Chapter 8: Unregulated and Exceptional Financing
Section B: Unregulated Forms of Financing

The identification and definitions of the unregulated forms of financing are based on information and data gathered over the past several years from OECD ECAs and their annual reports, press reports, and other presumed reliable sources. While some descriptions and quantifications are clear and detailed, others are less well defined due to the lack of specificity and/or transparency provided in the information we have collected.

In all forms of unregulated financing described in this Chapter (Market Windows, untied loan support, and certain forms of foreign direct investment support), none are governed by the OECD Arrangement or any other international guidelines. Perhaps most important is the fact that they represent new business models adopted by the official ECAs, presumably because they offer economic opportunities otherwise unattainable with other forms. Finally, none are necessarily "bad" or "good"; rather they are different from the traditional, more standard forms of official support. Nevertheless, their existence does give rise to questions about the net effect of their utilization and the implications of that use for Ex-Im Bank.

A. Market Windows

A Market Window is a government-owned entity or program that offers export credits on market terms. While this definition suggests that the Market Window operates on purely commercial terms, in reality the entities running the program tend to receive benefits from their government status that commercial lenders cannot access, such as implicit or explicit government guarantees, tax exemptions and equity capital. Market Windows are not covered by the OECD Arrangement and can, therefore, offer whatever terms they deem necessary. Moreover, while Market Windows explicitly operate to benefit the broad national economy of the provider, in many instances this benefit is an export. Hence, as governmentally supported (but untied) national benefit promoting institutions are neither subject to the constraints placed on official ECAs via the OECD Arrangement nor to the market limitations of a true commercial bank, Market Windows can pose a competitive threat in the export credit world.

While anecdotal information and limited data clearly suggest that Market Window financing has been instrumental in purchase decisions, no hard data regarding the consequences of the support has been provided. This absence of hard empirical data has prevented the collection of detailed information needed to gauge the scope and nature of its use and to evaluate the competitive effects of Market Window financing.

The ECAs that have confirmed that they specifically offer Market Window financing include EDC of Canada, KfW-Ipex Bank of Germany, SACE of Italy and ONDD of Belgium. The volume of MLT activity of these institutions over the past five years has been fairly stable at around $5 billion/year (See Chapter 5B for more details.)

The newest Market Window is offered by Italy. A brief description of its goals and practices (as drawn from its own public documents) illustrates the significant – even though indirect – competitive potential.

Italy/SACE: SACE created its Market Window program in 2008 under the auspices of its "national and strategic interests" focus supporting the "Made for Italy" through the internationalization of Italian companies. Under an expansion of SACE's mandate authorized by the Italian government in 2007, these interests include infrastructure both domestic and internationally, strategic imports of oil and gas among other commodities, economic growth and employment, and strategic industries such as renewables, environment, and technology innovation. In addition, SACE will participate in joint venturing with Italian companies in their investment strategies, including acquisitions. Market window activity is not reported separately, but rather under the "non-export credit activity" which presumably also includes SACE's untied loan support. This figure is noted in the section that follows that focuses on Untied Lending. Also, as noted in Chapter 5.B, total known Market Window activity in 2010 is estimated at around $4 billion.

B. Untied Lending Support (Not Untied Aid)

An untied loan (or guarantee or insurance) is technically a form of credit support that is extended by a government entity to a recipient, for the purpose of providing credit for "strategic" reasons and not linked to or conditioned upon the purchase of goods and services/exports from the "donor" government. Because the credit support is not linked to exports but rather to the strategic interests of the donor country, the support is not considered to be subject to OECD export credit guidelines. Hence, the terms of the support can take whatever form to which the two governments agree. However, based on information gathered thus far, there is certainly the possibility that the unconditional nature of the untied lending may in fact be linked to exports albeit perhaps not explicitly, directly or immediately.

The ECAs that have indicated that they offer untied support include COFACE/France, Euler Hermes/Germany with KfW-Ipex Bank, SACE/Italy, JBIC/Japan, NEXI/Japan, ONDD/Belgium and OeKB/Austria. The five largest providers of untied support are NEXI, SACE, JBIC, COFACE and EulerHermes/Kfw-Ipex Bank. Over the last five years untied activity from these five entities rose from perhaps $3-4 billion/year to over $30 billion, with roughly 90% of the growth from Japan's NEXI.

NEXI can support untied loans in the form of insurance with little to no Japanese content so long as the projects have a strategic interest for the country as determined by NEXI's guardian authority such as acquisition of raw materials or energy supplies. Eligible lenders are Japanese banks or banks that have branches in Japan. Eligible borrowers are foreign governments and companies.

The insurance covers losses suffered by a Japanese company or commercial bank that provided a foreign government or a company with long-term business funds untied to exports from Japan. The insurance also covers losses to Japanese companies and banks that purchased bonds issued by a foreign government or a company for the purpose of long-term financing.

Since 2006, NEXI's support through its untied insurance program has exploded from $1.5 billion to nearly $25 billion in 2009.

NEXI's Japanese counterpart **JBIC** defines untied loans as loans not conditioned upon the procurement of equipment and materials from Japan and are used to finance untied project loans ($1-2 billion/year) for developing natural resources and economic infrastructure, including power, telecommunications and transportation facilities. However, JBIC's Annual Report says: "A project loan may take the form of a 2-step loan which ***supports the promotion of exports*** and the development of supporting industries in a developing country through its official financial institution" (*emphasis added*). (JBIC Annual Report)

The newest member of this fraternity is France's **COFACE.** In the October 8, 2009 decree authorizing the creation of the untied program, COFACE was given a "strategic" objective associated with its untied lending tool: it is focused on establishing relationships with governments to acquire long-term sources of supply of strategic resources such as energy and natural resources. Specifically, strategic interest is defined as:

> "Related to the supply in energy products and raw materials, if scarce on the French territory, in order to meet the needs of companies, households and public entities located in France."

In addition, long-term off-take contracts are required to ensure that most of the production will be delivered to France. Decisions are made by the French Minister of Finance. According to COFACE, the untied lending is not linked in any way to French exports of goods and services.

COFACE's untied loan program is offered in the form of credit insurance. COFACE requirements are that no more than 20% of the goods and services financed can be of French content, and the loans supported have to demonstrate a strategic interest for the French economy.

COFACE notes that the terms of cover are in full compliance with the OECD Arrangement (though they do not have to be) and the amount and types of cover (commercial and political) are the same as COFACE's other credit products.

Summary of Estimated Untied Support Programs

As Illustrated in **Figure 36,** the amount of estimated G-7 MLT support devoted to untied credit programs has grown from an estimated $3-4 billion/year in 2005/6 to approximately $30+ billion in 2009/10. NEXI, with two-thirds of the volume, is the most dominant player.

Figure 36: Total Untied Support Programs 2009-2010 (Billions USD)

ECA	2005/6	2009/10
NEXI	$1.5	$23.0
SACE	NA	$3.0
JBIC	$1.0*	3.0*
EH/PWC	$0.5*	$2.0
COFACE	NA	$1.0
TOTAL	**$3.0**	**$32.0**

*Estimate

C. Investment Finance

Background: The interaction between foreign direct investment (FDI) and trade has been studied to determine what linkages might exist between the two from both the perspective of trade generating FDI and from FDI generating trade. According to an OECD study in 1999:

> "Evidence gathered indicates that FDI stimulates the growth of exports from originating countries and that this investment is complementary to trade. An analysis of 14 countries demonstrated that each $1 of outward FDI produces about $2 worth of additional exports. Conversely, in host countries, short-term foreign investment most often tends to increase imports, whereas an increase in exports appears only in the longer term. However, in the short term, host countries enjoy many benefits from FDI (technology transfers, job creation, local subcontracting, etc." Further, empirical results show that the nature and extent of the relationship (complementary or substitution) can differ from one country to another. (OECD Directorate for Science, Technology and Industry, STI Working Papers 1999/3, "Foreign Direct Investment and International Trade: Complements or Substitutes?," Lionel Fontagne.)

