

EXPORT-IMPORT BANK OF THE UNITED STATES

REPORT TO THE U.S. CONGRESS ON GLOBAL EXPORT CREDIT COMPETITION



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For the period January 1, 2016
through December 31, 2016

CONTENTS

EXIM Bank Board of Directors and Advisory Committee Status	1
Executive Summary	2
Chapter 1: Introduction and Overview	4
SECTION 1: OVERVIEW OF EXPORT CREDIT AGENCIES AND THE STATE OF OFFICIAL EXPORT CREDIT IN 2016	6
Chapter 2: A Primer on Export Credit Agencies.....	8
Chapter 3: Evolving Export Credit Agency Strategies	11
Chapter 4: Key Macro Factors Affecting Global Export Finance in 2016.....	14
SECTION 2: THE EVOLVING SCALE AND NATURE OF OFFICIAL EXPORT CREDIT OUTSIDE OF THE UNITED STATES	16
Chapter 5: Official Medium- and Long-Term Export Credit Activity	18
New Major Medium- and Long-Term Official Export Credit Volumes	22
Chapter 6: Asian Export Credit Agencies' Investment and Untied Programs - Up Close.....	24
Chapter 7: A Model "Highly Effective" Export Credit Agency	27
SECTION 3: SPECIAL SECTIONS.....	30
Chapter 8: The Medium-Term Program	32
Chapter 9: Surveys.....	36
SECTION 4: HIGHLIGHTS OF ACTIVITY IN MAJOR PROGRAMS AND POLICIES.....	38
Chapter 10: Program and Policy Updates	40
SECTION 5: APPENDICES.....	42
Appendix A: Purpose of EXIM Transactions	44
Appendix B: Equal Access for U.S. Insurance.....	45
Appendix C: Tied-Aid Credit Program and Fund.....	46
Appendix D: Co-financing	50
Appendix E: Environmental Policy	51
Appendix F: Services	53
Appendix G: U.S.-Flag Shipping Requirement	54
Appendix H: Trade Promotion Coordinating Committee	55
Appendix I: Transaction Processing Times.....	57
Appendix J: "Point of Experience" Customer Survey	58
Appendix K: List of Active Export Credit Agencies	59
Glossary.....	61
Acronyms and Abbreviations.....	63
A Sampling of Export Credit Agencies Across the Globe.....	64

For additional chapters, see the 2016 Competitiveness Report at www.exim.gov

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June 2017

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Advisory Committee Status

Section 3(d)(4) of the EXIM charter calls for the Bank's Advisory Committee to submit comments on the findings of the Competitiveness Report to Congress. The 2016 Competitiveness Report does not include comments from an Advisory Committee because the Bank was unable to appoint one for calendar year 2016 due to the lack of a quorum on EXIM's board of directors since July 2015.

Executive Summary

EXECUTIVE SUMMARY

The Export-Import Bank of the United States (“EXIM” or “the Bank”) annual Competitiveness Report is mandated by Congress in EXIM’s charter and is intended to relay to Congress a vision as to how competitive EXIM is relative to the other 96 export credit agencies (ECAs) around the world. This year’s report is unique due to the fact that, despite having overwhelmingly approved a bipartisan extension to the Bank’s authority to approve new transactions through September 30, 2019, Congress has failed to approve additional board members for the Bank. Without at least three voting board members (excluding ex officio members), EXIM does not have a quorum and is limited (with few exceptions) to only approving transactions up to \$10 million. This has resulted in more than \$30 billion worth of larger transactions being stuck in the Bank’s pipeline. Those transactions, if EXIM had a quorum and could finance the exports, would support an estimated 200,000 U.S. jobs.

This report marks a fundamental change in the nature and composition of the Competitiveness Report. Given that the vast majority of the aspects usually covered in the Competitiveness Report were not operative in 2016 due to lack of a board quorum, the focus of this report has changed from a side-by-side comparison of the United States versus the rest of world on a variety of financial and programmatic aspects to a report which (1) examines areas in which there was actual information (i.e., the medium-term arena and foreign ECAs’ practices) and (2) establishes a reference point for comparison. Hopefully, these insights will provide useful reference points if and when EXIM is able to operate again with a board quorum.

Accordingly, the analysis focuses on the following:

- **Medium-Term Programs** – an examination of competitor activity in the one part of EXIM’s medium- and long-term (MLT) portfolio that was active in 2016 given the quorum restraints;
- **Foreign ECA Strides** – an assessment of the new programs and products that foreign ECAs added in 2016,

with a focus on the Asian ECAs, which have a particularly robust competitive model; and

- **EXIM “Fit”** – a look into how EXIM fits into the competitive landscape relative to the most highly effective ECAs, if and when the Bank becomes fully operational.

