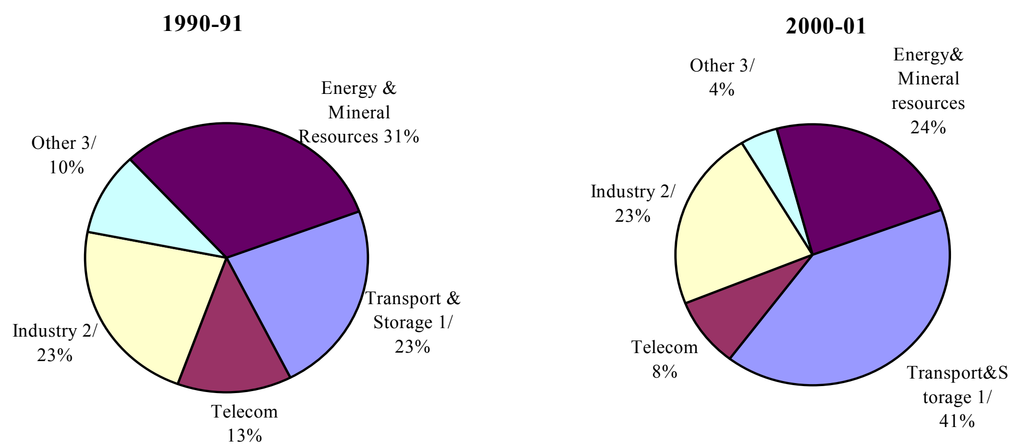
2/ Simple average for all avaible country data in the sample.
3/ For India, only ECGC data; medium- and long-term breakdown not available for Eximbank India.

Figure 6. Twenty Main Recipients of Export Credits: Share in Berne Union Agencies' Portfolio
(In percent)



Sources: Berne Union; and IMF staff estimates.
1/ Including the former Soviet Union.
2/ Mostly commitments made before 1992.

Figure 7. Composition of Long-Term Officially Supported Export Credits by Sector
(2-year average)



Sources: OECD: Overview of Export Credits Provided to Developing Countries (1990-2001).

1/ Transport sector includes road, rail, water and air transport, with the latter accounting for 80 - 90 percent of the sector's business in recent years.
2/ Includes various manufacturing activites.
3/ Includes education, health, water supply, agriculture, forestry, fishing, construction, trade, tourism and other services.

Table 1. Selected OECD ECAs: Ratio of Medium- and Long-Term New Commitments to Capital Goods Exports
(In percent)

	1979 1/	1990	2000	2003
Canada	...	4.2	4.3	4.3
France	19.0	10.5	2.6	3.6
Germany	8.0	3.6	4.5	1.5
Italy	...	9.7	5.1	3.0
Japan	13.0	2.5	3.5	3.7
United Kingdom	17.0	6.4	5.8	1.4
United States	13.0	6.0	3.6	2.8

Sources: Fund staff estimates based on data from OECD and UN Comtrade databases.

1/ 1979 figures are from Cruse, *et al* (2003) except for Germany. For Germany, figure is in percent of total exports as repoted in the 2002 Euler-Hermes Annual Report.

C. Financial Position of Export Credit Agencies

13. Financial performance of most ECAs has improved significantly since 1995. The net cash flows of Berne Union members, defined as the sum of premium income and recoveries minus claim payments, turned from deficit in 1981—1995 to surplus since 1996 (Figure 8). This turnaround appears to be quite robust as most official export credit agencies continued to record positive net cash flows during the emerging market financial crises in the late 1990s and early 2000s.

14. The improvement in risk management systems (Appendix IV) has contributed importantly to this turnaround in ECAs financial performance. Many ECAs have improved risk classification and assessment by introducing new techniques such as Value-at-Risk (see Appendix I) and strengthened the role of risk analysis in cover policy and in determining financial charge. Export credit agencies also made efforts to bring their accounting close to private sector standards and to enhance operational transparency.[6] Capital market discipline and reduced availability and credibility of sovereign counter-guarantees by importing countries, especially the poorer ones, have also added to the incentives for ECAs to improve risk management.[7]

D. Structural Changes in Major Market Segments

Short-term business

15. The private sector has grown most substantially in the short-term market (usually defined as business with a maximum credit length of one year), replacing the government as the primary provider of coverage in almost every industrial country. Coface, one of the largest private export credit insurers, estimated that in 1999, more than 95 percent of the short-term business from European Union countries was already underwritten by the private sector.[8] The recovery workouts following financial crises in several emerging market economies have not altered this trend.

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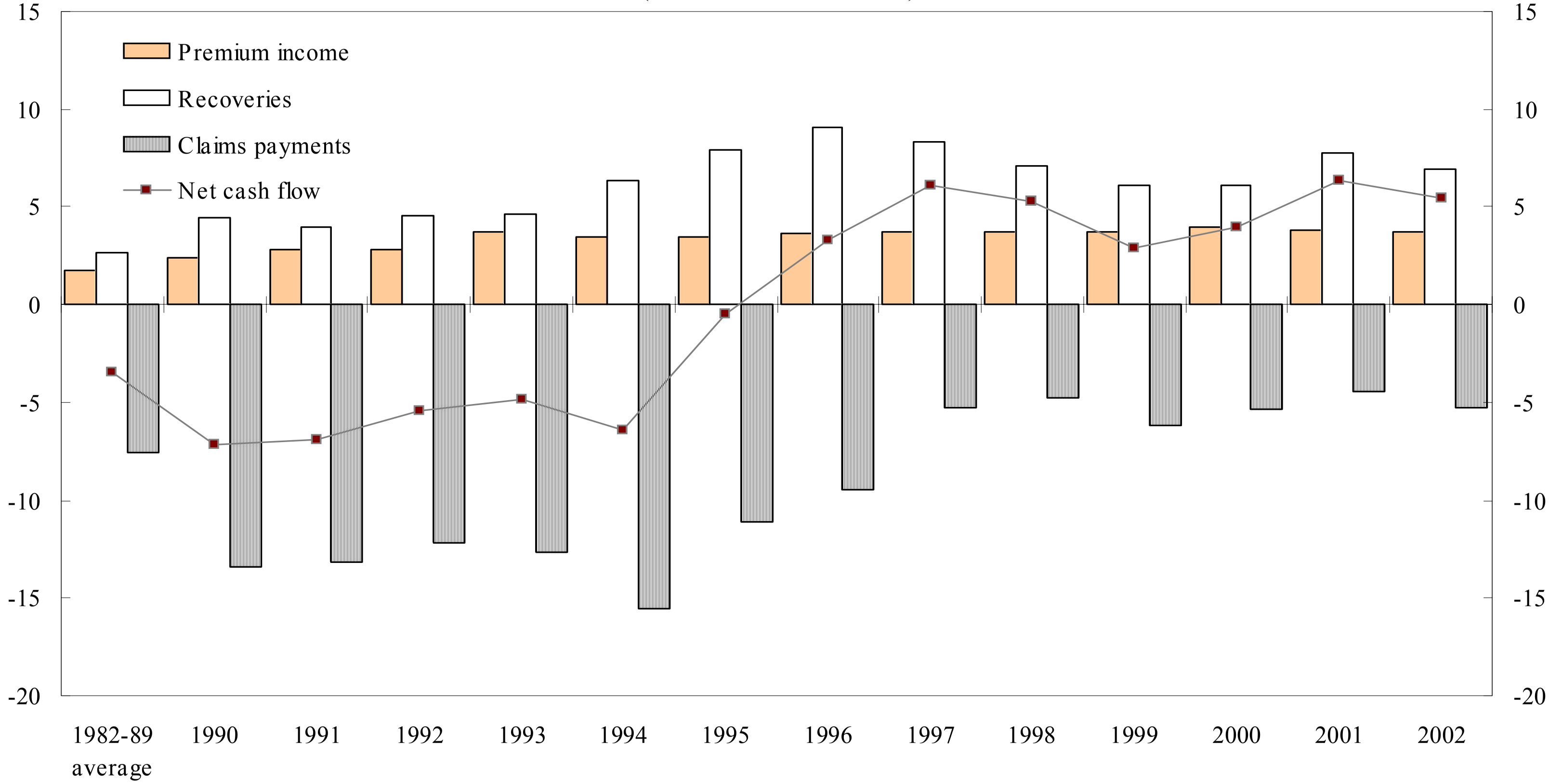
[6] For instance, the U.S. Ex-Im Bank has posted its risk mitigation techniques/products applicable to various importing countries in its website and the list is periodically updated.

[7] For ECAs that use capital markets as a source of funding (e.g., KfW, EDC, JBIC), credit rating by rating agencies is a key factor determining funding cost. Such a rating could be different from sovereign rating if a bond issue is not guaranteed by the state.

[8] EFIC (2001), p. 23. For private credit insurers with exclusive arrangement with their governments (e.g., Coface, Euler-Hermes, Atradius), private sector business includes all businesses underwritten in their own accounts and excludes businesses underwritten in the government accounts.

Figure 8. Export Credit Agencies: Net Cash Flow, 1982 - 2002 1/
(In billions of U.S. dollars)



Source: Berne Union.

1/ Medium-, long-term and short-term credit insurance only. Investment insurance is not included.

16. There has been a significant consolidation within the industry and credit insurers have become globalized. This is particularly evident in Europe where mergers, privatization, and cross-border expansion have produced a dominant clutch of big players such as Coface, Atradius (formerly Gerling-NCM) and Euler-Hermes, which have also expanded to Asia and North America.[9] These insurers are investing large amounts in information technology products and services, including for smaller exporters.[10]

Medium- and long-term business

17. Official export credit agencies continue to play a dominant role but face growing competition from the private sector in this market. Private sector insurers have in the past not been particularly interested in underwriting commercial and political risks on longer-term credits and large projects. However, recent years have seen more private facilities become available for medium- and long-term credit, offering comprehensive and combined risk and credit options, notwithstanding the drastic cut back following September 11.[11] Medium- and long-term credit risks have also shifted from sovereign buyer risk or sovereign guaranteed risk to commercial and project risk, reflecting privatization and market- based reforms in many developing and transition economies.[12] As a result, commercial risks become more significant in transactions with private or quasi-private buyers and many capital goods projects—even infrastructure projects—are now handled on a project finance basis.[13] In response to these changes, some ECAs now accept guarantees provided by non-sovereign entities (local governments or banks).

Investment insurance

18. Since the late 1990s, private insurers have expanded significantly in this market, offering new capacity and products. Private sector investment insurers (e.g., AIG, Zurich, Sovereign, and Lloyd's) have showed a willingness to look at risk tenors ranging from 5-15 years, exceeding the private market's old three-year limit on exposures to investors

[9] For instance, Coface has subsidiaries or branches in 57 countries and offer local services in 91 countries through its partners in the Credit Alliance network, united by shared credit risk management (Coface Annual Report, 2003).

[10] See Melly (2001 and 2004). In general terms, small exporters are defined by the number of employees, the value of sales or turnover, or some combination of these.

[11] Medium- and long-term cover provided by private insurers declined in 2001-2003 but started to recover recently. See Mackie (2003).

[12] For instance, U.S. Ex-Im Bank's credits to public sector obligors or guarantors declined from 61 percent in 1999 and 54 percent in 2003.

[13] In project finance, the risks underwritten concern the viability and cash flows of the project itself rather than the financial strength of the buyer or borrower and/or the guarantor.

against political risk events in emerging markets.[14] With the substantial infusion of private capacity and skills, there has been more cooperation between private and public insurers in terms of co-insuring, reinsuring, and risk sharing in this area than in medium- and long-term export credit insurance.

III. Factors Affecting Officially Supported Export Credits

19. Among the key factors, the decisions of the OECD governments to further reduce subsidies and to down-size government-supported businesses in the early 1990s set in motion official agencies' retreat, as suppliers of export credits, from the short-term market in industrial countries. Both national and international policies have also had direct impact on the level, destination, and sectoral allocation of officially supported export credits. The subsequent rise of the private sector represents a fundamental force reshaping the landscape of international trade finance, with long term implications for official agencies.