In any event, the relationship between FDI and trade, while not fully understood or conclusive, has clearly become an important mechanism which many countries have employed as a way to achieve a broad and influential global position. It is within this context that official support for FDI provided by ECAs (or other governmental institutions) has become a more critical competitive component to the international landscape.

FDI can also include financing benefits that have traditionally been reserved for export credit agencies. In other words, official support for FDI can often envelop investor country exports but be outside of the traditional export credit financing vehicles. The FDI financing may be competing against standard export credits without the constraints that apply to standard export credits (e.g., OECD Arrangement on Export Credits, or the WTO Agreement on Subsidies and Countervailing Measures [ASCM]). In fact, the model used by the Chinese – a model characterized by FDI support for needed infrastructure (e.g., railroad) or industry with the expectation that the follow-on purchase of the goods and services will be sourced from China – appears to now represent the norm, and not the exception.

FDI and Export Credit: Most of Ex-Im Bank's ECA counterparts operate both an export credit and investment finance program under one roof. In the U.S., these functions are split between the Overseas Private Investment Corporation (OPIC) and Ex-Im Bank. Most importantly, while Exim has a clear commercial mandate (jobs through exports), OPIC's main objective is to facilitate development.

The OECD export credit guidelines do not pertain to investment finance; nor are there OECD or other international guidelines or "constraints" comparable to the OECD Arrangement for official investment finance.

Investment finance can take many forms and can be offered on a wide variety of terms: loans, guarantees and insurance. The guarantees and insurance are aimed at protecting the financial and physical interests of private investors against adverse actions that a foreign government might take with regard to the investors' projects abroad. Typically, the protections offered to the investors cover the risk of loss due to political risks associated with convertibility (of currencies), expropriation, and nationalization ("CEN") as well as war, revolution, and civil unrest. Investment loans are typically extended to provide the project sponsors with *the ability to finance the costs of the projects, including the purchase of goods and services* necessary to complete the project. These *goods and services are often imported into the foreign country* where the project is domiciled. It is at this juncture where the line between investment financing and export financing can become blurred.

Specifically, when exports are supported within an investment financing structure, competitive implications can arise. Whether intentional or not, differences in the terms of financing can create advantages to one party at the expense of another. In any event, patterns in ECA behaviors and activity levels in investment finance give rise to questions about this practice.

The section that follows provides a brief description of some illustrative FDI programs at OECD ECAs. It is important to note that there are no quantifiable data on volumes of activity related to possible export credits (and exports supported) going forward as FDI support.

1. Japan/JBIC: Perhaps the ECA that has shown the most dramatic shift in resource allocation between export credit financing and investment financing is JBIC of Japan. Specifically, in 2000, the share of export credits in JBIC's total operations was around 15% and FDI was 43%, whereas, by 2009, the balance shifted to a much heavier concentration in investment finance: export credits had shrunk to 3% while FDI was 65%.

According to JBIC's Annual Report 2009 (most recent available data), 23% of their investment support was devoted to "maintaining and improving the international competitiveness of Japanese industries, another 16% was attributable to promoting the overseas development and the acquisition of strategically important natural resources to

Japan." The bulk of the commitments were allocated to responding to disruptions in financial order in the international economy.

In this context, although JBIC still generated a large volume of "competitiveness" FDI (roughly $5-7 billion/year), the tripling of JBIC's FDI over the past few years probably does NOT represent a tripling of its competitiveness intent.

2. SACE/Italy: SACE has acknowledged that it is "broadening its scope and developing a business model focused on supporting the international expansion of projects by Italian companies and enhancing Italy's competitiveness." SACE's focus on "internationalization" is the main driver of its business model whereby the objectives of Italian companies, their foreign subsidiaries, and Italian banks are achieved through several product offerings that are, in addition to its export credit programs, involving direct investment and indirect investments:

SACE deploys two primary types of guarantees for investment financing support: Internationalization Guarantee and the Investment Guarantee. The Internationalization Guarantee is specifically designed to support the internationalization process of Italian companies and guarantees a portion of the non-payment risk of loans granted by Italian or foreign banks. The purpose of the guaranteed loan is to comply with specific criteria measuring the effect of the financed investment on the international profile or the export orientation of the company.

The Investment Guarantee Program guarantees loans granted to foreign subsidiaries of Italian banks or to foreign banks as part of the internationalization process of Italian banks. It was introduced to address the Italian banks' need to meet the growing financial requirements and the need to back the activities of their foreign subsidiaries.

In addition, under its untied program, SACE can guarantee bank-to-bank loans. "***The guarantee, for up to 80% of the loan, is intended to strengthen commercial relations with foreign banks that finance imports from Italy*** *or direct investments by Italian enterprises* in countries where Italian banks are not directly present "(*emphasis added*) (SACE website).

Finally, the International Guarantee for Credit Portfolios covers the credit portfolios held by banks or financial intermediaries "***relating to loans to foreign buyers of Italian exports"*** *(emphasis added) (*SACE website*)*.

3. The Overseas Private Investment Corporation (OPIC) is the U.S. government agency responsible for providing foreign direct investment financing for the primary purpose of supporting development in developing countries. Facilitating U.S. exports is not a primary mandate but OPIC reports the impact of their support on the amount of U.S. exports that occurred as a result of their financing.

Figure 37: Summary of G-7 Investment Support (Billions USD)

ECA/ Organization	2009/2010*
JBIC	$23.4
NEXI	$7.0
SACE	$0.5
EDC	$3.0
ECGD	$0.1
COFACE	$0.1
Euler Hermes	$8.0
OPIC	$10.3
TOTAL	**$52.4**

*estimate

Focusing only on the G-7 ECAs' support for foreign direct investment that has a commercial orientation, the amount that was dedicated toward this kind of official support appears to have grown from about $10 billion (excluding OPIC) five years ago to perhaps $35-$40 billion today. OPIC's non-commercially-oriented $10 billion represents roughly one-fifth of G-7 FDI.

Aggregate Unregulated Financing

As shown in **Figure 38**, best estimates indicate that total "unregulated" MLT international financing by G-7 countries to have grown from perhaps $15-20 billion/year five years ago to approximately $75-$80 billion today. At this level, "unregulated" activity roughly **equals** the volume of standard G-7 activity.

Figure 38: Total G-7 Unregulated Financing (Billions USD)

Program	2005/6	2009/10
Untied	$ 3.5	$30.0
FDI	$10.0	$42.0
Market Window	$ 3.5	$ 5.0
Total	**$16.5**	**$77.0**

Chapter 8: Unregulated and Exceptional Financing

Section C: Non-OECD ECAs and Exceptional Financing Practices

Introduction

In previous Competitiveness Reports over the last 5 years, Ex-Im Bank provided details regarding the growing significance of export credit activities of three emerging market ECAs: China, India and Brazil. Since those reports, Ex-Im Bank has continued to gather information and data regarding the nature, terms, and levels of support being offered by the ECAs in these markets. While most of these non-OECD ECAs' core programs operate within or close to OECD parameters, some of these programs – especially in China – appear to consistently operate with a financial edge over standard OECD financing. However, the real threat posed by several of these ECAs is in the truly different and exceptional programs they operate. This section will highlight what these ECAs do that is exceptional in nature. Unfortunately, the lack of transparency in some areas hinders the ability of the analysis to reasonably quantify size or competitiveness.