Changing the perspective of the report and taking a longer-term look at ECA developments (e.g., over the past five to 10 years) has provided insights not only on the scale of change in the ECA world but also suggests two possible drivers of much of the change seen in recent years. They are:

- 1) The Emergence of the Chinese ECA System – not just as the largest ECA system in the world (in the short-, medium-, and long-term arenas) but also as:
 - (a) an aggressive export promotion model (not a corrector of market imperfections), and
 - (b) the point of the broader Chinese government policy spear (e.g., “going out” and now “One Belt, One Road” and “China 2025”).^{1,2}
- 2) The Global Financial Crisis and the European Debt Crisis – this back-to-back crisis doubleheader:
 - (a) shredded the confidence of European ECAs in their dependence on banks to deliver their product;
 - (b) caused many competitor countries in Europe and Asia to turn to exports to support national growth; and
 - (c) led to a new world of banking regulations that have fundamentally altered the role of commercial banks in MLT export finance.

The main impacts of the emergence of the Chinese ECAs have been:

- 1) Increased clarity over the last 10 to 15 years that in the long run, there could be little relevance of any international export credit rules system that did not have China as a participant. While the International Working Group on Export Credits (IWG) eventually emerged to address this situation, progress

1 One Belt, One Road is a Chinese infrastructure investment plan that Chinese officials expect will reach \$4 trillion. It includes two pieces, an overland “Belt” and a maritime “Road,” that will connect more than 60 countries in Asia, Africa, and Europe.

2 China 2025, also known as Made in China 2025, refers to a government-led initiative to move China up the global value chain. China 2025 outlines priority sectors that include aeronautics, rail, agricultural equipment, and advanced information technology, among others.

towards a multilateral disciplining of export credits has been slow to develop.³ Against this backdrop, unilateral export-related programs and policies aimed at defending – if not expanding – national exports have risen. Accordingly, today there are not only an ever-increasing number of programs within the Organisation for Economic Co-operation and Development (OECD) member ECAs that lie outside OECD Arrangement coverage, but there is also a greater diversity in the nature of programs that are covered and a widening spectrum of opinions as to how to interpret the OECD rules.

- 2) Recognition, when looking over developments of the last 10 years, that the Chinese ECA practice of providing significant amounts of finance from various tied and untied sources appears to have triggered the following:
 1. The Japanese and Korean ECAs bolstered their investment and untied programs as they were in the initial round of ECAs impacted by the competitiveness of the new Chinese ECA model.
 2. As the Japanese and Korean ECA response became their standard approach, the Europeans (e.g., the recent German “special program”) began putting in place matching capabilities for specific transactions.
 3. Eventually, the whole “big case” arena (project finance, structured finance, major corporate and sovereign cases) has been flooded with all sorts of special programs designed to give the providing ECA some unique advantage on the financing side of bids into these large transactions.
- 3) In an observation just confirmed this past year, China appears to be reintroducing the concept of “mixed credits” (i.e., blending standard export credit with development finance on the same – usually commercial – transaction) back into the ECA competitive landscape. Given the highly competitive financing package that results, competitors will either have to match or give up the sectors affected. Doing the former could reverse the great success the Arrangement has had in eliminating subsidies and providing a level playing field.

The major impacts on the ECA world emanating from the two financial crises include:

- 1) Jolting the insurance-based European ECAs into the awareness that they could not depend on commercial banks to fund (competitively, if at all) either the special fixed-rate facilities or the standard floating rates on pure cover. Hence, the world today sees many new official financing vehicles providing either fixed or floating rates (or both). In fact, in 2016 the volume of ECA-backed and officially funded floating rate

Many governments have reinvented, reinforced, reoriented, and restructured their ECAs to be highly effective strategic partners in support of national growth objectives.

lending exceeded ECA-backed fixed-rate lending by a wide margin. This new official floating rate loan activity appears to be creating competitive dynamics among ECAs whose nature and degree have not yet been defined, given inconsistent data availability pertaining to these programs.

- 2) In the bulk of OECD countries, seeing exports as a (or the) key route to national growth. A direct result of such a priority on exports is that many governments have reinvented, reinforced, reoriented, and restructured their ECAs to be highly effective strategic partners in support of national growth objectives. Given their strategic connection to national economic objectives, these reinvigorated ECAs tend to take a proactive – if not aggressive – approach to meeting the needs of their export sector. Not surprisingly, these ECAs are putting forward new programs and structures on a regular basis.
- 3) In the aftermath of these financial crises, commercial banks reported that under Basel III standards, as implemented by domestic regulators, commercial banks are to hold additional capital and undertake initiatives to address maturity mismatches between their assets and liabilities. As such, commercial banks may play a lesser role as a long-term funder or non-investment-grade risk taker for long-term export finance transactions. In fact, one major exporter commented that he expects commercial banks (as a risk-taking funder/asset holder) to be largely out of the long-term export finance market within five years. The pullback has been taking place gradually over the past few years, and continued in 2016 in spite of historically unprecedented liquidity. This retreat creates: (a) a demand for private export credit insurers as an ever-larger risk mitigant; and (b) a term and risk gap of significant proportions that ECAs are being asked to fill. Evidence of this role is the fact that in 2016 – despite massive liquidity, a roaring commercial aircraft market, a geometric rise in the capacity of private export credit insurers in the MLT space, and a sluggish demand for export finance overall – the OECD ECAs did official business pointedly greater than prior to the Global Financial Crisis.