20. There are other factors that are affecting official export credit agencies' core market—financing of capital goods exports to developing countries—from both the supply (availability of trade finance from local sources in emerging markets, innovations to attract capital market financing, and the emergence of trade finance facilities of multilateral development banks) and demand sides (changes in the importer countries). The evolution of this core market will also have implications for the role of official agencies in the period to come. Despite these changes, which suggest an increasing marginalization of the official agencies relative to their traditional core business, the number of such agencies has continued to grow as developing countries follow the lead of most OECD countries.

A. Government Policies

Reduction of explicit subsidies

21. The sharp reduction of explicit subsidies as a result of the OECD Arrangement and the WTO Agreement on Subsidies and Countervailing Measures (SCM) has been one of the key reasons for the decline in ECA activity relative to exports in OECD countries.[15] During the 1970s, expensive subsidy competition in export finance between major industrial countries not only distorted the market but also became increasingly a drain to government

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[14] Several factors may have contributed to this development. Although investment insurance has been a relatively small part of ECA business, it has fewer claim payments and more recoveries than other business. Moreover, investment insurance cases have been exempted from rescheduling under the Paris Club. It is also not subject to the requirements of the OECD Arrangement—there is no maximum lengths of credit or minimum premium rates for investment insurance.

[15] WTO rules permit the use of development assistance but preclude the use of subsidies that distort international trade and are more for the benefit of domestic exporters than poorer countries.

budgets as evidenced by the large cash outflows from the ECAs. The OECD Arrangement, established in April 1978, has played an important role in promoting free and fair trade by reigning in government subsidies on export credits.[16] Over time, the scope and coverage of the OECD Arrangement have expanded from disciplines on interest rates and repayment terms of export credits to, inter alia, risk premium on credit insurance and tied aid credits. In April 1999, the so-called Knaepen Package of the OECD Arrangement, came into effect, providing a new discipline on minimum premium rates for the country credit risk for medium- and long-term officially supported export credits, irrespective of whether the importer/borrower is a private or public entity. [17] The package applies to all OECD Member governments of the Participants to the Arrangement in recognition of the need to converge on risk premia so as to level the playing field and to meet the Item (j) provision of WTO Agreement on SCM (see Appendix III).

22. Item (j) of the WTO Agreement on SCM requires export credit agencies to break even over the long-term, i.e., to charge premium at adequate levels to cover long-term operating costs and losses. It applies not only to OECD countries but also all other members of the World Trade Organization, further dissuading the use of subsidies in trade financing.[18] More recently, reviews of the disciplines governing export credits have focused on the consistency between the WTO and the OECD Arrangement, and have examined, inter alia, issues relating to export credits with a floating interest rate provided by private banks under ECA insurance cover.[19]

[16] The Arrangement set minimum fixed rates of interest, minimum down payments, maximum length of credits and standard repayment terms on export credit facilities.

[17] Mr. Pierre Knaepen was the Chairman of a Working Group of Experts mandated by the Participants of the OECD Arrangement in 1994 to develop proposals on guiding principles for setting premium and related conditions. See OECD (1998, 2004).

[18] As specified in Article 1 and 3, and Annex 1 of the WTO Agreement on Subsidies and Countervailing Measures (SCM).

[19] The WTO Agreement on SCM considers official support for export credits provided in conformity with the interest rate provisions of the OECD Arrangement as not being prohibited subsidies (the "safe haven" clause). However, recent case-law in the WTO found that the OECD Arrangement, as it stands, does not "protect" export credit practices taking the form of floating interest rate arrangements. Reaching consensus on official support under floating interest rate arrangements would help ensure effective regulation of subsidies provided in this area of export finance. The recent WTO rulings of the disputes between Canada (an OECD Arrangement participant) and Brazil (a non-participant) on regional jet aircraft financing have underscored the importance of resolving these remaining issues.

Privatization of ECA short-term activity

23. The U.K. government began this trend in 1991 with the sale of its Export Credit and Guarantee Department (ECGD)'s short-term credit insurance business to NCM of the Netherlands. The U.S. government followed suit with the termination of its exclusive underwriting relationship with the Foreign Credit Insurance Agency in 1992.[20] Coface of France was privatized in 1994. While sales or transfers (e.g., Sweden and Finland) directly moved their ECA short-term business to private hands, there has also been silent privatization in which private insurers, acting as an agent of the government, have insured more and more business on their own accounts, leading to a declining share of government account business in total business (e.g., NCM, Coface since 1994). Outside the OECD area, South Africa terminated the arrangement under which the government reinsures the country's export credit agency in 2001; Singapore has recently privatized its official export credit agency.

Competition policies

24. Official ECAs' retreat from the short-term market in OECD countries has also been the direct consequence of government actions that provide more room for private companies. The European Commission set guidelines in 1997 discouraging governments in the European Union (EU) from insuring "marketable risk" (short-term commercial credit risk contestable in the private market) in OECD countries excluding Mexico and Turkey, while allowing private insurers and re-insurers within the EU to underwrite any risks they are willing to cover.[21] The Export-Import Bank of the U.S. has shifted its short-term business focus to small- and medium-exporters who cannot find cover in the private market,, based on a general policy of not competing with the private sector in this area. More recently, the government of Japan announced the end of the monopoly on short-term export credit insurance by the state-owned company, NEXI, from 2005.

B. Private Sector Competition

Globalization and intra-firm trade

25. Net foreign direct investment to emerging markets has risen dramatically since the early 1990s (Figure 9). As a result, the share of international trade occurring through cross-border production networks, where multinational corporations produce each stage of a final

[20] The U.S. Export-Import Bank's book of short-term business was split between what FCIA, as a private entity, wanted for its account and the U.S. Export-Import Bank that assumed the rest.

[21] See Godier (2001).

good in a different location, has grown significantly.[22] The long-term relationships required for network production reduce the need for many of the traditional security arrangements for trade finance (e.g., letters of credit), and hence the demand for ECA services.[23]

Private insurers

26. Private trade credit insurance registered strong growth since mid-1990s and now dominates the short-term market. In political risk insurance (medium- and long- term), new players entered the markets (e.g., Sovereign and Zurich, see Figure 10) and others returned with a strong presence (e.g., Chubb). The number of insurers in the market almost doubled during the 1990s. Some insurers (e.g., AIG, Sovereign, Zurich) have pushed out the tenor of their cover to 15 years and per risk capacity.[24] Some large private insurers have established a presence in major emerging markets (e.g., Coface and AIG) and used their financial strength and high credit ratings to package and securitize trade risk for large customers. Increased private sector participation reflects an improvement in the ability of private insurers to analyze and manage trade credit and investment risks. Starting from the late 1990s, large private re-insurers, such as Munich Re, Swiss Re and others, also provide political risk support.

C. Other Factors

Multilateral development banks' trade finance facilities

27. Multilateral development banks (MDBs) are relatively new to trade finance, although the World Bank's Multilateral Investment Guarantee Agency (MIGA) has long been in the business of promoting foreign direct investment to developing countries through political risk guarantees or insurance as well as advisory services (Box 4). Major regional development banks have set up their trade financing facilities in the last several years. While the size of these facilities is still modest compared to financing provided by official ECAs, they

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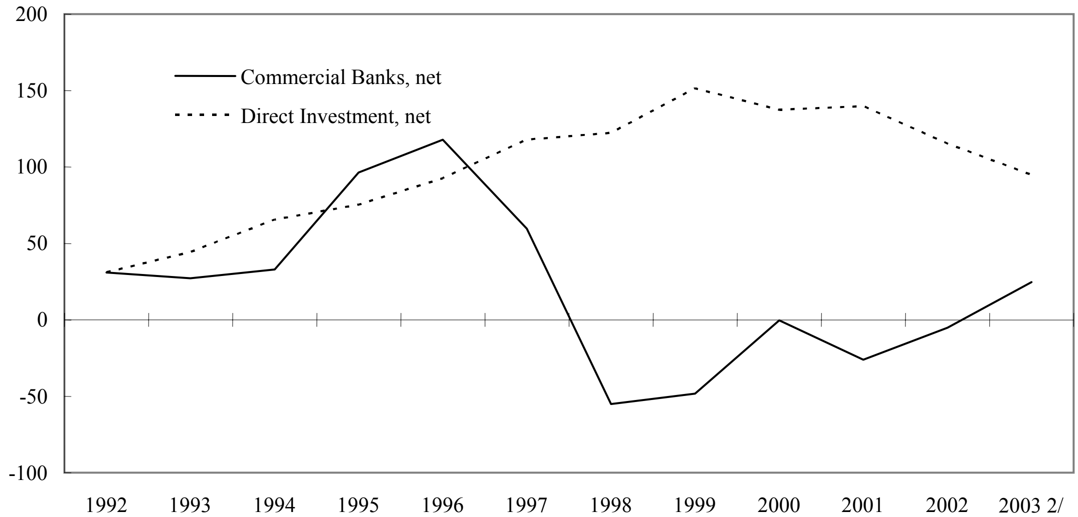
[22] OECD data show that during the 1990s the share of intra-firm trade in goods exports increased slightly in the US (from 32 percent in 1992 to 36 percent in 1999), but rose sharply in Japan (from 17 percent in 1992 to 31 percent in 1999).

[23] For instance, letters of credit are not commonly used in China's "export processing trade," which, according to China Customs Statistics, accounted for 55 percent of the country's exports of over US$430 billion in 2003. Export processing trade refers to certain transactions where a foreign entity purchases Chinese manufactured goods, or has raw materials and components processed on a consignment basis in China. In addition, foreign direct investment (over US$50 billion a year) has provided financing for large part of China's capital goods imports, dampening the demand for ECA financing.

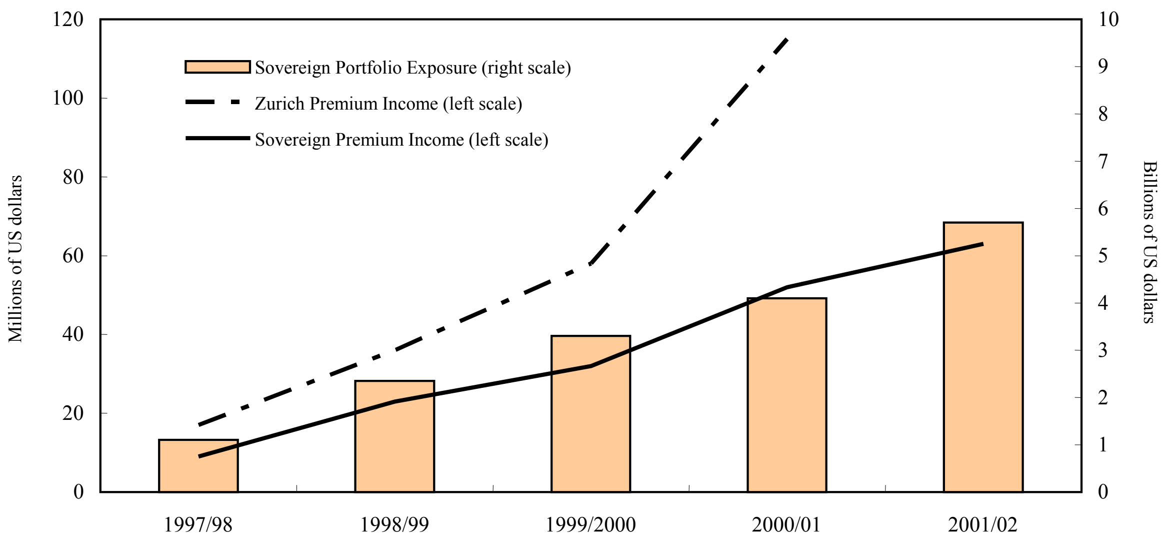
[24] See James (1999) and Mackie (2003).