[In addition, an Annex follows immediately after this chapter that provides background on each of the non-OECD ECAs. This annex is included in this format because ECAs do not necessarily offer the same set of "standardized" products on the same terms as are offered by the OECD ECAs. While the focus of this section of Chapter 8 is on the non-OECD ECAs, it is specifically aimed at the exceptional nature of their financing practices and not on the entire ECA per se. Indeed, by reading the Annex, one will be more informed about the overall philosophies, nature, and scope of each ECA and the context as to "how and why" they are proceeding down their respective paths.]

It is important to note that none of these government entities, whether they are considered to be official *export* credit institutions or development entities, are institutions in countries that are members of the OECD Arrangement on Export Credits (although Brazil is a signatory to the OECD Aircraft Sector Understanding). Accordingly, with the exception of Brazil in the aircraft sector, none are obliged to follow the OECD guidelines on export credits. Each of these countries and one of their ECAs is a member of the Berne Union, an international association of export credit insurers/guarantors that advocates for commercial principles and practices within the export credit field. While the Berne Union has a set of guidelines, the Union is not a negotiating forum but rather an information sharing organization regarding "best practices." Ex-Im Bank is also a member of the Berne Union. All of these countries, along with the OECD countries, are members of the World Trade Organization (WTO), and have agreed to adhere to the WTO rules prohibiting export subsidies.

A. China[1]

Of the three countries, China and its ECAs have shown the most dramatic increase in terms of activity levels. China has two official ECAs (China Eximbank and Sinosure) and another policy bank (the China Development Bank), all of which participate in slightly different functions and in varying degrees in the export credit, foreign investment, or untied financing realm. However, collectively the net effect is the same: each supports the Chinese Government's "Going Out" policy as a central means to establish long-term "mutually beneficial relationships with other foreign governments.

Moreover, as China is not a member of any part of the OECD, none of China's ECAs are under any obligation to follow the OECD Arrangement on Export Credits, which sets the guidelines for official export credits.

1. China Eximbank is the sole operating bank responsible for providing Government concessional loans and preferential credits. In addition, it offers a stable of medium- and long-term programs to its "standard" export credit support (in the form of loans or guarantees).

The *Concessional Loan* program is described by China Eximbank as "official assistance," meaning that it is comparable to what the OECD refers to as official development assistance (ODA). (ODA flows of official financing to developing countries provided by official agencies are to have a clear development or anti-poverty purpose and are to contain a grant element of at least 25%). Moreover, the China Exim program would appear to fall within the category of "tied aid" because Chinese goods must be purchased with the loan.

The eligibility standards are somewhat ambiguous and non-specific, other than the statement that the "loans are to fund manufacturing projects, infrastructure constructions projects (e.g., electric power, transportation and telecommunications) and social welfare projects in the borrowing country which can generate promising economic returns or good social benefits." (China Eximbank Annual Report 2009) Hence, it appears China Eximbank's concessional loans could support "commercially viable" projects anywhere. OECD Tied Aid rules prohibit tied aid use for commercially viable projects in all but the least developed countries. The terms and conditions of the Chinese concessional loans (such as interest rates and repayment terms) are not publicly available, but terms such as 1-2% interest over 20-30 years have been repeatedly alleged. China Eximbank charges no exposure fees on these loans. In a relatively few (but large) situations, the concessional loans have been used to secure long-term supply contracts of needed raw materials such as copper, oil, and steel – with the tied aid loans often repaid with these natural resources rather than in currency.

[1] Each ECA/institution was given a copy of the Report sections relevant to their ECA with the opportunity to edit for accuracy. China Development Bank did not respond while Sinosure and China Eximbank did respond. China Eximbank made a number of points about the inaccuracy or unreliability of the information but did not provide the correct information that could replace the original data and information. As US Ex-Im Bank noted to China Eximbank, until we are provided with their accurate data, we have to rely on "best available" information.

No figures on the annual volume of such activity are available, but the sum of individual loans reported in the press document an annual volume of several hundred million dollars and suggests an annual volume in the billions of dollars. Such levels of concessional activity would make this single institution one of the largest providers of tied aid in the world (probably at least second to Japan).

China Exim's concessional loan program does not appear to be "exceptional" in its terms or operations. However, its scope (including support for commercially viable projects anywhere) and size make it an **exceptionally** competitive program. In fact, its presence as a competitor almost precludes use of a program such as Ex-Im's Tied Aid Credit Fund because there is no credible chance of follow on sales at commercial terms in any sector or country China Exim has identified as a target for concessional activity.

China Eximbank also offers an *Export Seller Credit* program that is broadly defined as a line of credit and can be extended either in Renminbi or foreign currencies. China Eximbank provides these credits (with the individual lines frequently exceeding $1 billion) to Chinese enterprises for financing their construction projects implemented in foreign countries, which may bring forth the export of Chinese equipment, machinery, building materials, technology, and labor services. These credits typically support the exports of "national champion" companies that are oftentimes State Owned Enterprises (SOEs) as well. The uses of the export seller credit program includes loans for overseas projects, equipment export, ship export, high and new tech products export, mechanical and electronic products, overseas construction contracts, overseas investment projects, and agricultural products. (Similar to the Concessional Loan Program, the terms and conditions for these loans are not made publicly available; however, there have never been any allegations that the terms are concessional.)

This program seems to be the "program of choice" for major industrial policy targets as its annual activity appears to be both large and growing rapidly – it has reportedly grown from $15 billion (+/-) a couple of years ago to over $30 billion (+/-) today.

The size, nature, and purposes of this program make it truly **exceptional** as compared to OECD/G-7 ECAs (Italy seems to have a small-scale operation of similar nature). However, it is very difficult to estimate how much MLT financing flows out of such broad lines of credit and in what time frames. The total of annual approvals of such lines does not translate directly into financial activity hitting the world's markets. The assumptions made about how these lines turn into transaction-specific loans in any year is the single most determinative decision in constructing just how "large" (in terms of annual activity) China Exim is.

Under the *Exporter Buyer Credit* program, China Eximbank funds specific transactions and is fairly transparent about the terms provided. According to published information, the terms are generally consistent with the OECD guidelines: the interest rate charged would be the CIRR or a floating LIBOR based rate; a minimum down payment of 15%; maximum maturity of 15 years from the date of first disbursement until the date of final repayment. In addition, an exposure fee along with management and commitment fees are also required.

This program is perhaps the most similar of all China Exim programs to the type of transaction-specific long-term support made available by the OECD/G-7 ECAs. Annual activity has appeared to be running at a fairly steady $3-5 billion a year recently.