³ The IWG began out of a bilateral initiative between the United States and China as part of the Strategic and Economic Dialogue. The goal of the IWG was, and is, to engage with all major providers of export finance in order to establish an international framework governing the provision of official support for export credit. This U.S.-China initiative became what is today the IWG, an international negotiation that includes both OECD countries and non-OECD countries that are not currently Participants (and thus are not subject to the regulatory framework) to the OECD Arrangement.

CHAPTER 1

Introduction and Overview

BACKGROUND

EXIM was reauthorized via the Export-Import Bank Reform and Authorization Act of 2015 (PL 114-94) signed on December 4, 2015, by President Barack Obama. The reauthorization gives EXIM legal authority to operate its full range of programs through September 30, 2019. However, since July 20, 2015, EXIM has been without the minimum three directors (excluding ex officio members) necessary to constitute the quorum required for board-level transactions. Without a quorum, EXIM is generally unable to authorize transactions greater than \$10 million in value or with a tenor of longer than seven years. As a result, EXIM operated only its short- and medium-term programs for the entirety of 2016.

EXIM's charter mandates that EXIM submit to Congress an annual assessment of its competitiveness relative to other major ECAs. The charter states that the Competitiveness Report should survey the major ECAs and "indicate in specific terms the ways in which the Bank's rates, terms, and other conditions compare with those offered from such other governments directly or indirectly." Historically, EXIM focused its analysis on the G7 ECAs (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), as they represented more than 80 percent of all export credit activity. In recognition of the growing influence of other nations in export finance, this list was expanded in 2012, pursuant to an EXIM Advisory Committee recommendation, to include a comparison to other major OECD ECAs (Denmark, Finland, South Korea, the Netherlands, Norway, Spain, and Sweden).⁴ The analysis was also broadened to include (1) trade-related support provided by the major OECD ECAs that falls outside the formal scope of the OECD Arrangement; and (2) major non-OECD ECA activity from the BRIC countries: Brazil, Russia, India, and, most significantly, China.

Previous editions of the Competitiveness Report highlighted the business EXIM conducted in the medium- and long-term (MLT)

arena relative to its competitors. An analysis of this type is not possible in 2016 because EXIM was not able to approve any long-term transactions due to its lack of board quorum. Thus, no U.S. information is available for comparison. The dearth of long-term deals is particularly damaging for competitive analysis since this segment experiences the most competition between U.S. exporters (supported by EXIM) and foreign exporters (supported by their relevant ECAs).

Given EXIM's extraordinary circumstances in 2016, this year's analysis was prepared with a focus on the following:

- a) The Medium-term (MT) arena;
- b) The direction and pace of evolution by foreign ECAs in 2016 – how foreign ECAs have evolved while EXIM was constrained, with a focus on the Asian ECAs that have a particularly robust operational model; and
- c) How EXIM and other ECAs may fit into the competitive landscape relative to a hypothetical model of a "Highly Effective" ECA.

REPORT STRUCTURE

The 2016 Competitiveness Report includes five sections. Section 1 provides a historical overview of ECAs, an introduction to the types of ECAs that are prevalent in today's competitive landscape, and an examination of how governments are enhancing their ECAs to reflect their government priorities.

Section 2 discusses the 2016 activity of the world's major ECAs, including programs both under and outside the OECD Arrangement – with detailed information on China's ECAs. Following an introduction to the "Asian Model," the Competitiveness Report features a close-up look at the untied and investment finance programs of Japanese and Korean ECAs in order to illuminate why these programs are important in official export finance and how they lead to national benefits.

⁴ "OECD ECAs" refers to those ECAs that are both members of the OECD and are Participants to the OECD Arrangement on Officially Supported Export Credits.

Section 2 closes with a look at how countries’ practices and strategies have changed (while EXIM remained unable to operate its full range of programs) based on the “Highly Effective” ECA concept introduced in 2013.