Figure 9. Foreign Direct Investment and Commercial Bank Lending to Emerging Market Economies
(In billions of US dollars)



Source: Institute of International Finance.
1/ For a group of 29 emerging market countries including China, India, Brazil and Indonesia.
1/ 2003 figures are estimates.

Figure 10. Selected Private Export Credit Insurers: Premium and Exposure, 1997/98-2001/02



Sources: Sovereign Risk Insurance Limited and Zurich Emerging Markets Solutions.

constitute an additional source of trade finance to developing countries. These facilities have been developed as part of MDB tool kits for development financing, but some of them have played an important role in mitigating the impact of a generalized loss of access to trade finance in recent financial crises.[25]

Local banking capacity in emerging markets

28. The development of local banking capacity in emerging markets has eclipsed the ECAs' role as the main financier of capital equipment imports, particularly in Asia. The volume of medium- and long-term activity (excluding project and aircraft financing) by OECD ECAs in China and other Asian emerging markets has been stagnant since the mid-1990s, notwithstanding the rapid import growth in these countries.[26] Available data from the Bank of International Settlements (BIS) indicate that, while cross-border lending by OECD-based commercial banks to developing countries increased by about 40 percent between 1990 and 2001, local bank lending in developing countries increased by a factor of eleven, with the volume of local bank lending exceeding cross-border lending by a large margin. This structural shift reflects strategic refocusing by international banks to reduce cross-border exposure and risk after the financial crises in the late 1990s and the fact that many of these banks established subsidiaries and expanded operations in emerging market countries.

Capital market financing

29. During the last decade, capital market financing has gained ground vis-à-vis other forms of debt financing to emerging markets.[27] Access to capital markets, which include securitization, factoring and forfaiting, has provided emerging-market economies with an opportunity to diversify their trade finance sources. Countries with market access are therefore likely to use these alternative sources of financing where available at terms comparable to those offered by official ECAs. In addition, given attractive yields, capital market investors have been drawn to emerging markets trade and project finance—especially to investment grade countries—by the ability of structured finance to minimize risk.

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[25] See "Trade Finance in Financial Crises—Assessment of Key Issues" December 2003, International Monetary Fund, http://www.imf.org/external/np.

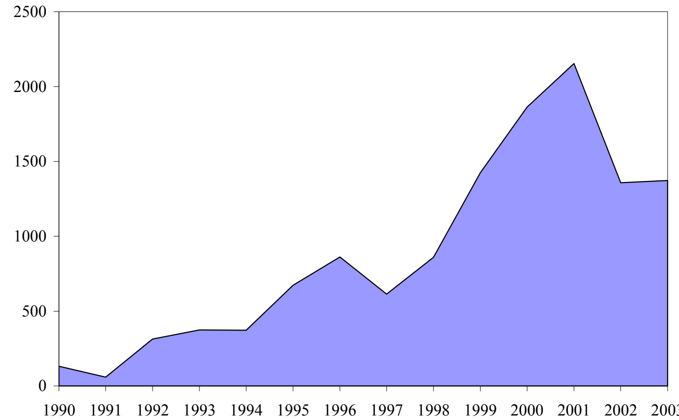
[26] See Trade and Forfaiting Review (2002).

[27] Cline (2001) notes that net bank lending to emerging markets fared significantly worse than net lending through bonds and other non-bank sources (e.g., suppliers credits and non-resident purchases of domestic treasury bills) following the financial crises of the late 1990s. The share of bonds and other non-bank lending in total external debt by emerging markets rose from 23 percent in 1992 to 39 percent in 2002, whereas the share of commercial banks declined from 35 percent to 26 percent and that of official bilateral creditors fell from 27 to 19 percent.

Box 4. Multilateral Development Banks and Trade Finance

At the World Bank Group, the **International Finance Corporation** (IFC) offers trade financing through a variety of instruments, including partial guarantees of bank financing related to confirming letters of credit, purchase of trade-related notes issued or guaranteed by local banks and extension of trade credit lines to local banks, and financing to exporters. Trade financing support by the IFC to crisis-affected countries totaled about US$1 billion in 2003 (World Bank, 2004). The **Multilateral Investment Guarantee Agency (MIGA)** provides political risk insurance to investors and lenders. It frequently acts as a syndicate leader for large transactions and is an important player in investment insurance and reinsurance market, accounting for about 5 percent of investment insurances worldwide.

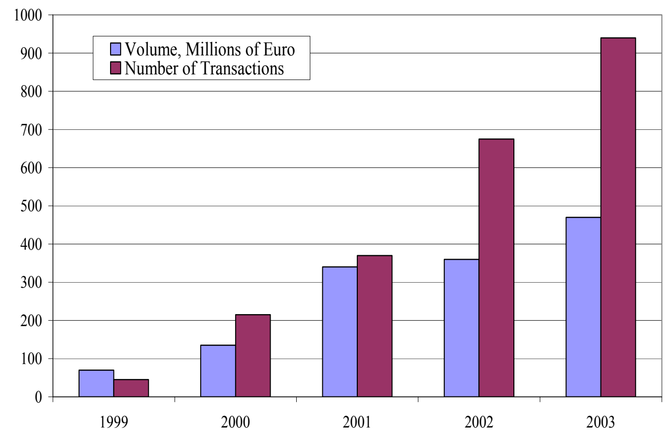
MIGA: Investment Guarantees Issued, 1990 - 2003
(in billions of US dollars)



Source: MIGA.

The **European Bank for Reconstruction and Development (EBRD)** provides trade finance to private sector firms through its Trade Facilitation Program (TFP). The TFP, started in 1999, offers guarantees against both commercial and political risks. Instruments covered by EBRD guarantees include letters of credit, trade-related promissory notes and advance payments guarantees and bonds. In 2003, the TFP financed close to 500 transactions totaling over 900 million euros. Transactions supported by the EBRD are mostly short–term (within a year).

EBRD: Trade Finance Programme Transactions, 1999 - 2003



Source: EBRD.

The **Asian Development Bank (ADB)** has also its own trade finance programs, which consist of a guarantee facility and a revolving-credit facility, each covering commercial and political risk. The former allows local banks access to short-term trade credit from international and regional banks and covers up to 80 percent of the trade instruments (letters of credit, standby letters of credits and bankers' acceptances). The short-term lending facility provides credits to local banks that on-lend to private enterprises engaged in international trade. During the Asian financial crisis, the ADB made trade financing available to a number of countries, including Thailand, Pakistan and Indonesia.

The **Inter-American Development Bank (IDB)** approved in March 2003 US$1 billion for a Trade Finance Reactivation facility to finance private firms engaged in international trade. Its trade finance program follows the EBRD model and offers guarantees covering trade finance instruments (such as letter of credits) issued by local commercial banks, thereby providing comfort to international banks.

Changes in importer countries

30. It is also seems axiomatic that official ECAs' core markets—sub-investment grade developing countries—become less reliant on officially-supported export credits as their per capita income grows and creditworthiness improves. Unless countries currently relying primarily on concessional development assistance move up the development ladder to become substantial users of official export credits, ECAs' core market could continue shrinking. Available data suggest that this may well be the case—the top 10 recipients of officially support export credits have not substantially changed over the last 10 years, but at the same time, official ECAs' exposure to some large users has fallen (see Figure 4). With increased availability of local financing capacity (e.g., in China, Brazil, Mexico, Russia), ECAs' market presence in these countries may become smaller.

IV. Official Export Credit Agencies' Changing Role

A. Current Role of Official ECAs

31. The evidence and analysis presented in the preceding chapters indicate that, while the promotion of national exports remains the principal role of official ECAs, its focus has been changing, with notable differences between industrial countries and developing countries. Official ECAs in industrial countries continue to fill in the trade finance gaps in markets where private sector financing is unavailable or insufficient; but in recent years, a significant share of ECA support has gone to keep national exporters competitive in global markets by countering foreign government support provided to competitors. This is particularly the case in sectors with economies of scale and non-competitive market structure, such as aircraft and military equipment.

32. Many of the newer official agencies in developing countries are playing a more traditional role, including in the short-term market, to support their export industries to gain a foothold in world markets. These export enterprises are either relatively new in foreign trade or lack the access to financing from commercial sources. The recently launched African Trade Insurance Agency (ATI) represents a multi-national effort to promote trade and investment in low-income countries, with public-private risk sharing arrangements.[28] In emerging market countries, some ECAs also play the role of supporting national exporters in

[28] The African Trade Insurance Agency is a pan-African initiative to facilitate access to, and improve the terms of, trade finance for importers and exporters in participating African countries. The ATI, with seven founding member countries (Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia), is open to all African countries. It is supported by the World Bank and the European Union and works closely with private underwriters (Lloyd's of London, Atradius, and more recently a cooperation agreement with Zurich Emerging Markets) in the provision of export credit and political risk insurance for trade and investment transactions.

certain sectors (e.g., aircraft) by partially offsetting the trade finance advantages provided by ECAs of industrialized countries to the competitors of their national exporters.[29]

33. As indicated earlier, many official export agencies have mandates to play other public policy roles, such as to be an instrument to deal with instability in the trade finance market and other policy goals. Some ECAs sought to help mitigate the interruption of trade finance during the Asian crisis (e.g., the export-import banks of Japan and the U.S. in the cases of Indonesia and Korea, respectively).[30] However, virtually all major ECAs went off cover or raised their premiums during the crises of the late 1990s and more recently in Argentina, where many of them remain off cover (Annex II). This suggests that the incentive structure induced most official ECAs to be pro-cyclical, behaving in ways similar to private creditors and insurers during crises.[31]

B. Subsidies, Distortionary Interventions, and the Role of Public Agencies

34. There are various arguments for government involvement in trade finance but the key economic rationale is essentially two-fold: to counter foreign government subsidies or "self-defense" and to address "market imperfections" or "market gaps" (e.g., see Ray (1995), Hufbauer and Rodriguez (2001)). Over the last two decades, there has been a broad consensus among policy makers and market participants in OECD countries that using government subsidy to sweeten export finance and the resulting subsidy competition are not only unfair and distortionary but also costly and wasteful. The best way to level the trade finance playing field is to eliminate such subsidies. Under the OECD Arrangement and WTO Agreement on SCM, much has been achieved in this regard but more still needs to be done in eliminating explicit subsidies. While Berne Union ECAs have recorded positive cash flows consistently since 1995, official ECAs continue to benefit from implicit subsidy because the cost of using government provided capital is not explicitly accounted for.[32] Until such

[29] Trade financing is often an important element in global sales. ECAs in industrialized countries typically have a better credit rating than an emerging market ECA and hence their trade finance gives additional advantages to the exporters that benefit from such a support in the competition with emerging market exporters.

[30] See IMF (2003) on how these two institutions reacted to support operations during the crisis.

[31] During the Asian crisis in late 1990s, there was a press release from the OECD advising that OECD governments and their ECAs would try to continue to make available facilities to Asia.

[32] Official ECAs are not required to earn appropriate return on the notional capital needed to support the contingent liabilities of their portfolio.

implicit subsidies are removed, possibly through a multilateral framework, it is difficult to judge the efficiency of an official ECA as compared to private sector operators.[33]

35. The rise of the private sector, combined with the declining activity in the second half of the 1990s, led to calls for a reexamination of public agencies' role in many OECD countries (e.g., Australia, Canada, Japan, New Zealand, the U.K., and the U.S.). These reviews, which often entailed consultations with the private sector, generally recognized the existence of gaps in the export credit market where the private sector is presently unwilling or unable to provide financing. For instance, a group of researchers commissioned by ECGD to review its business interviewed bankers, private insurance and reinsurance brokers and capital goods exporters and found no current appetite in the private sector for underwriting ECGD's book of risks. Private insurers and reinsurers all considered that political risks were difficult to quantify over the medium- and long-term (NERA, 2000). The U.S. Export-Import Bank, which has an explicit policy of not competing with the private sector, recognizes that there is a role for ECAs in higher risk markets (e.g., sub-Saharan Africa), multi-billion dollar transactions, non-structured medium-term export financing to non-investment grade borrowers, and small business exporters.[34] This assessment was confirmed by the staff's discussions with private trade finance providers. Between the importers in countries with full and reliable access to private market financing (relatively low-risk markets) and those that rely primarily on grants and other highly concessional development assistance (very high risk markets), there are countries/importers (in the middle of the risk spectrum) that official ECAs can usefully serve. However, the provision of export finance by a public agency to fill market gaps, where warranted by national and international interests, does entail costs. Efforts should be made to guard against possible moral hazard problems, and not to allow ECA financing to be used as a pretext to channel distortionary subsidies.