It is important to note here that while the terms provided under China Eximbank's standard program may be generally consistent with the OECD standard export credit guidelines, in most instances, China Exim's terms turn out to be just a noticeably bit better. For example, repayment terms may be for 12 years where the OECD maximum is 10 years; exposure fees are regularly at levels 50% below OECD minimum fees. These terms do not imply a subsidy; they are arguably "market based" and WTO compliant. This "market-based, but better than Arrangement" structure (but not concessional) is so persistent that it has been given its own name – such structures are deemed "Arrangement-Light" transactions due to the fact that these transactions are commercial in nature and with no concessionality.

In this area, Ex-Im Bank has recent experience in a competitive transaction involving China Eximbank. Historically, the Bank and U.S. exporters passed on matching such transactions, but as China has become a player in nearly every market and sector, the U.S. government has looked for ways in which to keep U.S. exporters from losing market share to such financing packages that fall outside of the OECD rules, with the intention of effectively neutralizing Chinese offers.

Hence, in 2010, Ex-Im Bank set a precedent within the OECD ECA community by precisely matching a Chinese Arrangement-Light offer for a rail transaction in Pakistan. In this transaction the Bank had precise information on the terms of the Chinese offer, confirmation that financing was a/the critical factor in bid award, and had determined that exact matching of the China Exim terms would still provide a transaction-specific financial surplus. Furthermore, this transaction was in a strategic sector for the United States and many U.S. jobs were dependent on this transaction. After being presented to the OECD to ensure full transparency of the U.S. government's intention to match the Chinese offer, Ex-Im Bank issued a commitment to match. As of the end of 2010, the Pakistani government had not yet made a determination on the bid. Regardless of the outcome, however, Ex-Im Bank actions were aimed at ensuring that the bid award was decided based on market factors such as price and quality.

Finally, China Exim has the *Guarantee* program – which appears to be something similar to Exim's MLT guarantee program. That is, it does a pretty steady $7-10 billion a year over several hundred transactions on terms very compatible with Arrangement guidelines for "medium to long-term" deals.

In sum, China Exim has a very broad array of MLT export credit programs running the gamut from transaction-specific loans and guarantees very similar to G-7 programs (but on slightly better terms) to sizeable lines of credit to exporters that are very dissimilar to G-7 programs and ending with a large scale concessional program that is driven by commercial considerations. The lines of credit to exporters are a truly exceptional program that no G-7 ECA has the capacity to match and the concessional program is difficult to effectively match in a long-run context.

If one only counts the transaction-specific programs, China Exim appears to be a $10-15 billion institution for MLT non-concessional activity – comparable to Exim. However, if even only a third of its exporter credit programs yield specific MLT financing transactions each year, China Exim turns into a $20-25 billion a year entity – comparable to the largest G-7 ECA.

2. Sinosure is the official export credit insurer of China and offers programs covering the entire spectrum: short-term, medium- and long-term export credit insurance as well as foreign investment insurance. Sinosure is a member of the Berne Union, an international association of export credit insurers/guarantors with both government and private sector members operating in the short term, and FDI, while only governments are members of the medium- and long-term group of the organization. The Berne Union has operating principles and guidelines, but they are less rule-like when compared with the OECD; however, members are expected to be transparent and follow the guidelines (some of which were created in the Berne Union and then picked up by the OECD, such as repayment terms).

Traditionally, Sinosure's portfolio has been dominated by short-term export credit insurance, whereas medium- and long-term export credit insurance and FDI insurance have played a much smaller role. However, it is not unusual that Sinosure will insure transactions funded by China Eximbank in the MLT (but that is not a requirement). Sinosure typically operates in conjunction with private lenders, which Sinosure insures against the risk of default, just like Ex-Im Bank's credit insurance functions and in the same type of structure.

Little public information is available on specific Sinosure transactions, but they are occasionally reported in the press. A recent report indicated that Sinosure will be supporting Huawei, a major Chinese telecommunications and systems manufacturer that is considered one of the premier Chinese "national champions," in its recently awarded contract with Telkom of South Africa worth $127 million

In addition, Sinosure also offers support directly to Chinese companies through lines of credit. For example, the insurer signed Strategic Cooperative Agreements with both Huawei and ZTE (the latter which is a State Owned Enterprise [SOE] and another Chinese telecom/technology company; amounts not disclosed). By signing strategic cooperation agreements, Sinosure will provide short-term export credit insurance, medium- and long-term export credit insurance, overseas investment insurance and other insurance products; support their capital, technology, service and goods export; assist them to expand import and export businesses; and offer a full range of services in credit management, guarantee, and financing facilities for the two corporations.

Sinosure had also strengthened its support for other key industries. For example, the photovoltaic (PV) industry is regarded as the national sunrise industry supported by the state. Sinosure has conducted in-depth analysis on risk of states, industries, and buyers, to provide solutions for corporations to participate in international competitions and compete for orders. From January to July 2009, Sinosure had underwritten exports of $1.25 billion for the Chinese PV industry, 6.2 times as much as that in 2008. For the first half of 2009, the penetration rate of the export credit insurance for China PV industry had reached up to 46.3%. One such photovoltaic manufacturer, LDK Solar, recently signed an agreement with Sinosure to support the company's expansion overseas through exports and investment. However, the specific terms of the agreement were not disclosed.

Sinosure also provides investment insurance, and its volume has roughly doubled over the last few years to approximately $12 billion in 2010. There is nothing particularly exceptional about Sinosure's MLT insurance programs (which are running at $10-15 billion a year, with some overlap with China Eximbank activity). However, the lines of credit to exporters are – like those of China Exim – out of the G-7 league; moreover, the special industry support is probably unmatched/unmatchable within the G-7.

3. China Development Bank

By the end of 2010, CDB held $141 billion in outstanding foreign currency loans, 80% of which were issued to support Chinese enterprises seeking or having a global presence. Best estimates indicate that CDB offered $100 billion in foreign loans in 2009 and $80 billion in 2008.[2]

Unfortunately, CDB does not publish these data. There are, however, reports about CDB employing strategic practices similar to China Exim that support key industries and specific companies within these select industries. Significant projects in which CDB expanded its international cooperation endeavors included a large credit agreement between China and Venezuela which will support the overseas expansion of PetroChina, Sinopec, CITIC Pacific, and Xi'an Electric Engineering Co. In late 2010, CDB also entered into a $10 billion strategic cooperation agreement with Xinjiang TBEA, a major equipment manufacturer in China, to assist in its international expansion and to "sharpen its internationally competitive edges of China's equipment manufacturing industry."

Other examples of CDB's growing activity in the global markets includes its relationship with Brazil where, since 1997, CDB committed to lend Brazil $13 billion (as part of CDB's formal Economic and Trade Cooperation Agreement between China and Portuguese speaking countries). More recently CDB entered into a $10 billion loan agreement with Petrobras, financed the Gasene pipeline project, and supported the Candiota thermal power plant, all which resulted in CDB being the largest Chinese financial partner of Brazil. A final example involves CDB's $15 billion commitment to ZTE for a credit line to assist ZTE in its overseas project financings and to help ZTE in further strengthening and upgrading its position in the global telecom industry. (However, the terms of the credit line were not disclosed.)

Further, reports indicate that in 2009 and 2010 combined, CDB and China Eximbank together supported loans of at least $110 billion – more than the World Bank's commitments of $100 billion during the period between 2008 and 2010. According to the Financial Times, "CDB and China Eximbank provide more preferential terms than the World Bank and other lenders for certain deals that are strongly supported by

[2] Geoff Dyer, Jamil Anderlini, and Henny Sender. "China's lending hits new heights." *Financial Times* 17 Jan. 2011: Web.