Section 3 analyzes EXIM’s MT program and its Exporter and Lender Survey. In previous Competitiveness Reports, EXIM’s MT activity was presented in aggregate with its long-term activity. However, EXIM’s unique condition in 2016 provides an opportunity to look at the MT program more closely. EXIM’s Exporter and Lender Survey is required by EXIM’s charter and allows Bank customers to provide feedback on both EXIM programs and those offered by foreign ECAs. These results are presented alongside responses gathered in a separate independent survey by the export finance organization, Trade and Export Finance (TXF), and market research firm, CLEVIS Research.

Section 4 features highlights from 2016 in the major sectors and policies that have been discussed in previous Competitiveness

Reports, including aircraft, project finance, co-financing, and renewable energy, among others.

The appendices presented in Section 5 include additional information required by EXIM’s charter or on topics and policies that provide for a more thorough understanding of important export finance concepts.

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SHORT-TERM PROGRAMS

The Competitiveness Report does not focus on short-term (ST) transactions because the major economies of the world differ markedly in the use of official ECA support in this arena. Some countries (notably in the European Union) are legally prohibited from providing short-term support for marketable transactions because of the breadth and depth of private short-term trade credit providers, while others (specifically the Asian ECAs) are expected to be the main internal providers of short-term trade credit support because there are few private providers in their markets. In the United States, although there is an increasingly robust private insurance market, insurers prefer to cover larger-ticket export sales, leaving EXIM to fill the void with its ST export insurance for small or new-to-export businesses requiring more time and attention.

However, recent years have seen the expansion of working capital programs as a means of facilitating the export readiness of supply chains. In Europe, for example, ECAs are developing substantial short-term exposure to non-marketable risks around their small business products. Given the potential impact of such programs on future competitiveness, with this report EXIM will begin examining these programs in the Competitiveness Report.

Figure 1 depicts a baseline of activity and a description of supply chain programs can be found in Chapter 3. The main purpose is to provide insights as to “best practice” policies and programs, some of which may be applicable to U.S. objectives in the short-term arena.

Figure 1: New Short-Term Official Export Credit and Working Capital Volumes, 2016

Country (ECA)	New Commitments (billions USD)
China (Sinosure)	375.2
Korea (K-sure)	119.4
Japan (NEXI)	52.9
Canada (EDC)	47.6
India (ECGC)	39.8
Germany (Euler Hermes)	12.0
Russia (EXIAR)	8.2
United States (EXIM)	3.7
Italy (SACE)	1.8
United Kingdom (UKEF)	0.1

Sources: EXIM, bilateral engagement

SECTION 1:

**OVERVIEW OF EXPORT CREDIT
AGENCIES AND THE STATE OF
OFFICIAL EXPORT CREDIT IN 2016**

The world of official export credit has changed considerably in response to the Global Financial Crisis and the European Debt Crisis. Many ECAs have been asked to step up their support for national exports. New programs outside the bounds of the OECD Arrangement continue to be introduced and expanded. The sustained strength of non-OECD ECAs, particularly in Brazil, China, and India, continues to change the issues and standards of the competitive landscape. The chapters that follow:

- **Explain the basic structure** of the MLT ECA world, with particular emphasis on overlap in the type of ECAs and the nature and scale of programs that are prevalent today;
- **Describe the broad strategies** of official ECAs during 2016; and
- **Identify the key influences** impacting the MLT ECA world in 2016 while quantifying their impact on official ECA financing.

CHAPTER 2

A Primer on Export Credit Agencies

OVERVIEW

The Export-Import Bank of the United States was established in 1934, 15 years after the world's first export credit agency was founded in the United Kingdom. EXIM's mission today is to support U.S. jobs through exports. The Bank helps U.S. exporters compete by taking cross-border risks through export loans, guarantees, and insurance. EXIM only provides financing when U.S. exporters are facing foreign competition supported by official export credits or when the private sector is either unwilling or unable to provide financing due to portfolio considerations such as country-risk concentration or regulatory constraints. EXIM's programs and policies reflect the belief that export credit agencies should fill gaps in export financing by acting as a lender of last resort. This philosophy is in contrast to the objectives of many other countries around the globe. Some ECAs are mandated to undertake MLT international financing that provides any number of short-, medium-, or long-term national benefits. These benefits range from stimulating inward investment to maintaining the domestic headquarters of "National Champion" companies.

RULES GOVERNING EXPORT CREDITS

EXIM's MLT programs follow the rules set forth by the OECD Arrangement on Officially Supported Export Credits – a "Gentleman's Agreement" commonly referred to as the OECD Arrangement (or "the Arrangement"). The parties to the OECD Arrangement recognized that unbridled export finance could lead to a "race to the bottom" if financing terms were not managed and therefore established a framework for a level playing field among OECD export credit providers. By setting comprehensive rules, the OECD Arrangement aimed to ensure that buyers would choose to purchase products and services based on price and quality of the goods rather than financing terms alone.