36. Bank-financed trade credits are important for many emerging market economies. However, such financial flows could be volatile in times of heightened global risk aversion or financial contagion. International banks, acting quite rationally individually, are likely to cut trade credit lines in the face of a building crisis, even though this is likely to exacerbate the severity of the crisis, and erode the quality of these and other creditors' claims. Mechanisms that helped mitigate this collective action problem in the 1980s are no longer operative—with long-term finance now provided predominantly by bond holders, banks' willingness to maintain trade credit lines in difficult times has been significantly weakened, and bondholders are too diffuse to be able to provide short-term financing (or subordination to facilitate such financing being provided by others on a senior basis). In addition, developments in international finance in recent years have blurred the boundary between

[33] Premium rates of official ECAs and private sector insurers are not directly comparable because the private sector does not currently offer the type of cover (in terms of risk horizon, risk exposure and country of destination) available through the ECAs.

[34] About 75 percent of U.S. Export-Import Bank's export finance in 2003 were in the areas characterized as "no private sector finance available." The remaining was to "meet competition." (Export-Import Bank of the United States, 2004, p. 11 and p. 93).

trade credit and financial credits thereby reducing international banks' confidence that payment priority would be granted by a country in crisis to trade credit over other types of short-term financing.[35] For these and other reasons, a crisis-induced collapse in trade finance has become a more serious problem, and a sudden loss of access to trade finance could not only depress trade but also compound the country's debt dynamics and hence deepen the crisis, as evidenced in recent financial crises.[36] Appropriate public sector intervention could help crisis resolution and facilitate the resumption of private sector financing.

37. The above discussion suggests that public agencies could play useful roles in two broad areas. First, in medium- and long-term markets, particularly large projects, and the market for small and medium enterprises, private sector appetite and capacity are limited or unavailable.[37] In many developing countries, private sector trade finance providers have not yet developed to the stage of being capable of meeting their trade sector's financing needs. Export industries in these countries often lack the access to other form of financing (e.g., suppliers' credits). In all these instances, public agencies could fill in the gaps in the type, amount, or period of cover that the private sector is unable to offer. Secondly, public agencies could provide a safety net at a time of high volatility in the private market and in cases where the private market suffers persistent losses and as a result undergoes significant retrenchment.

C. Strength and Constraints of Official Export Credit Agencies

38. Where private markets have appropriate term and volume capacities, importers usually prefer market financing over ECA financing because private insurers tend to be more flexible and able to respond more quickly to events (Annex IV). In some instances, they may be able to compete with official providers through discounts for large volumes and for diversified exporters. In addition, they tend to offer coverage for a wider variety of risks (business interruption, license cancellation policy, and contingency risks) compared to official ECAs.[38] However, commercial lenders and insurers are in the market for a profit.

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[35] Trade finance transactions relying on traditional documentary procedures have fallen from over 90 percent of all transactions in the late 1980s to about 30 percent over the past several years (World Bank, 2004).

[36] Bank financed trade credits declined by as much as 30-50 percent in Brazil and Argentina in 2002, about 50 percent in Korea in 1997-98, and from US$6 billion to US$1 billion in Indonesia during the Asian crisis; see International Monetary Fund (2003).

[37] In many cases, the availability of cover from private insurers for political risk events including currency inconvertibility is the exception rather than the rule.

[38] See Alington (1999) and Salinger (1999).

They may "wax and wane: when markets get rough they tighten up, raise premium rates, lower the ceilings on policies, and close down in the riskiest markets."[39]

39. In principle, a key strength of the public agencies is their greater risk bearing capacity. These agencies are public policy instruments and, depending on the governing legislation, could be used when needed. They may have certain advantages in assessing sovereign risk, in mitigating the risk of loss, and in pursuing claims in the event of loss.[40] While financial situations vary from country to country, public agencies may have access to public funds and, in the case of OECD ECAs, relatively low-cost funding from capital markets because of a credit rating that is usually at par with that of their sovereign. Official ECAs generally have a mandate to be financially self-sustaining. Many governments also require their ECAs not to compete with the private sector. In addition, having moved out of short-term markets, ECAs may no longer maintain the technical capacity and expertise in handling short-term business. Official ECAs may find it difficult to undertake countercyclical operations in times of financial crises even when such actions are deemed to serve national and international interests.

V. Challenges Facing Official Export Credit Agencies

A. Complementing the Private Sector

40. Over the past decade, the private sector has grown and is now capable of providing trade financing competitively and adequately in certain markets previously dominated by official ECAs. Official ECAs also have to deal with two other sources of competition originating from economic development in recipient countries, including the expansion of domestic banking capacity, and improved access of borrowing countries to other sources of international financing as their income level and creditworthiness rise. The current top markets of ECAs may eventually become self-sufficient in meeting the financing needs for their capital goods imports and even in large project financing (e.g., Spain in the 1960; Korea in the 1980s, Mexico and possibly China more recently). If these factors continue to develop, official ECAs' share in world trade may decline further. Official ECAs, especially in OECD countries, are facing the challenge of private sector competition and associated adverse selection problem—how to break even while covering the most risky segments of the market.

41. Some official export credit agencies have reacted to these developments by entering into risk-sharing arrangements with other public and private insurers on the basis that political risks would be underwritten by official agencies and commercial risks would be underwritten by the private insurer or commercial banks, or even project sponsor.[41] In recent years official export credit insurers have increasingly taken part in reinsurance agreements

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[39] Barovick (2004).

[40] For instance, information and leverages obtained through official bilateral channels.

[41] See Wilkinson (2004).

with other official agencies and private re-insurers, especially for political risk. A recent survey of Berne Union members shows that official ECAs reinsure the bulk of their short-term business (about 70 percent, see Appendix V). There may also be a trend, especially in OECD countries, that the public agencies act as a re-insurer. Several European governments have moved partially in this direction by providing a political reinsurance window for their chosen underwriting agencies. Some governments, such as the U.K. and Denmark, have maintained backstop National Interest Account reinsurance facilities after withdrawal from short-term business.[42]

42. Representatives of official ECAs and private insurers broadly shared the view, as evidenced in recent surveys and discussions with Fund staff, that governments should not do what the private sector is capable of doing and that national agencies should complement, rather than compete with the private sector. This could be achieved in a number of ways:

- Foster private sector development by providing room for private creditors and insurers, where the private sector is capable, to do more, including in medium- and long-term export credit and investment insurance markets. In this regard, periodic review of private sector capacity and public agencies' services would facilitate adjustment when needed;

- Stand behind the private sector by acting as a re-insurer of qualified private underwriters.[43] This will encourage competition among private sector insurers and allow public agencies to focus on public policy objectives. This would also allow public agencies to retain the necessary means to influence private trade financing flows;

- Work alongside private underwriters by sharing risks as a co-insurer;

- Fill in market gaps when private market retreats, including possible additional demands arising from the implementation of the Basel II Accord on banking regulation.

43. The Basel II Accord is expected to strengthen the links between risk assessment and capital requirements of commercial banks. This may have an impact on international banks' appetite for cross-border lending, including trade finance to emerging markets. As ECA guarantees from OECD countries will continue to carry a zero- or low-risk rating, ECA-supported assets should remain attractive and could face increased demand. Developments in insurer capital adequacy rules such as EU's Solvency II, may also increase demand for underwriting risks by official ECAs.

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[42] See EFIC (2001).

[43] There is a widely shared view in the market that private reinsurance capacity is cyclical, drying up when the market becomes hard or more risky (National Economic Research Associates, 2000).

B. Financing for Low-Income Countries

44. Many low-income countries have seen their share in world trade falling.[44] Yet foreign trade and investment represent a key engine of growth that could pull these countries out of persistent poverty. Trade finance may be a constraint for many low-income countries to increase their participation in the world economy. Indeed, exports from developing countries that have little or no access to trade credits are sizable[45] There are large gaps in the risk mitigation tools as well as between the perception and reality of low-income countries, especially in Africa. Official export credit agencies could play a useful role in filling in these gaps, thereby facilitating foreign trade in low-income countries, including intra-regional or South-South trade. The challenge is how to provide such support while helping maintain external debt sustainability in these countries.

45. To achieve external debt sustainability, many low-income countries have benefited from various debt-relief initiative, including the HIPC Initiative. In addition, many of these countries have adopted policies to restrain public sector borrowing on nonconcessional terms under economic programs supported by international financial institutions. Under these circumstances and against the general background of a lack of creditworthiness in many poor countries, official export credit agencies could:

- Target viable private sector borrowers/projects that do not require sovereign guarantee, particularly in countries with improved creditworthiness;

- Participate in public-private risk-sharing arrangements such as the Africa Trade Insurance Agency as a re-insurer or co-insurer. Coinsurance is an area that attracts private interest and could be further explored to facilitate trade financing to developing countries;[46]

- Explore ways to make best use of ECAs competitive advantages in markets with little or no access to private market financing including processing traditional trade finance, arranging financing for projects, and supporting local currency financing where warranted, [47] while maintaining prudent risk management.

46. Providing cover without a sovereign guarantee exposes export credit agencies to the risk associated with the operation of domestic bankruptcy systems in low-income countries. Low-income countries, or developing countries in general, therefore need to pay particular attention to the development of creditor rights including the legal framework and

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[44] See WTO (2004).

[45] According to International Trade Finance (December 2003), cash-in-advance is the recommended or preferred payment arrangement for about 20 developing countries. Exports from these countries amounted to US$80 billion in 2003.

[46] See Mudde (2003).

[47] Many ECAs already offer cover for local currency financing. See Hodgson (2003).

enforcement mechanisms for insolvency, in addition to efforts to build a credit culture and creditworthiness, in order to attract externally provided trade financing.

C. Trade Finance in Financial Crisis

47. In the context of an international effort, with the crisis country authorities taking the appropriate macroeconomic and structural reform measures to address the root causes of the crisis, official export credit agencies could play a constructive role in crisis resolution and in the subsequent recovery by helping to restore confidence and supporting/providing financing where warranted. The challenge is how to do it while facing the technical and financial constraints as discussed in Section IV.C and minimizing the risk of moral hazard on the part of private lenders.

48. As most short-term trade finance is now provided by the private sector, the direct extension of short-term trade credit by governments may not be feasible. Accordingly, an ECA intervention to provide cover would need to be crafted to fit the contours of financial markets. Specifically, an effective approach would probably use the established business relationships and expertise of banks and private credit insurers, but shift some of the risk from the private sector to ECAs, so as to encourage banks to maintain exposure without assuming more credit risk or needing to accumulate loan provisions. Official export credit agencies and their guardian authorities may:

- Strengthen export credit agencies' ability to act as a re-insurer and co-insurer;

- Explore ways for export credit agencies in non-crisis countries to play more of a counter-cyclical role especially in the recovery from crises. This could include playing a signaling role, facilitating medium- and long-term financing for investment in emerging markets, and where possible, rolling over or expanding short-term credit lines, including the expiring maturities of originally longer-term credits.

- Complement multilateral development bank trade finance facilities in an concerted effort to restore confidence and to facilitate the resumption of private sector financing.