Beijing, but offer terms that are closer to international standards for less politically sensitive deals. They also tend to impose less onerous transparency conditions."[3]

China Development Bank seems to be an **exceptional** institution within the context of, and compared to, OECD/G-7 MLT export credit.

In sum, China seems to have a team of financial institutions doing vast amounts of short-term and medium- and long-term export finance (including massive amounts directly to exporters and multi-billion-dollar concessional activity). In aggregate, the institutions' activity could well total over $100 billion a year in both short-term and MLT business. From the top down, the size, scope, and focus of this team is simply incomparable to anything within the OECD/G-7.

Looking at MLT on a case-specific basis, the Chinese world looks much more comparable. China Exim and Sinosure appear to do perhaps $20-25 billion a year in transaction-specific business generally comparable to what OECD/G-7 ECAs do. From this perspective, the Chinese ECA aggregate is probably the largest ECA in the world's MLT market (but not by much). However, when the exporter, buyer, and country lines of credit from China Exim and China Development Bank are brought into the picture (at perhaps $50-100 billion a year), it is very hard to gauge the comparability or competitiveness. With lines of credit coming from the very top down, there are untold transactions that probably never show up on G-7 exporter radar screens; there are no lost sales or smoking guns. But then, how does one measure what one cannot see?

Simply translating the steadily building stock of these lines into annual MLT transaction levels at $20-30 billion a year makes the Chinese export credit team a $40-50 billion-a-year behemoth that is regularly competing with OECD/G-7 exporters in third markets.

B. Brazil

Brazil has two ECAs: SBCE and BNDES. SBCE is partly owned by the government (BNDES and Banco do Brasil) which holds 24.18%, with COFACE (of France) owning the remaining balance with 75.82%. SBCE is an export credit insurance agency and acts on behalf of the Brazilian government, and as such, is able to offer support in the form of short-term support to SMEs and also medium- and long-term export credit risk cover on the basis of the Brazilian Treasury Export Guarantee Fund (FGE). SBCE is a member of the Berne Union, and Brazil is a full participant in the OECD Aircraft Sector Understanding (ASU) counting on the expertise of SBCE as a legitimate agent of the Brazilian government. SBCE appears to comply with OECD Arrangement rules since it started the business in 1997 with none of its programs or activities suggesting any exceptional behavior. Further to the export credit insurance provided to the Brazilian official banks (BNDES and Banco do Brasil, which plays the role of a commercial bank as well) late in 2010, the Brazilian government issued the first pure export credit cover policy to a private lender, under the ASU provisions and related to a transaction structured by SBCE, on behalf of the Brazilian government, in co-ordination with a commercial bank.

[3] Dyer, Anderlini, and Sender.

BNDES is the government-owned official development bank for Brazil. Its primary focus has and continues to be on supporting investment and development within Brazil. However, since 1990, it has also been a direct, medium- and long- term export credit lender supporting Brazilian exporters. In this regard, BNDESs' goal is to support the development of a dynamic export sector which operates as a powerful instrument for Brazilian companies to increase productivity and improve the quality of their goods and services. BNDES is setting up a national export import bank, Agencia Credito a Exportacao do Brasil (BREXIM) that is expected to become operational in 2011. As a subsidiary of BNDES, BREXIM will have access to BNDES' existing foreign trade division and operations portfolio of around $13 billion in operations and $20 billion in prospective projects.

Like SBCE, BNDES programs appear to be within the guidelines of the OECD even though they are not required to be with the exception of aircraft. Recent MLT activity (i.e. 2010) was around $18 billion.

Though BNDES does operate a type of exporter line of credit program (like China Exim and China Development Bank), it is not perceived to be of the scale and intention to have the exceptional impact as in China.

C. India

India has two export credit agencies: the **Export Import Bank of India** (India Eximbank), which provides loans and guarantees, and the **Export Credit Guarantee Corporation of India (ECGC)**, which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions) while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. The Indian team appears to generate about $10 billion a year in MLT activity recently.

A noteworthy development during the financial crisis was the creation of the National Export Insurance Account (NEIA) and Trust operated by ECGC to provide adequate credit insurance cover to protect medium- and long-term exporters against political and commercial risks. Within this framework, ECGC evaluates proposals against the standards provided by a Cabinet level committee with the committee making the decisions. Approved transactions are underwritten within the NEIA account with premiums received and credited to and claims paid from the NEIA Trust. For projects to be eligible for NEIA the project must be commercially viable; it must be strategically important to India; there needs to be a well-founded expectation of reliable exporter performance and, finally, ECGC – because of its own underwriting constraints – is not able to cover the project. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions are unavailable.

Aside from the NEIA noted above, neither ECGC nor India Eximbank appear to offer exceptional financing programs.

Chapter 8: Unregulated and Exceptional Financing
Section D: Competitive Implications

What seems to have evolved is a "race to the top" among both the OECD and non-OECD ECAs. China, and to some extent, Brazil and India have emerged with all their resources chasing strategic goals. In response, many of the OECD ECAs have modified their business models and responded by setting up strategic financing programs outside of the OECD parameters by either expanding or creating new products that will take them to another "universe."

Moreover, the nature of the competition has moved from the transaction to the country or product market (e.g., renewables) – a more industrial policy-like approach, with the nature of the tools having become a mix of non-standard, unregulated and exceptional. However, ECAs that are more transaction-oriented and focused, and operate more reactively (as Ex-Im Bank) appear at a decided disadvantage in any attempt to help its exporters achieve a level playing field – the deal gets done before it ever gets to the competitive bid stage and the U.S. company never gets to see it. Hence, the main impact of these new tools and entities is to render the concepts of a "lender of last resort" and "level playing field" as less relevant.

Chapter 8: Unregulated and Exceptional Financing
Annex: Non-OECD ECAs

BACKGROUND

The purpose of this Annex is to provide a more detailed understanding of the objectives, goals, programs, and approaches that the primary non-OECD ECAs from China, Brazil and India have adopted on behalf, and in support, of their governments' respective global economic and growth strategies. The primary focus is with regard to export credits and other forms of financing and how they fit into their individual strategic frameworks.

CHINA

Background

In 2001, China joined the World Trade Organization (WTO), and as part of that accession, agreed to implement policies and reforms that would lead to broad access to the Chinese market place by other countries. Since then, China has made steady progress towards these goals. One observer characterized this transformation as a methodical pacing of reforms that allows the Chinese industrial and services sectors time to adapt to the pressures of the international competitive marketplace. Accordingly, the balance of this chapter concentrates on the Chinese government's strategy, programs and practices particularly regarding Chinese exports and the official export credit support for its most important industrial sectors.

Chinese Strategy

Key to understanding the vision of China as it applies to its strategy regarding exports and export credit financing is recognizing that export credit strategies are an integral component of an overarching Chinese economic strategy. Specifically, in the 12th 5 Year Plan announced in 2011, the theme is "scientific development and peaceful development" which freely translated connotes an acknowledgement of the need to upgrade their growth model and focus on the development of higher quality, new technologies and home-grown national champions accompanied by domestic consumption by an ever larger and growing middle class and through investment and exports.

Included in this plan is the strengthening of social programs and improving living standards through good education, decent incomes, quality health care, pensions and suitable housing. Finally, peaceful development will be characterized by a more open international cooperation and becoming a more active player in global economic governance and regional cooperation, including the environment.