EXIM's programs and policies reflect the belief that export credit agencies should fill gaps in export financing by acting as a lender of last resort.

The OECD Arrangement is a framework that governs ECAs' provision of tied MLT export credits – those with tenors greater than two years. An export credit is considered tied when an ECA provides support contingent on at least some national procurement of goods or services from the ECA's country. In contrast, untied trade-related credit denotes official debt financing that facilitates international trade flows where procurement is not required to be sourced from the ECA's country. There is no prohibition against the buyer choosing to source from the ECA's home country, either. Instead, untied MLT support typically involves other conditions that result in a national benefit to the economy of the ECA's country. Importantly, the OECD Arrangement does not set parameters for untied export credits. Thus, parties to the OECD Arrangement that operate untied MLT programs (as discussed in Chapter 5) are not breaking the rules; rather, these programs are simply outside the Arrangement's scope.

THE DIFFERENT CATEGORIES OF ECAS

As of December 31, 2016, EXIM had identified 96 export credit agencies worldwide that emphasize export promotion and expansion, despite having a wide range of mandates. Of these ECAs, approximately half offer MLT products that could be

THE EVOLUTION OF ECAs

The dynamics of the MLT export finance world were changed dramatically and fundamentally by the events of, and government responses to, the Global Financial Crisis and the European Debt Crisis. Beforehand, a major issue at export finance conferences was whether official ECAs would still be significant providers of export finance in the future, given the robust liquidity of the commercial sector at the time. However, since 2007, the consensus of government officials, bankers, regulators (e.g., the World Trade Organization), and industry experts is that the increased growth and role of official ECAs is crucial to maximizing global trade and GDP. While such changes have many sources, the three described below are among the most important:

- *The dramatic increase in the strategic importance of exports for national growth:*
Foreign governments have put a priority on ensuring all agencies and mechanisms supporting exports are robust.

- *The retreat of commercial banks as funders and risk takers of long-term export finance:*
The regulatory response to the Global Financial Crisis has led commercial banks back toward a short- or medium-term intermediary role. Banks are no longer able or willing to take on as much risk, especially at longer tenors or for larger deals in riskier markets. ECAs and multilateral organizations are needed to fill in the gap in financing and support growth.
- *The redefinition of ECAs as part of a strategic big picture:*
An aggressive ECA is a primary instrument used by governments looking to expand exports. In effect, ECAs become a part of national growth strategies. This strategic connection led to increased funding for, and expanded mandates of, ECAs around the world, as well as a shift from a lender of last resort to a more proactive role in meeting a variety of export financing needs. A natural consequence of this strategic importance was the rapid expansion of “trade-related” programs that are outside the scope of the OECD Arrangement rules (e.g., investment and untied support).

considered competitive with products offered by EXIM. ECAs administer the official export credit programs of a country. ECAs are usually government agencies, though several private institutions operate export credit programs on their respective government’s behalf. Governments shape their ECAs based on: (1) domestic policy goals, (2) the ability of commercial banks and insurers to provide export finance, and (3) the needs of domestic exporters. This leads to a wide range of programs and mandates among ECAs, making simple point-to-point comparisons anywhere from difficult to irrelevant.

EXIM has identified 96 export credit agencies worldwide that emphasize export promotion and expansion, despite having a wide range of mandates.

With regard to the forms they take, ECAs fall into one of three categories: pure cover, direct lending, or a combination of both. A pure-cover ECA depends on a commercial bank to fund exports or projects, and offers insurance and guarantees against nonpayment. Conversely, a direct lending ECA is able to lend directly to the buyer. Some ECAs, like EXIM, fit both categories.

ECAs can be further distilled into three categories based on their membership in the OECD and if they operate programs outside the rules of the OECD Arrangement.

1. OECD Members, Operating Only OECD-Arrangement MLT Programs

This group of ECAs provides only OECD Arrangement-compliant insurance, guarantees, and direct loans. For all MLT transactions, this group of ECAs follows the pricing, transparency, and flexibilities outlined in the OECD Arrangement. EXIM is a member of this group.

2. OECD Members, Operating MLT Programs Both Under and Outside of the OECD Arrangement

Several OECD ECAs operate programs both under and outside the OECD Arrangement, such as market-window, investment, and untied programs.

In a market-window program, an ECA offers pricing competitive with the commercial market. A market window does not necessarily result in lower financing costs compared with financing provided under the OECD Arrangement. However, ECAs have more flexibility on tenor, down payments, and fees as the transaction is not covered by OECD rules.

In an investment financing program, an ECA provides support to a domestic company seeking to take an equity stake overseas. This activity is a form of untied support, in that there may not be any international trade of goods or services. However, by taking an equity stake, domestic companies may drive future procurement or play a role

in the selection of an engineering, procurement, and construction (EPC) contractor.