D. Challenges Facing Developing Country ECAs

49. For developing countries that set up export credit agencies to promote exports and development, an additional challenge is to use the limited resources to fill in the market gap in risk mitigation and trade financing, rather than to serve subsidy or commercial policy purposes. Experience of the ECAs in industrial countries in the 1970s-1990s have shown clearly that international subsidy competition is costly and ultimately counterproductive. Their experience has also shown that individual countries have much to gain by joining multilateral effort to eliminate export subsidies. The OECD Arrangement on Guidelines for Officially Supported Export Credits provides a framework of rules that have helped strengthen the WTO discipline on subsidies. Already, some emerging market ECAs have opted to follow the OECD Arrangement in their operations. More countries joining such an effort would help promote a level playing field in international trade and increase the efficiency of official export finance.

GLOSSARY OF TERMS

Berne Union. The International Union of Credit and Investment Insurers. Founded in 1934, this organization now has among its members over 50 of the largest export credit and/or investment insurers from both developed and developing countries. Institutions, not their governments, are members. The Union works for the acceptance of sound principles of export credit and investment insurance and the exchange of information and experience. The secretariat is in London, and members hold two general meetings each year as well as specialist seminars and workshops.

Buyers' Credit. Financial arrangement in which a bank or financial institution or an export credit agency in the exporting country extends a loan directly to a foreign buyer or to a bank in the importing country to finance the purchase of goods and services from the exporting country.

Capacity. The largest amount of insurance an insurer or a reinsurer is willing and able to underwrite, including the amount they retain and the amounts for which they automatically bind their reinsurers. Capacity may apply to a single risk, a program, a line of business, or an entire book of business.

Claims Payments. Payments made, after the claims-waiting period, by an export credit insurer on insured or guaranteed loans, when the original borrower or borrowing-country guarantor fails to pay.

Claims-Waiting Period. The period that exporters or banks must wait after arrears occurs and before the agency will pay on the corresponding claim.

Coinsurance. Normally joint (but sometimes parallel) insurance on a project or contract involving two or more insurers, which could be official export credit agencies and/or private insurers.

Commercial Interest Reference Rate (CIRR). A set of currency-specific interest rates for major OECD countries. These rates are determined monthly based on the secondary market yield on government bonds.

Commercial risk. The term applies primarily to the risk of nonpayment by a buyer or financial institution due to default, insolvency or bankruptcy, or failure or unwillingness to take delivery of the goods (i.e., repudiation). Usually excluded are cases where there are disputes between exporter and importer about product quality, delivery dates, performance, and the like. Claims will generally not be considered until these disputes are resolved. Also usually excluded are commercial risks on sales from exporters in one country to their subsidiaries in other countries.

Commitment. The amount under cover for a specific policy for which premium has been paid or invoiced and are not yet due for payment by debtors.

Confirmed letter of credit. See letter of credit.

Country limit. A quantitative limit on exposure set by many export credit insurers and international banks to monitor and control their total commitments on individual countries. Country limits apply usually to medium- and long-term business and only rarely include short-term business. They can have various forms, including annual maturities limits and contract limits.

Cover. The insurance provided by an export credit agency. Thus, for example, if some insurance facilities are available from such an agency for country X, that agency is "on cover" for that country. Conversely, where no insurance facilities are available, the agency is said to be "off cover." An agency's underwriting policy on a particular buying country is usually referred to as its cover policy for that country.

Credit insurance. The principal product of an export credit insurer. However, the term can include both export credit insurance and domestic credit insurance(i.e., insurance on sales within a country). Credit insurance protects the insured party (normally the seller), in exchange for a premium, against a range of risks that result in nonpayment by the buyer. In export credit cover, both commercial and political risks are normally involved.

Credit period. The period from the time of delivery or acceptance of goods (for short-term business) or from the commissioning of the project (in project financing) until repayment is complete. Maximum credit periods are set for repayment periods. The starting point of credit for short-term business is set by the Berne Union agreements, and that for medium- and long-term business by the Berne Union and the OECD Arrangement.

Export-import bank (eximbank). A type of export credit agency that normally not only issues insurance but also lends directly. Some eximbanks also act as borrowers for import finance. There is no single model, and an eximbank's organization, status, and functions usually differ from country to country.

Export credit, export credit insurance. The main type of facility offered by an export credit agency. The term describes a range of facilities and can mean different things in different contexts. Strictly speaking, export credit refers to the credit extended by exporters to importers (supplier credit) or the medium- and long-term loans used to finance projects and capital goods exports (buyer credit). It includes credit extended both during the period before goods are shipped or projects completed (the preshipment period or precredit period) and the period after delivery or acceptance of the goods or completion of the project (the postshipment period or credit period).

Export credit agency. An institution providing export credit insurance facilities. Such an institution is government-owned or controlled or, if it is a private company, operated on government account.

Exposure. The total commitment of an export credit insurer with respect to a specific debtor or debtor country plus overdue payments including unrecovered claims, and rescheduled debts as well as debt service payments not yet due.

Factoring. A trade finance mechanism whereby an exporter sells at a discount receivables to a company (factor). Normally, after the factor has purchased a receivable, the importer or buyer pays the factor directly. The factors may or may not have recourse to the exporter in the event of nonpayment or delayed payment by the buyer or importer.

Facultative Reinsurance. A type of framework reinsurance agreement under which the reinsurer retains the “faculty” to accept or reject each risk submitted by the reinsured party. It is mainly used by a reinsured party to reinsure parts of the risks or all the risks, which they are unable to find reinsurance cover using other existing arrangements.

Forfaiting. An export finance mechanism involving the purchase at a discount of promissory notes or bills of exchange by a forfaitor. The payment instruments are normally guaranteed by a bank. The discount reflects financing costs until the due payment date and the risks involved.

Government Account. Business that an export credit insurer underwrites on behalf of the insurer’s home government. Typically, the premium (less any administrative charges) of government account business is passed on to the government in some way and the government funds claims payments.

Insurance. Insurance policies of various kinds are typically issued in respect of a range of risks against payment of a premium. For export credit insurance the risks could embrace both political and commercial causes of loss, which may arise in the precredit period (before shipment), or during the credit period (after shipment). Policies may be used to exporters (supplier credit) or to banks engaged in financing trade (buyer credit). For investment insurance the risks are restricted to political risks. In both export credit and investment insurance, the insurance is against specified risks or classes of risk and is therefore conditional, although individual policies may be loosely referred to as guarantees.

Letter of Credit. A document issued by a bank guaranteeing payment on behalf of one of its clients when all the conditions stated in the letter have been met. Letters of credit can take a variety of forms, but essentially they are a means of payment between an importer and exporter via their banks. The importer is sometimes called the opener, and the importer’s bank the opening bank (or sometimes the issuing bank). The bank in the exporter’s country is called the advising bank, and the exporter is called the beneficiary. A letter of credit may be revocable, which means that it can be canceled or modified by the importer or the importer’s bank without prior approval from the beneficiary. Letters of credit can also be confirmed. This is done either on an open confirmation basis, in which case the issuing bank is aware of the confirmation, or on a silent confirmation basis, in which case the issuing bank and the importer or buyer may not be aware. Confirmed letters of credit reduce certain risks for exporters, for example the risk that the issuing bank may fail or be unable to transfer foreign exchange. Letters of credit are subject to widely accepted practices and procedures under the International Chamber of Commerce’s Uniform Customs and Practices for Documentary Credits.

Long-term business. Traditionally, insurance or financing applied over a period of more than five years. But there is no generally accepted or precise division between long-term and medium-term business.

Medium-term business, medium-term credit. Conventionally, business with a credit period of between one and five years. However, under the OECD Arrangement, medium-term business is that with a credit period of two to five years. There are no universally accepted or generally applied divisions between short-term business and medium-term business, or between medium-term and long-term business.

National Interest Account. Business for which an export credit agency provides cover, even if it does not meet the agency's normal underwriting criteria and standards, because the business is deemed by the agency's government or guardian authority to be in the broader interest of the agency's home country.

Official creditor. A public sector lender or insurer. Some official creditors, such as the international financial institutions, are multinational. Others are bilateral, such as individual creditor governments and their official agencies such as central banks and export credit agencies when writing business on government account.

Officially supported export credit. An export credit supported (usually insured) by an export credit agency on government account, rather than on its own account. The credit may be a supplier credit or a buyer credit. For medium- and long-term business, the extent of permissible official support is set by the OECD Arrangement (normally limited to 85 percent of the exported value, plus, where appropriate, the maximum permissible share of local costs, normally 15 percent of the exported value).

Paris Club. An informal group of creditor governments whose representatives have met regularly in Paris since 1956 to reschedule bilateral debts at request of debtor countries. The French Treasury provides the group's secretariat. The Paris Club works on a consensus basis. It has no fixed membership, and is open to all official creditors.

Political risk. The risk of nonpayment on an export contract or project due to action by an importer's or buyer's host government. Such action may include intervention to prevent the transfer of payments (see transfer risk), cancellation of a license, or acts of war or civil war. Nonpayment by sovereign buyers themselves is also a political risk.

Project finance. Financing provided on the basis of the cash flow and viability of a project as the security for repayment rather than the general creditworthiness or financial strength of the buyer (or borrower or guarantor).

Recovery. Amounts collected from a debtor by an export creditor agency, an exporter, or a debt collector after the export credit agency has paid a claim consequent on the debtors' nonpayment.

Reinsurance. The practice whereby an insurer passes on to another insurer (called a reinsurer) part of the risk (and a portion of the premium income) of a policy it has written. Export credit agencies can be involved in reinsurance both as reinsurers and as reinsured parties. Export credit agencies receive reinsurance from their governments or purchase it in the private reinsurance market. These are several varieties of reinsurance (e.g., facultative, quota share, excess loss), but the basic principle is the same. Some export credit agencies (e.g., in the United Kingdom) are beginning to provide reinsurance to some private insurers on political risks in some countries.

Securitization. The use of facilities such as loans or guarantees to produce assets that are sold to investors in the capital markets.

Short-term business, short-term credit. Transactions involving a maximum credit period of, usually, 180 days, although under some definitions it can extend to 360 days and, in exceptional cases, to two years. For purposes of the OECD Arrangement, the medium term begins (and, by implication, the short term ends) at two years. Short-term business represents the bulk of the business of most export credit agencies and normally includes transactions in raw materials, commodities, and consumer goods. There is no universally accepted dividing line between short-term and medium-term credit.

Sovereign risk. An obligation that carries the full faith and backing of the national government.

Structured financing. Refers to financial instruments which are devised to provide funding on the basis of identifiable assets rather than the credit standing of the borrower concerned. Includes securitization and forms of lending where the cash flow of the borrower is secured to pay off the lender.

Supplier credit. Credit extended by an exporter (supplier) to an overseas buyer as part of the export contract. Cover for this transaction may be extended by the export credit agency to the exporter. Such arrangements are much more common in short-term business. When they arise in the area of medium-term credit, the buyer normally makes a cash down payment (up to 15 percent) and then accepts bills of exchange or issues promissory notes for the balance, at some stage before final delivery or acceptance of the goods.

Trade finance. A catch-all term applied essentially to the whole area of short-term business, especially that involving finance provided directly by banks issuing letters of credit.

Transfer risk. The risk that a buyer (investor) may make a deposit of local currency to pay for an international transaction (transfer profits and dividends) but find itself unable to convert the local currency into foreign exchange for the intended purposes. Such inconvertibility can happen even where letters of credit exist. The risk normally arises from restrictions imposed by host governments, through laws or through regulations that have the force of law. Transfer risk is more complicated when a currency collapses, so that even though foreign exchange may still be available to purchase, its price will have risen sharply in local currency terms since the insured contract was signed (or the insured investment made).

Value-at-Risk. Value-at-Risk summarizes in a single number the total exposure of a portfolio or institution to market risk. Such a number indicates the expected maximum loss (or worse loss) over a particular time horizon with a given confidence interval.