Accordingly, the current strategy is to raise the standard of living for all Chinese who will contribute to the economic vitality through innovation, domestic consumption and responsible and responsive global participation in all forms.

Organization of "Export China"

1. Oversight

The State Council (of the People's Republic of China), also known as the Central People's government, is the highest executive body of State power. The State Council is chaired by the premier and comprised of the vice premiers, State counselors, and ministries – in total about 50 individuals representing key government agencies/ministries. The State Council is comparable to our cabinet, although the State Council is much larger. The three ministries that are members of the State Council and are directly relevant to and have varying degrees of oversight responsibilities for the two Chinese ECAs, China Eximbank (CXM) and Sinosure, include the Ministry of Commerce (MOFCOM), the Ministry of Finance (MOF), and the Ministry of Foreign Affairs (MOFA). The role that the ministries play in the ECAs is described in more detail in the ECA sections below.

2. Export Credit Agencies

The Chinese agencies that support Chinese exports are the China Eximbank, Sinosure, and the China Development Bank (CDB). Each has a specific responsibility with China Eximbank and, more recently, CDB was assigned the task of providing direct lending to foreign buyers. Sinosure provides export credit insurance, assuming the risks of the foreign buyer on behalf of private lenders willing to extend the actual funding. Notwithstanding the discrete functions assigned to each agency, there is the potential for significant overlap among them. This cadre of ECAs as organized today is modeled after the Japanese export credit structure.

a. China Eximbank

China Eximbank (CXM) was formed in 1994 as the official export credit financing agency of the Chinese government, is wholly owned by the Government of China (GOC), and operated as a policy bank. As such, CXM implements the policy of the GoC (as opposed to making it). CXM has a Board of Directors comprised of various members of the State Council and reports directly to the State Council with "authority" over its activities loosely governed by the Ministry of Commerce (MOFCOM) – and, to a lesser degree, the Ministries of Finance and Foreign Affairs. Most recently, the Chinese banking regulators (Chinese Banking Regulatory Commission, or CRBC) announced that a special department is being created to provide greater supervision of "policy-oriented banks," with a special focus on the risk profile of these lending agencies. Supervision of China Eximbank and China Development Bank will fall within this new department.

CXM officials noted that it focuses its support to promote the export of Chinese mechanical and electronic products, complete sets of equipment, high and new tech products, and to support Chinese companies with comparative advantages to go abroad for overseas construction contracts and offshore investment projects.

In 2005, CXM reported a commitment level of roughly $15 billion for its medium- and long-term export credit business, and for 2009, an estimated $48 billion (which is on the conservative side because it does not include data on CXM's preferential or concessional lending programs). Based on these figures, CXM is either closely tied with or slightly ahead of JBIC as the largest ECAs. Moreover, it intends to keep growing at a rapid clip, with a goal of supporting a larger share of Chinese exports.

CXM currently offers five primary products: (1) export credit (buyer and supplier), (2) concessional and preferential loans to other governments, and (3) guarantees, (4) pre-shipment loans and (5) import loans (as of 2007). [1]

CXM's buyer credit program is available for medium- and long-term tenors to creditworthy foreign borrowers to support the export of Chinese capital goods, services and overseas construction projects in amounts greater than $2 million. According to CXM, these credits are normally in dollars (USD) or other hard currencies and carry a "competitive interest rate" which they define as either a fixed rate based on the OECD CIRR for the currency or a floating rate of LIBOR + a spread. There also appears to be another category of loans within the buyer credit program defined as "special cases" in which the interest rate can be negotiated and decided between the lender and the borrower, possibly on a "preferential" basis. In addition, the buyer credits carry a longer repayment period than supplier credits (e.g., 15 years to 20 years according to the CXM information). A management fee of .5% is charged. In addition, a commitment fee and exposure fees are charged, but it is unclear on what basis.

Regarding CXM's concessional and preferential loan programs, CXM provides only an outline of information and does not publish either the overall amount of preferential loans it had made during recent years, nor does it provide the specific terms and conditions (e.g., interest rate, repayment term tenor) that are offered. According to its annual report, these loans are medium- and long-term, low interest rate renminbi /Yuan credits extended typically to foreign governments to purchase Chinese mechanical and electrical products, sets of equipment, high tech products, services and other materials.

This program is typically used when Chinese benefits can occur on both sides of the transaction. An example would be the sale of Chinese manufactured locomotives and an improved rail system in the buyer's country. These transactions also generally involve infrastructure development (e.g., energy, transportation and telecommunications), industrial development (e.g., manufacturing and mining), and social welfare (e.g., health care, housing). Previous discussions with CXM officials revealed that these loans typically are at interest rates in the 2-4% range (RMB) and repayment terms generally ranging from 10 years up to 20-30 years.

CXM will only provide support to Chinese-owned and domiciled companies. Accordingly, their exporter profile consists of large state-owned enterprises (SOEs) or large wholly private or partially government owned companies in certain key sectors: ship building, telecom, power, and high technology.

[1] CXM also offers an on-lending program to domestic projects with foreign government loan funds and foreign direct investment financing. By 2007, CXM began offering import credits to support the development of certain industry sectors of strategic importance.

When compared with the OECD Arrangement, CXM's terms and conditions for its products are:

- Similar with regard to the minimum fixed rate CIRR lending rate for "standard" buyer credits.
- Probably a little less than the CIRR for the "special"/"preferential rate" cases within the Buyer Credit and the concessional loan programs as the OECD Arrangement does not permit the flexibility for negotiated rates lower than the CIRR.
- Probably a little longer as 15 years is only available for nuclear power plants and renewable energy within the OECD.
- Generally the OECD Arrangement has a protocol for the minimum exposure fees allowable.

Since CXM's formation, it has been offering of lines of credit and/or loan commitments on behalf of several of the large companies, most of which are SOEs (State Owned Enterprises) in a range of countries/regions. (NB: the information and specific details provided below are based on information from press reports and other sources deemed highly reliable.) Specific SOEs that have been the recipient of these credits include Huawei, ZTE, CNOOC, Sinopec, China Engineering and Construction, and Shanghai Electric.

b. Sinosure

Sinosure, the official export credit insurance agency of the Government of China, is wholly owned by the GoC and is operated as a policy agency of the GoC; that is, Sinosure does not develop policy; rather, it implements policy. Sinosure was created in 2001 when PICC, the then-export credit agency that included China Eximbank, was dissolved and China Eximbank and Sinosure were formed as separate entities reporting to different authorities. Sinosure's primary guardian authority is the Ministry of Finance but the Ministries of Commerce (industrial policy) and Foreign Affairs (diplomatic/political policy) have a tangential relationship with Sinosure as well. Sinosure states that it operates on commercial terms and abides by the guidelines of the Berne Union[2] and the OECD (although it is not a member of the latter).

According to Sinosure, their authority to make independent decisions on transactions is limited primarily to the short-term area and smaller sized deals. In the medium- and long-term export and investment insurance areas, any (including short term) transaction greater than $30 million requires the Ministry of Finance (MoF) approval. Moreover, the MoF also plays a more hands-on role in the medium- and long-term area, often participating in transaction decisions

[2] The Berne Union is an international membership organization comprised of 52 public and private sector export credit insurance providers 42 countries. Its focus is to promote the international acceptance of sound underwriting principles of export credit insurance and the establishment and maintenance of discipline in the terms for international trade and foreign direct investment. To this end, the Berne Union has a set of guidelines which contains guidance regarding repayment terms, form of repayment, lines of credit and down payments.

and setting policy and guiding practices. Sinosure has operated primarily as a short-term export credit support institution, with the majority of its medium- and long-term assistance provided for CXM transactions/projects.