3. Non-OECD ECAs or OECD Countries Not Participating in the OECD Arrangement

The final group of ECAs exists entirely outside of the OECD Arrangement. As a result, this group of ECAs has the highest degree of flexibility. In some cases, these ECAs operate programs that have terms loosely aligned with the OECD Arrangement. In other cases, the financing offered may be on commercial or concessional (below-market rates) terms.

Figure 2: Major ECA Countries by Program Type ^{5,6}

Participant to the OECD Arrangement Arrangement MLT Programs	Participant to the OECD Arrangement Non-Arrangement MLT Programs	Non-Participants to the OECD Arrangement
	Australia	Brazil
	Austria	China
	Belgium	India
	Canada	Israel
Denmark		Mexico
Finland		Russia
France		South Africa
	Germany	Turkey
	Italy	
	Japan	
	Korea	
	The Netherlands	
	Norway	
Spain		
	Sweden	
Switzerland		
United Kingdom		
United States		

⁵ Brazil is a member of the OECD Aircraft Sector Understanding.

⁶ Israel, Mexico, and Turkey are OECD members but are not Participants to the OECD Arrangement.

CHAPTER 3

Evolving Export Credit Agency Strategies

OVERVIEW

The depth of ECA involvement in a country's export promotion strategy changes as a government responds to global competition and domestic conditions. Compared with EXIM, other ECAs reacted to slower GDP growth and falling trade volumes by taking a markedly more proactive approach. In 2016, non-U.S. ECAs increased the size of programs, expanded the types of programs offered, and utilized new methods for marketing their products. ECAs enhanced their physical presence, opening representative offices near markets of strategic importance, and reduced policy barriers to more readily support exporters and international projects of national interest. EXIM's competitors introduced a variety of new programs both inside and outside the rules of the OECD Arrangement that will allow them to better compete now and in the future.

Of note:

- Despite sufficient commercial bank liquidity for investment grade borrowers in developed countries, the gap between commercial bank risk appetite and opportunities for U.S. exporters in riskier markets persists. In fact, a variety of ECAs have added or enhanced direct lending programs.
- Blended finance, wherein, a standard export credit is combined with development finance to make terms more attractive has re-emerged – largely from China.

This chapter focuses on strategic changes among EXIM's competitors.

MAJOR CHANGES MADE BY OECD ECAS

European ECAs made a variety of changes in 2016 that demonstrate the larger, more fulsome role they play in helping drive exports. The government of France transferred its guarantee from COFACE (a private insurer) to Bpifrance (a government bank) in December 2016. Bpifrance will now offer a direct state guarantee as opposed to COFACE's guarantee on

behalf of the French state. This change was deliberately aimed at enhancing France's export credit support, making it more accessible to commercial banks in the context of a challenging regulatory regime.⁷ In addition to changing its guarantee, the French government will be able to utilize Bpifrance's large private-sector network to market their programs throughout France, particularly to small businesses. The French government approved an exposure ceiling of €35 billion (\$39 billion).

In 2016, non-U.S. ECAs increased the size of programs, expanded the types of programs offered, and utilized new methods for marketing their products.

In the United Kingdom, UKEF continued to grow its risk appetite, doubling its maximum exposure limits from £2.5 billion (\$3.4 billion) to £5.0 billion (\$6.8 billion). This change was supplemented by an expansion in the types of programs UKEF offered in 2016, including its first long-term Euro-denominated direct loan for a gas-fired power plant into Turkey, supporting roughly \$26 million in British exports. Additionally, UKEF expanded the number of local currencies in which it can provide support, exceeding the number supported by EXIM.

In Germany, Euler Hermes has increased its political and commercial risk coverage to the OECD Arrangement maximums (100%). Germany is also examining how it can expand its current untied program to better compete with the untied

⁷ Under Basel III standards, as implemented by domestic regulators, commercial banks are to hold additional capital and to undertake initiatives to address maturity mismatches between their assets and liabilities.

and investment programs of Asian ECAs. (see Chapter 6 for more details). Furthermore, Germany made its content policy more streamlined and flexible, now allowing 49 percent foreign content for all transactions (including local costs) with room to negotiate the percentage even higher on a case-by-case basis.⁸

In Japan, JBIC has instituted measures to expand its risk appetite. In 2016, JBIC underwent restructuring that resulted in the introduction of a Special Account aimed at facilitating consideration of higher-risk projects. Unlike its traditional lending operations, the Special Account does not require a reasonable assurance of repayment on each transaction. Instead, the focus of the new Japanese Special Account is on long-term break even or “self-servicing” of the whole portfolio, that is, to avoid losses. According to JBIC, the Special Account will allow Japan to better compete for projects in emerging markets where demand for ECA-backed loans is growing.