Technical Note on Export Credit Statistics

50. The quantitative analysis of this report is based on three statistical sources: the Berne Union quarterly reports, the OECD/BIS/IMF/World Bank publication, and agencies' annual reports. A survey on export credit agencies conducted by IMF staff also provides useful information, which supplements the data from other sources for analyzing the current situation, trends, and challenges that ECAs are facing in the market for trade financing. However, these databases rely ultimately on the individual agencies for data, and each agency uses definitions and concepts that are different, sometimes in important ways. Difficulties also arise from the increasingly complex linkages among various channels of official bilateral financing with direct credits or insurance for credits funded by the private sector. This report has not attempted to reconcile data from different sources, but it has used them in a complementary fashion to analyze financing supported by ECAs.

The Berne Union

51. As part of its efforts to exchange information and expertise among members, the Berne Union conducts a quarterly survey among member agencies about their trade financing operations. The survey compiles quarterly data on trade financing operations from each member agency including data for over 60 developing countries and economies in transition (Appendix Tables 1 and 2). Those data have been provided to IMF staff on a confidential basis for its use in analyzing various aggregates for individual debtor countries.

52. The Berne Union data series is reported in the way most agencies actually maintain their books, which includes outstanding commitments, outstanding offers, due payments, arrears, refinanced and rescheduled amounts, unrecovered and not written off claims, and new short-, medium-, and long-term commitments. The concept of "new commitments" encompasses insured principal and, in most cases, interest on undisbursed as well disbursed credits. Investment insurance includes the amount invested in the host country while excluding interest and reinvested earnings and interest on insured loans.

53. Some of the limitations of the Berne Union database are related to data comparability. Berne Union data may not be readily comparable with other types of debt statistics because they may not accurately reflect trends in new disbursement. In other cases the database includes insurances for certain transactions that are not exports, in particular insurance against exchange rate movements or insurance of preshipment risks which do not involve export credits. Moreover, the amount of new commitments is subject to sizeable changes from one quarter to another due to new information on the funding of large projects.

Appendix Table 1. Export Credit Commitments by Type of Recipient Country, 1988 - 2003 1/
(In billions of US dollars)

	Industrial Countries	Emerging Markets	Low-Income Countries	Total
1988	4.3	19.7	2.1	26.1
1989	4.5	27.1	2.9	34.6
1990	11.2	39.0	6.7	56.9
1991	12.9	50.4	8.8	72.1
1992	13.8	47.5	7.0	68.3
1993	15.8	54.6	9.1	79.5
1994	15.1	64.0	10.2	89.4
1995	18.0	73.6	16.5	108.2
1996	21.5	68.6	15.3	105.5
1997	18.9	70.9	11.0	100.8
1998	16.3	57.6	6.7	80.5
1999	15.9	53.3	5.8	75.0
2000	22.8	78.6	6.4	107.8
2001	15.5	58.8	5.3	79.6
2002	16.3	62.5	8.3	87.1
2003 2/	22.1	83.6	12.3	117.9

Sources: IMF staff estimates based on Berne Union data.
1/ All maturities, not including refinanced and rescheduled amounts.
2/ Preliminary estimates based on quarterly reports from agencies.

Appendix Table 2. Export Credit Commitments Outstanding, 1988 - 2003
(In billions of US dollars)

	Short Term	Medium and Long Term	Arrears and Unrecovered Claims	Total
1988	20.1	216.9	32.5	269.5
1989	20.0	192.8	31.5	244.3
1990	26.2	222.1	55.7	304.0
1991	28.3	247.7	60.5	336.5
1992	44.2	225.7	75.2	345.1
1993	45.5	234.5	78.7	358.6
1994	41.4	263.8	96.9	402.2
1995	34.9	280.8	158.4	474.2
1996	38.6	263.1	168.0	469.8
1997	35.3	244.1	157.9	437.3
1998	36.4	238.5	168.3	443.2
1999	37.0	225.3	163.6	425.9
2000	40.9	212.6	142.7	396.2
2001	38.2	201.6	110.7	350.5
2002	45.8	201.7	149.5	397.0
2003 1/	50.1	195.1	147.8	393.0

Sources: IMF staff estimates based on Berne Union data.
1/ Preliminary estimates based on quarterly reports from agencies.

The OECD

54. The OECD compiles its information on trade credit from reports made by OECD member countries' export credit agencies. The OECD publishes data on export credits and other financial flows in its Creditor Statistics on External Debt, jointly with the Bank for International Settlement (BIS), IMF, and the World Bank. The OECD export credit Secretariat also compiles regular reports on stocks and on new flows of commitments of officially supported export credits with a maturity of over two years; this is publicly disseminated on the OECD Website.

55. Trade credit comprises official export credits, which are medium- and long-term by their nature, and officially guaranteed or insured suppliers' credits. Arrears and officially guaranteed rescheduled amounts on officially guaranteed or insured financial credits are included. These data consists of credit extended to both the public and private sector in the borrowing country. For most countries trade credits with an original maturity of one year or less include funds awaiting disbursements. Data can change significantly between different issues and publications due to delays in reporting agencies' financing operations.

Survey of ECA activity

56. A total of 27 ECAs (mostly Berne Union members) answered the questionnaire prepared by the Fund staff in late 2003—early 2004. Qualitative information include an assessment on the recent trends in the business, main recent regulatory and institutional changes, views on private sector competition, new instruments and modalities of financing, participation on public-private partnerships structures, developments on risk management and control systems, practice and policies on reinsurance, and country risk assessment. Quantitative questions aimed at determining the composition of new commitments, pricing, reinsurance, and product information. Responses to the questionnaire were very useful to verify trends and new developments in the official export credit financing and in assessing private sector participation in the trade financing market. Quantitative information helped complement and elucidate trends already observed in the Berne Union and OECD databases.

ECAs' annual reports

57. This report has relied on other publications for information on trade financing, in particular publications of the OECD, MIGA of the World Bank group, and MDBs such the EBRD, as well as annual reports of ECAs through their own websites. The latter includes in particular Coface of France, the ECGD of the United Kingdom, Euler-Hermes of Germany, the Export-Import Bank of the United States, the Export-Import Bank of China, the Export-Import Bank of India, and other official and private credit insurers (e.g., AIG, Sovereign, and Zurich).

International trade data

58. International trade data on the direction of trade was obtained from the Commodity Trade Database COMTRADE, which is maintained by the United Nations Statistical

Division through the World Integrated Trade Solutions (WITS) system. COMTRADE keeps information over 130 countries on exports and imports by commodity and partner country. The concept of "capital goods exports" used in this report corresponds to the COMTRADE data series on exports of machinery and transport equipment goods.

Countries included in the calculation of Figures 4 and 5

59. OECD countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark Findland, France, Germany Hungary, Italy, Japan Korea, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

60. Non-OECD countries/regions: Argentina, Brazil, China, Hong Kong, India, Indonesia, Israel, Malaysia, Singapore, South Africa, Sri Lanka, Zimbabwe.

Recent Developments in OECD Arrangement on Guidelines for Officially Supported Export Credits [48]

61. The Arrangement on Guidelines for Officially Supported Export Credits was established in 1978. The main purpose of the Arrangement is to provide a framework for the orderly use of officially supported export credits. The Arrangement seeks to encourage competition among exporters based on the quality and price of goods and services being exported rather than on the most favorable officially supported financial terms. The Arrangement is a Gentlemen's Agreement among its Participants; it is not an OECD act. Most OECD countries are represented in the Participants and membership is by invitation of the current Participants.[49]

62. The Arrangement applies to officially supported export credits with repayment terms of two years or more. Official support may be provided in different forms: export credit guarantee or insurance (pure cover), financing support (direct credit, or direct financing and refinancing, and interest rate support), or any combination of the above. The Arrangement also applies to tied aid. Military equipment and agriculture commodities are excluded from the application of the Arrangement, and special guidelines (Sector Understandings) apply to civil aircraft, nuclear power plant, and ships.

63. The Arrangement has evolved over time. With the aim of eliminating interest rate subsidies, consensus developed up to the mid 1990s places limitations on cash down payment (minimum 15 percent of export contract value), repayment period (maximum 5-10 years depending on per capita income of borrowing countries), and interest rates which benefit from official financing support (minimum rates or currency specific Commercial Interest Reference Rates). There are also restrictions on the provision of tied aid.[50] Since then, the Arrangement has been broadened to include premium for credit risk and project financing. OECD ECAs also adopted common approaches on environmental impact (see below). The most recent modification to the text of the Arrangement, intended to improve the consistency with WTO rules and to enhance transparency for non-participants, was agreed in late 2003 and has become effective since January 2004.

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[48] This section is based on the "Arrangement on Officially Support Export Credits" (Paris: OECD, February 2004) and related OECD documents published on the OECD Websites.

[49] Current Participants are: Australia, Canada, the European Community, Japan, Korea, New Zealand, Norway, Switzerland, and the United States.

[50] See Kuhn, Horvath and Jarvis (1995) and OECD (1998) for a description of developments up to the mid 1990s.

Minimum risk premium

64. While the minimum interest rates or Commercial Interest Reference Rates, based on the yields of government bonds in the secondary markets, help to eliminate interest rate subsidies, they provide no guidance on premiums charged to cover non-payment and other risks. In April 1999, after four years of intensive work by the Working Group of Experts headed by Mr. Knaepen, a new discipline on minimum risk premium, known as the Knaepen Package, came into force. Under this new consensus, Participants are required to charge risk premium, in addition to interest charge, to cover sovereign and country credit risks, irrespective of whether the buyer/borrower is a private or public entity. The minimum premium rate (MPR) is based on a set of agreed principles. Key factors determining the MPR include country risk classification, risk horizon, the extent of cover, and applied risk mitigating technique.

65. Country risk classification is divided into eight categories ranging from negligible risk to the most risky. Determination of the classification takes into account both quantitative and qualitative assessment of a borrowing country's financial and economic developments as well as its payment records. Risk classification is closely monitored and subject to periodic review (at least once a year). This risk premium discipline does not apply to official export credits for ships, nor to large aircraft.

Flexibility for project finance

66. Increasing demand for project financing including for private infrastructure projects has led to the adoption of special guidelines to allow flexibility in the application of the Arrangement for such transactions.[51] For instance, the requirements of maximum repayment period of ten years, payment in semi-annual equal installments, and the maximum grace period of six months, may be too restrictive to accommodate project financing that rely on the cash flows of the projects for debt servicing. In view of this, Participants agreed to introduce flexibility with regard to a number of features of the Arrangement including the timing of first repayment, the repayment profile, and the maximum repayment period. These understandings came into effect in September 1998 for an initial trial period of three years; they have since been extended several times.

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[51] Project Financing is defined under the Agreement as "Financing of a particular economic unit in which a lender is satisfied to consider the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan." See "Project finance: Special guidelines on flexibility for a trial period" (hittp//www.oecd.org/document/) and West (1999) for more details.

Environmental common approach

67. While in the past, most ECAs had their own environmental guidelines, harmonization and stronger common approaches would help protect the environment and foster fair competition between export credit providers. Following successive early discussions, OECD members agreed in December 2003 to strengthen their common approaches for identifying and evaluating the environmental impact of infrastructure projects supported by their governments' export credit agencies. [52] The agreement takes the form of an OECD Recommendation, an OECD legal Act. Key elements of such an agreement include that (i) projects should, in all cases, comply with the environmental standards of the host country. When the relevant international standards (those of the World Bank, and, where applicable, regional multilateral development banks) are more stringent, these standards should be applied. (ii) Projects are classified into three categories based on their potential environmental impact and subject to different monitoring and reporting requirements. For the projects which have significant adverse environmental impact, an Environmental Impact Assessment (EIA) is required. (iii) Participating ECAs will seek to make environmental information, particularly EIA reports, publicly available 30 calendar days before final commitment.

Anti-corruption and export credits

68. In December 2000, the Members of the OECD Workding Party on Export Credits and Credit Guarantees adopted the Action Statement on bribery, which calls for appropriate measures to deter bribery before official support for export credit is provided. Specific measures include, inter alia, informing applicants about the legal consequences of bribery and denying claim payment or seeking the return of funds should bribery is uncovered.[53]

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[52] Early discussions are summarized in the 1998 Statement of Intent on Environment and the Action Statement, adopted by the OECD Working Party on Export Credits and Credit Guarantee (ECG) in February 2000, the ECG Agreement on Environmental Information Exchange for Larger Projects adopted in 1999, and the 2001 Draft Recommendation on Common Approaches on Environment and Officially Supported Export Credits. See West (2004) for more details.