Figure 38: Sinosure Activity 2008-2010 (Billions USD)

	2008	2009	2010
Short term	$36	$84	$155
MLT	$5	$15	$10
Overseas Investment Insurance	$5	NA	$12
TOTAL	**$46**	**$99**	**$177**

As shown in **Figure 38** Sinosure's book of business has grown dramatically and can be attributed to mainly the short-term business whereas MLT activity levels have stabilized around $12 billion on average. The United States, Hong Kong, Germany, Korea and Japan represented the top country exposures in 2008 and 2009 with the light industrial sector and machinery and electronics representing over 90% of the short-term business.

The MLT portfolio has traditionally had a different risk profile with a heavy concentration in Africa (e.g., Sudan, Angola, and Nigeria), Cuba, Iran, Philippines, and Pakistan.

In its capacity as a credit insurer, Sinosure works closely with the private banking community which is currently dominated almost entirely by foreign banks operating in China, namely Societe Generale, BNP Paribas, and Citigroup as the largest players**.** Sinosure has also entered into a number of cooperative financing agreements with other ECAs with the most recent being EDC/Canada, ECGD/UK, COFACE/France, KSure/Korea, NEXI/Japan in addition to Euler Hermes/Germany, SACE/Italy, and MIGA/World Bank).

According to Sinosure, it cooperates with China Eximbank and, more recently, with China Development Bank. Sinosure does provide insurance for transactions funded by China Eximbank with an estimated 25 – 35% of Sinosure's MLT activity is risk cover for transactions originated and funded by China Eximbank. Sinosure indicated that this business is evaluated on the same basis as non-Eximbank directed business – i.e., on commercial terms.

The exporter/sectoral composition of Sinosure's current portfolio has a large concentration of large SOEs as well as a number of private or minority government share companies in certain key sectors: Telecommunications (both Huawei, which is employee-owned, and the state-owned ZTE); Sinopec (petroleum); forestry (mainly in Russia); and hydropower.

Sinosure's medium- and long-term export credit product is in the form of export credit insurance in which Sinosure assumes the risk of non-payment by the foreign buyer due to either/or both commercial and political events. Sinosure charges an exposure fee, but their fee system and details regarding the levels of fees are not published. Sinosure is a member of the Berne Union and states that its programs operate on a commercial basis and are in compliance with the Berne Union guidelines. When compared with the Berne Union (and by reference, the OECD Arrangement, as previously noted), Sinosure's terms and conditions for its product appear to be:

- Similar with regard to total repayment term and form of repayment
- Similar with regard to down payments (15% minimum)
- Unclear with regard to minimum exposure fees as required by the OECD

However, anecdotal information regarding Sinosure's practices suggests that there have been transactions in which their financing has not exactly matched the Berne Union Guidelines. However, absent more reliable information, the specific transactions cannot be cited as examples of not matching the Berne Union Guidelines.

c. China Development Bank (CDB)

CDB was formed in 1994 and is under the jurisdiction of the State Council. Similar to CXM and Sinosure, the CDB has been a policy bank that has traditionally focused primarily on internal domestic economic development with special emphasis on infrastructure and pillar industries.

Given this focus, CDB's financial support has been concentrated (1) in rural development in the western and northeastern regions of China, (2) all areas around the Yangtze River where efforts are being made to revitalize old industrial bases, and (3) facilitating the development of new and efficient industries, especially in those sectors of critical importance, e.g., energy independence (oil, coal, electricity), transportation (railways, highways) and telecommunications.

In 2002 and under the leadership of Chen Yuan, who has been credited with creating the CDB "blue ocean" strategy, which is the creation of new market space at home and abroad[3], CDB expanded its focus in several areas considered essential to establishing and maintaining China's long-term competitiveness: R&D/innovation and the development of Chinese high quality "brand name" industries/companies; SME's; and support for certain companies in their overseas expansion in the form of foreign investments and trade of a "developmental nature."

Since then, CDB has been expanding its international portfolio, further spurred on by what one CDB official described as that CDB should continue supporting government projects and policies with the international expansion of Chinese

[3] Rui Chenggang(Chen Yuan: Recommending Chinese enterprises make acquisitions in overseas areas with resources and energy"), Economic Observer, July 17, 2009, as reposted at http://finance.ifeng.com/news/hgjj/20090717/956257.shtml#.

firms ranking as one of CDB's most important tasks. [4]

To this end, CDB offers loans which are divided between short term (less than one year), medium term (1-5 years), and long-term (> than 5 years). For large infrastructure projects, the maturity can be extended based on the needs of the industry and project. The loans are available in RMB and in foreign currencies with interest rates set according to the People's Bank of China. Export credits in the form of direct loans are available primarily in foreign currencies and are held for CDB's account. Finally, none of the published information regarding CDB addresses whether an exposure fee is charged for the risks the Bank is assuming.

In terms of volumes of CDB's business activities, minimal data are reported. CDB's foreign currency loans outstanding in 2005 were $16.5 billion and by year end 2006, the amount had grown to $141 billion. By 2008, it was reported that CDB became the Chinese bank with the largest portfolio of foreign currency denominated loans.

While domestic lending still clearly dominates CDB's activities if measured by annual amounts approved, foreign lending has grown from 10% of total loans to approximately 20% by 2009 with roughly $100 billion approved for foreign lending (out of a total of $540 billion).

INDIA

India has two export credit agencies: the Export Import Bank of India (India Eximbank), which provides loans and guarantees, and the Export Credit Guarantee Corporation of India (ECGC), which provides export credit insurance and guarantees to commercial banks only. India Eximbank and ECGC have similar roles in that they are both key public sector trade promotion institutions in India. Given the importance of export promotion in India, India Eximbank and ECGC play important roles in advancing trade policy by enhancing the competitiveness of India's export sector and expanding the geographical reach of Indian products.

India Eximbank and ECGC also have distinct roles in that they provide different export credit products and each institution forms its own partnerships with the private sector banks and private sector insurers. The bulk of India Eximbank's financing is provided on medium terms (there are select long-term transactions), while ECGC provides mostly short terms. There is modest collaboration between India Eximbank and ECGC, although ECGC may insure large export contracts supported by India Eximbank. Data representing the extent to which ECGC acts as an insurer on India Eximbank transactions is unavailable.

Historically dissimilar roots also separate India Eximbank and ECGC. At its inception in 1957, ECGC's main function was to provide official export credit insurance. However, at that time India's trade policies focused on import finance rather than export finance. By the early 1980's, India realized that its import substitution policies were discouraging exports. As a result, trade policy shifted from import finance to export finance, and

[4] Jamil Anderlini, "CDB turns away from the path of reform," *Financial Times*, November 2, 2009

India Eximbank was established to implement India's export policy. India Eximbank became the central export funding institution while ECGC continued in its role as official export credit insurer.

Export-Import Bank of India

Established by an Act of the Indian Parliament in 1981, India Eximbank is India's principal provider of trade finance and export promotion. Its goal is to finance, facilitate and promote India's international trade and investment. Although India Eximbank is a public sector institution, approximately 80% of its total resources are funded through the market on its own authority.