In response to the increasingly globalized nature of production, many ECAs are building out working capital and supply chain programs.

MAJOR CHANGES MADE BY NON-OECD ECAS

China began implementation of its 13th Five-Year Development Plan in 2016. China’s ECAs, the Export-Import Bank of China (CEXIM) and Sinosure, were committed to expanding their business, with a particular focus on playing a strategic role in implementing the One Belt, One Road initiative and improving the competitiveness of Chinese exporters. (See Chapter 5 for details.)

Russia’s ECA, EXIAR, made several changes in 2016 that will allow it to play a larger role in the supply of official export finance. The most important of which was to introduce a new program that allows EXIAR to support projects in Russia that are export-oriented. By involving EXIAR in these projects, Russia is able to help foreign ECAs and banks reduce their risk, thereby spurring more foreign involvement in projects. As part of this new program, EXIAR insured a loan of approximately \$4 billion for the commercial portion of the Yamal liquefied natural gas (LNG) project in Russia.

The Export-Import Bank of India introduced a new financing tool that allows it to offer concessional finance to projects deemed to be of strategic importance. To qualify, the project must have at least 75 percent Indian content.

LENDING PROGRAMS OF ECAS

Several ECAs enhanced their lending mechanisms, including through new direct lending and refinancing programs, in 2016. For example, EKF (Denmark) merged with the Danish State’s Export Lending Scheme and will now offer loans to foreign buyers. Credendo (Belgium) began offering a direct loan for transactions with tenors between two and five years and up to €5 million (\$6.8 million). The Finnish Parliament approved an increase in Finnvera’s authorization limit, raising it from €19 billion (\$26 billion) to €27 billion (\$37 billion). While not exclusively for direct lending, this increase will allow Finnvera to make more loans should it choose to do so. SFIL (France) refinanced its first COFACE-guaranteed export credit in 2016 for cruise ships (€550 million). By the end of 2016, twice as many official funders existed in Europe as did prior to the Global Financial Crisis.

SUPPLY CHAIN AND WORKING CAPITAL PROGRAMS

In response to the increasingly globalized nature of production, many ECAs are building out working capital and supply chain programs. Both types of support provide guarantees to commercial banks or fund exporters directly using accounts receivable as collateral. Whereas working capital support flows to the exporter, supply chain support is provided to exporters’ suppliers.

At least four ECAs, including UKEF (United Kingdom) and Atradius DSB (The Netherlands), are currently in the process of developing or implementing these types of programs. At least six other ECAs, including EXIM, already offer supply chain financing programs. (See Figures 3 and 4 for more details.)

EXPORT MARKETING AND OUTREACH

Foreign ECAs enlarged their global footprint in 2016 by opening new offices abroad. KEXIM (Korea) opened a representative office in Sri Lanka, reaching a total of 28. K-sure (Korea) and SACE (Italy) both opened offices in Dubai. Notably, EDC (Canada) established a foreign office in Singapore that has delegated authority to underwrite, in addition to opening its 15th permanent representation in London. In comparison, EXIM has no international offices.

⁸ Germany’s previous content policy was based on three tiers, allowing (1) up to 30 percent foreign content without any further justification; (2) 30–49 percent foreign content within special conditions and with detailed justification; or (3) over 49 percent foreign content only in exceptional cases.

Figure 3: A Selection of ECAs with Supply Chain Programs

Country	ECA(s) Name	Current Supply Chain Program	Program	Tenor	Focus on Small- and Medium-Sized Enterprises	Tier of Suppliers
United States	EXIM	Yes	Supply Chain Finance Guarantee	ST	Yes	1 st
Canada	EDC	Yes	Supply Chain Finance (SCF)	ST and MLT	Yes	1 st
Turkey	Türk Exim	Yes	Supply chain financing under various programs	ST and MLT	Yes	1 st and 2 nd
China	CEXIM	Yes	Trade Finance Product (targets supply chain)	ST	Yes	1 st and 2 nd
Hungary	EXIM Hungary	Yes	Supply Chain Financing	MLT	Yes	1 st
Mexico	Bancomext	Yes	Supply chain financing under various programs	ST and MLT	Yes	1 st , 2 nd , and 3 rd
United Kingdom	UKEF	Emerging	-	-	-	-
The Netherlands	Atradius DSB	Emerging	-	-	-	-
Norway	GIEK	Emerging	-	-	-	-