[53] See "Action Statement on Bribery and Officially Supported Export Credits" (http:\\www.oecd.org) for more details.

Risk Management in Export Credit Agencies

69. Export credit agencies have strengthened their risk management in recent years by enhancing risk analysis and control and by adopting new tools and methods in light of developments in the international financial industry. These techniques allow credit insurers to measure and control their exposure to a wide range of risks that are intrinsic to their activities. Generally export credit insurers are exposed to two types of risks—those related to their underwriting activities per se and risks derived from the fluctuation of key exogenous variables (e.g. interest rates, exchange rates). Accordingly, risk management aims at avoiding underwriting and financial losses with reasonable statistical confidence levels based on their capital level, tolerance to risk exposure, and targeted credit rating.[54] The tool kit available for risk mitigation includes: risk classification systems, portfolio diversification instruments (including reinsurance, see Appendix V), and asset liability management instruments (including hedging and Value-at-Risk techniques).

Country risk classification

70. Export credit insurers use risk classification systems to rank borrowing countries in terms of their debt repayment capacity. The Knaepen Package provided ECA's with a common system of country risk classifications which can be used to calculate minimum risk premia. All Participants in the OECD Arrangement have agreed to such a common system to price official support taking into account the associated schedule of minimum risk premia.[55] However, to further enhance their risk assessment system, several agencies have adopted different country risk classification systems in order to reflect their own risk perception and sometimes to meet local legal requirements. For example in the United States, the Interagency Credit Risk Assessment System (ICRAS) determines the country classification and the level of country risks associated with transactions evaluated by the US Ex-Im Bank. This system, which is applied uniformly across the various U.S. government's agencies, has 11 sovereign risk categories and 9 non-sovereign risk categories. The Office of Management and Budget (OMB) is responsible for assigning a risk premium to each category to reflect the corresponding expected losses. Similarly, in the case of JBIC, the Japanese ECA, its risk assessment system comprises 10 categories of sovereign risks and 14 for non-sovereign risks. Those ratings match the Japanese financial supervisory agency's inspection manual and are used not only to classify JBIC's new lending operations but also to examine the overall asset quality and the corresponding loan loss provisions. However, as OECD governments, they must not undercut the minimum premium rates established for the Arrangement.

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[54] For instance, Atradius Annual Report 2004 states that its target is to keep their A- level rating by Standard and Poor's.

[55] See Appendix III for details.

71. The factors commonly used to formulate country ratings are very similar across the various ECAs. These include:

- Macroeconomic indicators;
- External debt and debt service indicators;
- Payment and arrears records (including to other ECAs);
- Medium- and long-term economic projections;
- Political, social and geographical constraints;
- Performance under IMF- and MDBs-supported programs.

72. Reflecting the experience of the recent emerging market financial crises, increasing attention has also been paid to banking sector analysis to assess potential factors that could lead to sudden capital outflows. The sovereign ratings by international credit rating agencies such as Moody's and Standard and Poor's also play an important role as benchmarks in the credit classification process.

73. Country risk classification can be used to formulate minimum risk premium, to estimate necessary provisioning, and to determine maximum coverage ratios (ceilings). Some ECAs only set total exposure ceilings,[56] while others set country specific ceilings. In the latter cases, if the existing exposure is approaching the ceiling allocated to a certain country, the ECAs may: (i) reduce their percentage of cover for new transactions in that country; (ii) reallocate unused exposure ceilings from other countries of similar risk profile, or (iii) secure reinsurance from other ECAs and reinsurers.

Non-sovereign risk classification

74. Traditionally most official ECA operations used to be related to publicly owned or sponsored projects. However, since the 1990s, ECAs have expanded their role in the financing of private sector projects.[57] As a result some ECAs have developed well structured non-sovereign risk classification systems, in addition to the existing country risk classification. In addition to the traditional financial analysis indicators, the assessment of non-sovereign risk includes the analysis of the banking system, legal system, business climate, etc. Normally, the credit ratings of sovereign debtors are higher than that of the private sector (this is the so-called sovereign ceiling), but there are exceptions where private entities with foreign exchange earning capacity are assigned credit ratings at par or higher than that of the sovereign.

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[56] Those ceilings are generally required by government regulations and can be set either on an annual basis, as a permanent criterion, or both.

[57] In countries where IMF-supported programs limit the accumulation of external debt in non-concessional terms by the public sector, the ECAs tend to remain open for cover with the private sector.

Portfolio diversification and asset liability management

75. Generally, the diversification of credit insurance portfolio helps to reduce the possibility that a default by a particular debtor, a shock affecting a particular industry or geographic region generates disproportionately large overall losses in a particular period of time. Portfolio diversification also allows ECAs to maintain the financial flexibility to adjust business strategies if necessary.[58] In this regard, ECAs periodically set short-term and long-term exposure limits and credit ceilings by customer, sector, and country in the context of the overall business strategy and on the basis of their entire portfolio risk analysis (including Value-at-Risk techniques, see below). If necessary, risk managers can use reinsurance and coinsurance to rebalance their portfolio, while keeping a presence in target markets or sectors.

76. More general asset liability management policies aim at insulating the insurers' capital from adverse shocks typically related to interest and exchange rates. Hedging techniques help balance asset liability gaps arising from the mismatch of currencies (e.g. domestic versus foreign currencies) and interest rates (e.g. fixed versus variable rates). In addition, the term structure of assets and liabilities needs to be reasonably matched to keep a sound liquidity position while preserving the profitability targets.

77. Some insurers monitor their overall financial risk using Value-at-Risk (VaR) techniques. Risk managers apply stress tests (for instance based on significant fluctuations of interest and/or exchange rates) to their asset portfolios to calculate the expected maximum loss for a predetermined period at a certain confidence level (i.e. VaR). Generally risk management policies set the maximum levels of acceptable VaR as a function of capital or total asset size. Risk management requires a permanent evaluation of the asset portfolio against those limits, leading to portfolio rebalancing if necessary.

Other risk management tools

78. Export credit insurers have developed innovative financial structures, sometimes in partnership with other insurers, that permit them to remain competitive while contributing to mitigate risks within portfolio diversification guidelines. For instance, in the field of limited recourse financing (also called project financing) the increased demand have required ECAs to develop capacities to mitigate the risks associated with this type of financing. Under project finance arrangements, debt repayments depend on the project's capacity to generate revenues. Therefore the key elements in this type of financing are the security package, involving existing or future assets, and the analysis of implementation risks. A failure in project implementation could have severe adverse financial consequences for the ECAs.[59]

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[58] See Coface Annual Report 2004.

[59] In the case of sovereign guaranteed projects, ECAs can still ask the guaranteeing government for repayments even if the project itself goes wrong.

Some ECAs (for example, JBIC in the late 1980s and the US Ex-Im Bank in the late 1990s) have established specialized project finance units in charge of the appraisal and financial structuring of projects. At the same time some business lines continued requiring special consideration. For instance, in the case of aircraft financing, which is a major area of operations for medium- and long-term ECA financing, most agencies have already introduced asset-backed secured operations to better cope with the changing nature of risks and the evolving demand in the airline industry, and some of these agencies have even developed structures to securitize these asset-backed financings to access additional liquidity.

79. Co-financing structures have also been used by some ECAs for projects that entail risks that are beyond their traditional expertise. For instance, cofinancing with MDBs helps ECAs to assess their projects' environmental and social aspects, based on the analysis undertaken by the MDB concerned, and to mitigate the related risks as well as implementation and credit risks.

Reinsurance and Export Credit Agencies

Key elements of reinsurance

80. Reinsurance is a practice by which one insurer (reinsured party) transfers risk to another (reinsurer). In exchange for unloading its risk the reinsured party pays a premium to the reinsurer. Export credit insurers use reinsurance as an instrument to diversify their portfolios (e.g., in terms of country risk, sectoral allocation, or maturity profile), to overcome exposure limits, and to improve their ability to participate in transactions that otherwise may not be possible to underwrite (such as certain transactions or long-term exposure to high risk markets). A recent survey of Berne Union members indicates that on avearge, official ECAs reinsured more than 70 percent of their short-term business. Some official ECAs act as a reinsurer, providing reinsurance to other credit insurers (Appendix Table 3).

Modalities of reinsurance

81. There are several modalities of reinsurance: (i) facultative reinsurance associated with some specific risks on a given transaction; (ii) framework reinsurance agreement that enables one insurer to cover an entire project while allowing partner ECAs to reinsure parts of the transaction (typically for the risks associated with their own countries); (iii) quota share reinsurance, a blanket reinsurance policy which covers a fixed portion of the total portfolio of the reinsured party. There are also non-proportional policies under which the reinsurer will cover losses, up to a limit, above a certain threshold of agreed portfolios. In some cases, reinsurance may be provided implicitly by a government or a public agency (on the basis of the agency's bylaws). Finally, credit risk derivatives are financial instruments that could be used to transfer the risk of insurance transactions to third parties.

Appendix Table 3. Reinsurance of Short-Term Business by Official ECAs 1/

Insurer	Percent of Short-Term Business Reinsured	Percent of Public ECAs that Reinsure Private Insurers
Official Insurers 2/	71	22
Private Insurers 3/	78	...

Source: Berne Union

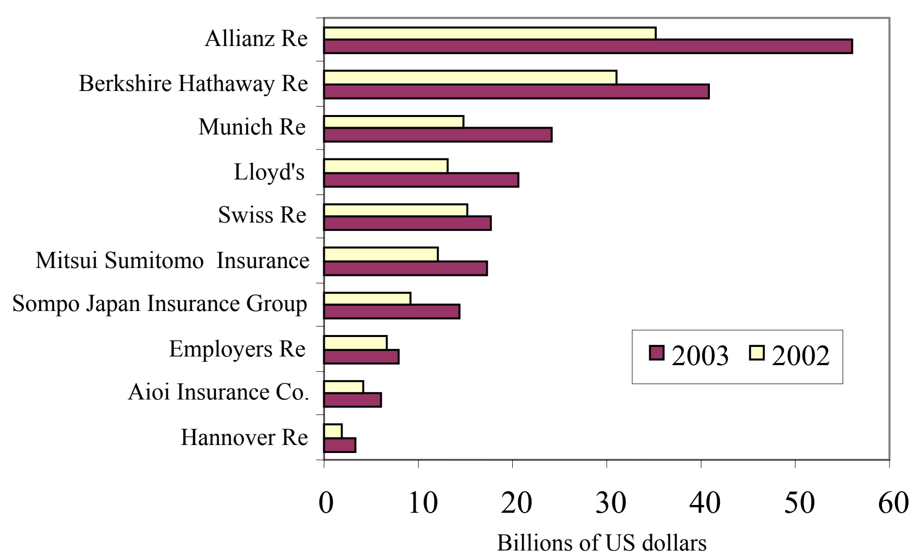
1/ Based on a survey of Berne Union members in 2003/2004.
2/ Comprise 27 respondent institutions.
3/ Comprise 7 respondent institutions.

Role of private reinsurers

82. Private reinsurers have shown increasing appetite for risks associated with export credits and foreign direct investment, including political risk—the risk of expropriation, currency inconvertibility, war and civil disturbances, among other events. These reinsurers now have large capacity (see the figure below) and their involvment has been particularly important for credit insurers with large short-term business portfolios. Partnership with commercial reinsurers also allow ECAs to increase their capacity to support medium- and long-term export financing.

83. Since the late 1990s the private reinsurance industry has experienced a process of restructuring and consolidation, in part as a consequence of relatively low profitability accentuated by the effects of September 11 and recent financial crises in emerging markets. Since then some capacity has been added to the reinsurance industry through the injection of additional capital but appetite for export credit risks is uneven across countries and long-term credit risks are covered on a limited basis. To the extent that portfolio growth of credit insurers is supported by their ability to obtain total or partial reinsurance, constraints in the reinsurance market could limit credit insurers' capacity to provide trade financing, especially to relatively risky markets.