India Eximbank provides several products aimed at the pre-export production process as well as performance bonds and guarantees. In addition, India Eximbank offers post-shipment direct loans and lines of credit. India Eximbank's target markets are Africa, Latin America and China.

Data for 2009/2010 for total India Eximbank lending activity (as presented by India Eximbank) that includes all lending and guarantee programs shows MLT support of approximately $4 bn. FDI support is estimated at $226 million.

India Eximbank finances a wide range of sectors, including turnkey projects such as hydroelectric facilities, infrastructure (roads, utilities), telecommunications, engineering services, information technology services, financial services, hospitality services, auto components, consumer goods, gems and jewelry, etc. (31%).

India Eximbank will finance up to 90% of the contract value of the exports it supports. Eligible products are classified into two product groups. Group A includes capital equipment and may receive credit terms ranging from three to 11 years, although 3-5 year terms are most common. Group B is comprised of consumer durables and industrial items usually exported on a cash basis, with maximum credit terms of two years. When providing rupee loans, India Eximbank sets a fixed market-based interest rate, while it will provide foreign currency loans on a floating rate basis with a spread over LIBOR.

Export Credit Guarantee Corporation of India (ECGC)

Founded in 1957, ECGC operates under the administrative control of the Ministry of Commerce and Industry, but like India Eximbank, it raises funds in the market. Its mission is "to support and strengthen the export promotion drive in India." Of note, the Ministry of Commerce and Industry is also the oversight body for concessionary financing.

To accomplish this broad mandate, ECGC offers a range of credit risk insurance products to exporters and financial institutions. Insurance cover is available for short, medium, and long terms. ECGC also provides pre-shipment support, guarantees for commercial bank loans, and exchange rate fluctuation cover on a risk shared basis with the exporter for both pre- and post-shipment financing. In addition, ECGC provides foreign direct investment insurance. Banks financing exports, including India

Eximbank, are eligible for ECGC cover. ECGC insurance covers approximately 11% of India's exports. ECGC is the only official trade insurance agency but may share coverage with private insurance companies for short-term insurance.

Of ECGC activity in 2009, medium- and long-term insurance totaled approximately $1 billion.

ECGC coverage spans an array of sectors, including engineering (14%), chemicals (12%), leather (9%), textiles (7%) and "other categories" (40%). The remaining 18% includes sectors such as gems and jewelry, tea and handicrafts.

ECGC will provide 90% cover on insurance policies for commercial and political risks. The remaining 10% is borne by the exporter. ECGC reserves the right to offer a lower percentage of cover in certain cases. Premia vary depending on the payment terms, country risk classification, and type of risk covered (commercial, political, or a combination of the two). Based on the information available, ECGC will generally issue coverage for up to a one-year term, but terms may be extended for longer-term transactions.

BRAZIL

Brazil has two ECAs: SBCE and BNDES.

Seguradora Brasileira de Crédito à Exportação (SBCE)

SBCE is partly owned by the government (BNDES and Banco do Brasil) which holds 24.18%, with COFACE (of France) owning the remaining balance with 75.82%. SBCE is an export credit insurance agency and acts on behalf of the Brazilian government, and as such, is able to offer support in the form of short (SME) and also medium- and long-term export credit risk cover on the basis of the Brazilian Treasury Export Guarantee Fund (FGE).

SBCE is a member of the Berne Union and Brazil is a full participant in the OECD Aircraft Sector Understanding counting on the expertise of SBCE as a legitimate agent of the Brazilian government. SBCE appears to comply with OECD Arrangement rules since it started the business in 1997 with none of its programs or activities suggesting any exceptional behavior. Further to the export credit insurance provided to the Brazilian official banks (BNDES and Banco do Brasil which plays the role of a commercial bank as well) late in 2010, the Brazilian government issued the first pure export credit cover policy to a private lender under the Sector Understanding on Export Credits for Civil Aircraft (ASU) provisions and related to a transaction structured by SBCE, on behalf of the Brazilian government, in co-ordination with a commercial bank.

SBCE works very closely with BNDES to provide official export credit support for Brazil's exports. BNDES, the state development bank, provides funding for transactions, while SBCE will provide credit risk insurance for the transaction, so rather than competing with one another they provide complementary roles in financing Brazilian exports. Approximately 98% of SBCE's medium- and long-term export credit insurance is provided to transactions where BNDES is the lender, with the remaining 2% insuring Banco do Brasil loans. In addition, BNDES holds half of the Brazilian government's shares in SBCE. The two agencies also collaborate in the management of the FGE, with SBCE responsible for risk monitoring and portfolio analysis and BNDES responsible for accounting.

SBCE indicates that it generally complies with Arrangement rules, with the exception of regional aircraft transactions where Canada's market window, EDC, is its biggest competitor. SBCE's reported total MLT export credit support for 2010 is $18 billion.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

BNDES was created in 1952 to be the main source of long-term financing for the Brazilian domestic economy. Similar to Germany's KfW, BNDES serves many domestic development functions in addition to providing export finance, including social programs, infrastructure support and the development of small and medium-sized enterprises (SMEs). BNDES' total disbursements have ranged from $11 billion to $18 billion from 1997 to 2004.

BNDES began its export finance program in 1991. The program has four key objectives:

1. Offer financing for the export of goods and services of "greater added value" under internationally competitive conditions;
2. Increase Brazil's export base, with an emphasis on SMEs;
3. Generate foreign currency, income and employment; and
4. Promote the integration of South America (an overarching Brazilian government goal).

Because Brazil's domestic banks have been unable to provide long-term financing for Brazilian exporters, and because foreign banks have been unwilling to finance Brazilian exports without a Brazilian government guarantee, BNDES operates as the country's primary provider of medium- and long-term export finance. Thus, the "internationally competitive conditions" articulated in the first objective above mean that BNDES will both meet official export credit competition on OECD Arrangement terms and private finance on market terms (i.e., market window financing). Rather than operating as a lender of last resort, BNDES is Brazil's trade finance lender of only resort.

BNDES provides direct loans for both short-term pre-shipment (working capital) and medium- and long-term post-shipment transactions. Its post-shipment support includes both suppliers' and buyers' credits. In 2009, BNDESs' reported disbursements for exports rose 26% to $8.3 billion (vs. authorized which is not reported). Capital goods supported included aircraft, industrial and farming machinery, power generation and transmission equipment, telecommunications, and vehicles. Engineering and construction services also accounted for an important portion.

Latin America and Africa represent the largest regional concentrations for BNDES. For example, in 2008/2009, BNDES signed an MOU with Angola for a credit line of $1.75 billion that will support Brazilian exports of goods and services that have been identified as priority projects by the Angolan Government mainly for public works infrastructure projects. In 2009, $766 million had been disbursed

BNDES uses LIBOR as the base rate for its loans. It charges a 2% spread for its risk, and the guaranteeing bank will charge an additional spread. Additional commitment fees or other charges may also be added. BNDES generally tries to reference the Arrangement, although it will provide more flexible terms when necessary. BNDES will typically not offer more than 12-year repayment terms, and its average repayment term is eight years. However, it has provided up to 20-year repayment terms, including for exports to China's Three Gorges Dam. It will also provide 15-year terms for aircraft transactions. BNDES will finance 100% of an export transaction, rather than the OECD's required 85% maximum, although BNDES will not provide local costs support. When BNDES loans receive SBCE cover on behalf of the Brazilian government, SBCE will charge a premium in compliance with the Arrangement.