Figure 11. Capital and Reserves of Top Ten Reinsurers in 2003



Sources: Global Reinsurance Highlights, 2004, Standard and Poor's.

Selected Export Credit Agencies: Mandate and Scope of Operations

(As of end-2003)

	OECD ECA's								Emerging Market ECA's	
	COFACE (France)	**ECGD (U.K.)**	**EDC (Canada)**	**FINNVERA (Finland)**	**HERMES (Germany)**	**JBIC (Japan)**	**SACE (Italy)**	**US-EXIM (U.S.)**	**EX-IM (China)**	**EX-IM (India)**
Ownership	Private Corporation with gov't account	Department of Government	Public Agency	Public Agency	Private Corporation with gov't account	Public Agency	Public Agency	Public Agency	Public Agency	Public Agency
Mandate and Objectives										
Promoting National Exports	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Other Public Policy Roles		Take into account "the Government's international policies."		"Provide risk finance to supplement the market."	Eligibility "for promotion contain aspects...in terms of foreign policy and development aid."	Provide assistance to developing countries and contribute to the stability of international financial order.		Act as "shock absorber" during times of economic crisis and financial market contractions.	Implement state policy in trade and finance; Enhance sino-foreign economic cooperation.	Coordinate working of institutions engaged in financing of exports and imports.
Scope of Operations										
Insurance/ Guarantee	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Reinsurance 1/		✔			✔ 2/		✔			
Direct Lending			✔	✔		✔		✔	✔	✔

Sources: Export Credit Financing Systems in OECD Member and Non-member Countries 2002 Supplement (Paris: OECD, 2003) and ECAs' websites.

1/ Reinsurance with other ECAs, known as one stop shop, is not included.
2/ Under own corporate account.

Selected Export Credit Agencies: Financing for Low Income Countries and to Countries in Crisis 1/

Financing for Low-Income Countries 2/

Issues	Industrial Countries' Official ECAs					Private Insurers with government account in MLT markets	
	ECA 1	ECA 2	ECA 3	ECA 4	ECA 5	Insurer 1	Insurer 2
Lending/cover for Low Income Countries	Limited. Creditworthiness of many countries (e.g. HIPCs) is not good. Debt ceilings in IMF program are a constraint	...	Limited and constrained by debt ceilings in IMF-supported programs. Prospects for private sector involvement small. Likely to offer ST credit in the foreseeable future	Lending is suspended when a country receives debt relief because it impacts JBIC's porfolio	Little business. Often constrained by IMF-supported programs. Private sector creditworthiness not adequate	Business has decreased by almost 50 percent, though has expanded in selected countries. No significant business opportunities	Limited. Often constrained by debt ceilings in IMF programs
Support to private sector versus sovereign entities	It depends on creditworthiness of sectors and country circumstances	Private sector more likely to receive support, but sovereign business also considered	It depends on sectoral risks. Support in several LICs is only offered to private sector	All depends on creditworthiness of each sector	Decided on a case-by-case basis, though it considers sovereign risk superior	In many cases the cover policy for public buyers is more restrictive than for private buyers	Cover for LICs is limited to private sector
Cover of post completion point HIPCs	No MLT cover is available (with only one exception)	Cover was never removed for country, only for sovereign entities	No for MLT, but there is ST lending/insurance	No. Insufficient credit worthiness and moral hazard	No, HIPCs are still off-cover (with only one exception)	Provides cover only for selected ST business for private buyers	MLT available only in small amounts and mostly restricted to the private sector

Selected Export Credit Agencies: Financing for Low Income Countries and to Countries in Crisis (contd.)

Response to Countries in Financial Crisis 2/

Issues	Industrial Countries' Official ECAs					Private Insurers with government account in MLT markets	
	ECA 1	**ECA 2**	**ECA 3**	**ECA 4**	**ECA 5**	**Insurer 1**	**Insurer 2**
Immediate response to recent crises							
Increased exposure	No	No	Yes	...	No	No	No
Reduced exposure	Yes	Yes, but from ongoing efforts to strengthen risk assessment and management	Not significantly	Yes, but it was demand-driven, not a result of a deliberate policy	Only in one case there was a significant reduction	Yes	Yes especially MLT, partly from reduced demand. ST exposure was also reduced
Went temporarily off cover	Yes, for hardest-hit countries	...	Yes, but only for one case	...	Yes, but only for one case	Yes, especially for MLT business	Yes, on MLT cover for countries most severely affected
Maturities were shortened	...	...	...	No	No	No	No
Increased risk premia	Yes, risk premia rose sharply for crises countries	...	...	No	Yes, in line with OECD guidelines for sovereign risk. Private risk premia increased with country downgrades	Yes, in line with OECD guidelines	Premia charged continued following OECD guidelines. They increased in some cases
Other responses	Generally restricts or suspends cover if a country is facing difficulties	Credit renewals and transactions in pipeline are more carefully scrutinized	...	In line with current policy, suspended lending to countries in arrears	Tried to maintain operations in countries that are strategic for exporters	Continued to provide ST financing but subject to stricter examination of buyer's creditworthiness	...
Crises lead to long-term change in portfolio strategy or risk assessment	Yes, a more proactive risk management strategy was adopted	No	Risk assessment and management were strengthened	No	...	...	No change in strategy

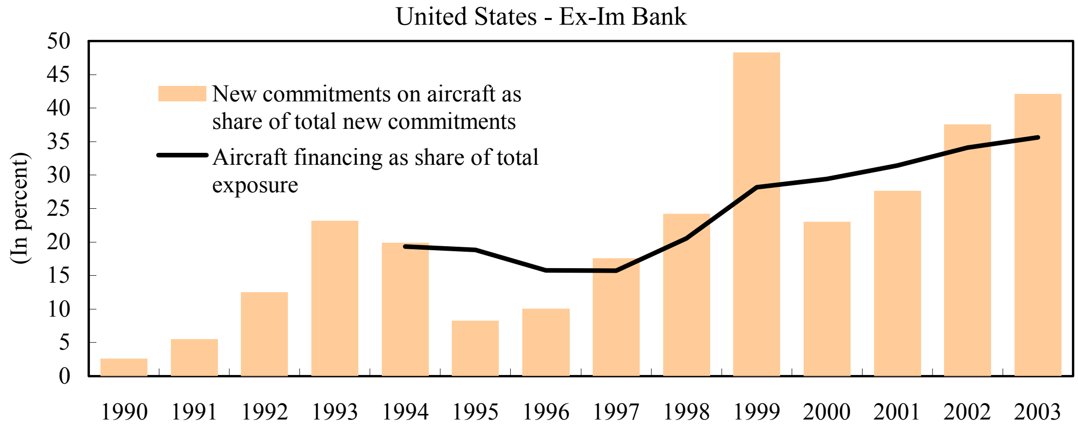
Source: Survey of Berne Union Members, 2004.

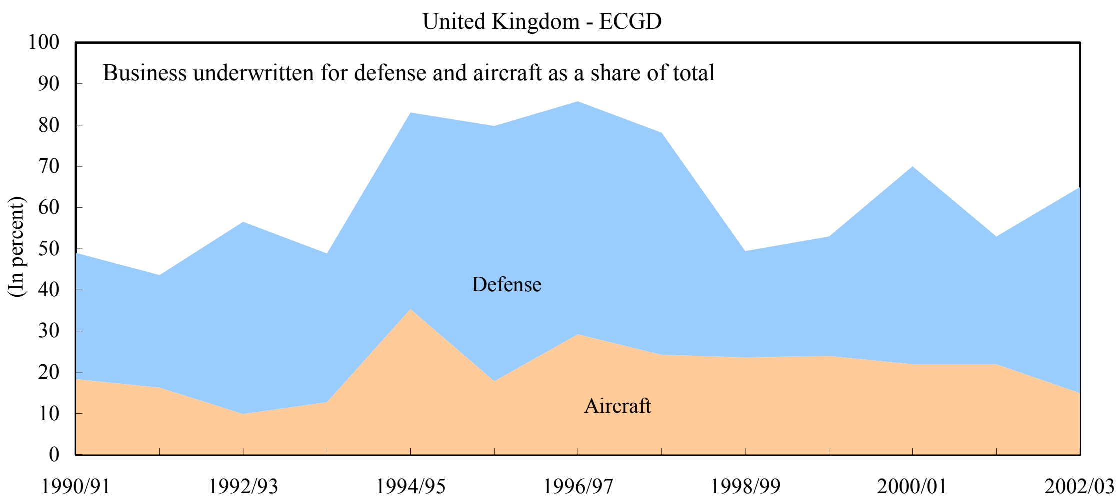
1/ The insurers presented in this table are amongst the largest in the sample.

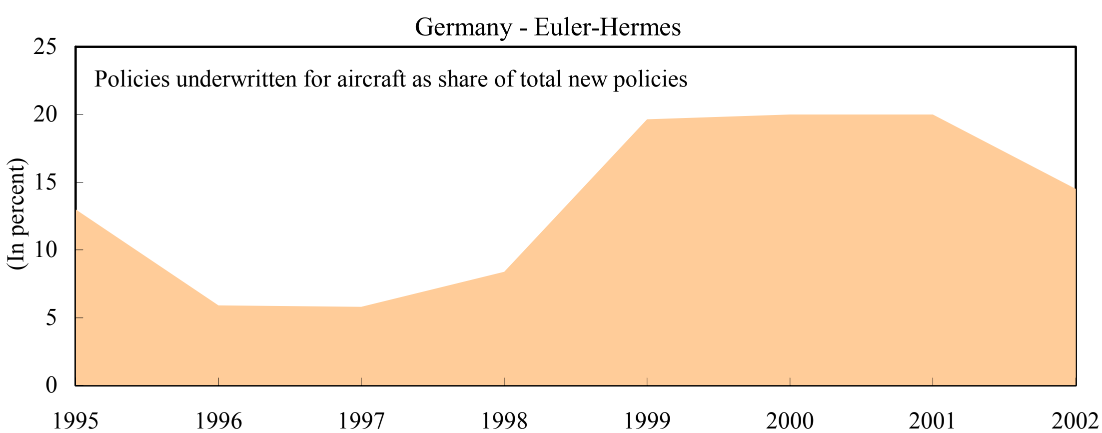
2/ LICs: Low Income Countries; MLT: Medium and Long Term; ST: Short Term.

Aircraft Financing Supported by Selected ECAs, 1990–2003

Aircraft financing accounted for an average of 38 percent of new commitments by US Eximbank during 1999-2003, compared to an average of 13 percent for the first half of the 1990s. Similarly, major European ECAs also allocated in a significant share of export credits for aircraft sales, and in some cases military exports. Most ECAs do not report transactions/export credits for military goods.







Sources: US Ex-Im Bank annual reports; ECGD Annual Reviews; and Euler-Hermes 2002 Annual Report.

Public and Private Trade Finance Providers: Strength and Constraints

	Official Export Credit Agencies	Multilateral Development Banks	Private Sector
Objectives	•Promote national exports and international investment and; •Other public policy goals	Facilitate economic development in developing countries	Make a profit
Allegiances	National governments, and tax-payers	International community	Share holders
Advantages	•Access to public funding; •Sovereign credit rating; •No need to pay dividends; •Ability to prevent losses and secure recoveries	•Preferred creditor status; •Top notch credit rating; •No need to pay dividends	Flexibility and efficiency in operations
Constraints	•Break even over the medium term. •Not to compete with the private sector (most ECA's); •Loss in expertise in short-term business(most ECA's)	•Possible impact on rating and cost of capital by more use of B-loan structure; •Not to compete with the private sector	•Hard budget constraint; cannot suffer sustained loss; •Limited capacity in certain segments of the market (e.g., in terms of the type, amount, and period of export credits)

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