Sources: bilateral engagement, OECD, Berne Union, annual reports

Figure 4: A Selection of ECAs with Working Capital Programs

Country	ECA(s) Name	Program(s)	Tenor	Focus on Small- and Medium-Sized Enterprises
United States	EXIM	Working Capital Loan Guarantee	ST	Yes
Italy	SACE	Working Capital Guarantee	ST and MLT	No
France	COFACE	Working Capital Guarantee	ST and MLT	No
Korea	KEXIM/K-sure	Export Project Loan (KEXIM) and Working Capital Guarantee (K-sure)	ST	No
Austria	OeKB	Working Capital Guarantee	ST and MLT	No
Sweden	EKN	Working Capital Guarantee	ST	Yes
Switzerland	SERV	Working Capital Insurance	ST and MLT	Yes
Denmark	EKF	Working Capital Guarantee	ST and MLT	No

Sources: bilateral engagement, OECD, Berne Union, annual reports

CHAPTER 4

Key Macro Factors Affecting Global Export Finance in 2016

OVERVIEW

The main providers of MLT export financing include commercial banks, private export credit insurers, ECAs, and suppliers. The principal sources of demand for MLT export financing include project finance, major sectors such as aircraft and shipbuilding, and capital investment needs of governments. The interplay between providers and customers, subject to macroeconomic and political forces, dictates the level and nature of total MLT export finance activity in any given year.

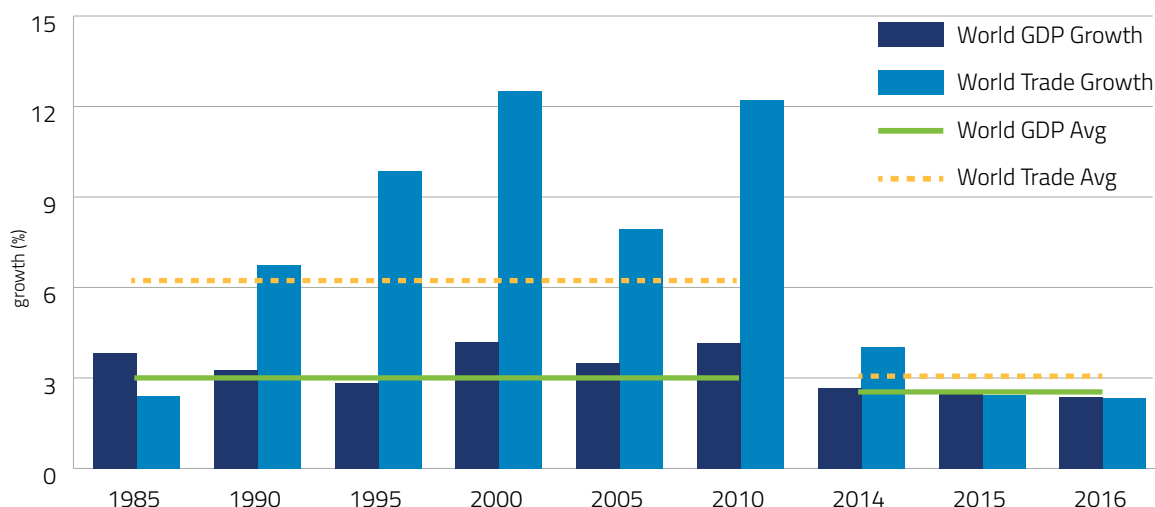
The demand for and supply of export finance in 2016 reflected relative stability or modest growth in demand, but historically unprecedented performance by several sources of supply. Sluggish global export growth of around two percent, combined with a continuation of the commodity bust, meant that it took a strong demand from the transportation sectors (e.g., aircraft and cruise ships) to generate positive demand growth.

Meanwhile, the massive market liquidity led to historic levels of activity by specialist actors (e.g., private export credit insurers), while exceptional circumstances limited official support (severely for the United States and for aircraft in Europe). The net of this mix was a significant decline in official OECD MLT activity (excluding defense financing by other ECAs, which was quite extensive in 2016). Nevertheless, the basic “gap” that has characterized the MLT export finance market since the Global Financial Crisis meant that official non-aircraft OECD MLT activity was still some 15 percent larger than in 2006.⁹

DEMAND FOR MLT EXPORT FINANCE

According to the International Monetary Fund, from 1985 to 2007, real world trade grew twice as fast as global GDP on average.¹⁰ This trend slowed during the Global Financial Crisis, and since 2012, trade growth has barely kept pace with global GDP growth.

Figure 5: Comparison of World Trade and GDP Growth (1985-2016)¹⁰



Source: IMF WEO

⁹ Percentage is based on OECD data. Notifications can be sent up to a year after the commitment occurred, which means that by the time the data are complete, this percentage will likely be higher.

¹⁰ Real world trade as measured by goods and services imports.

Slow trade growth implies slow demand growth for all types of export finance. Some of this fall in demand is offset, however, by borrowers seeking new funding sources (i.e., with debt) to make up for lost export revenues (e.g., from falling commodity prices). This is evident among emerging market borrowers. Between 2005 and 2016, total selected emerging market external debt nearly tripled from \$2.8 to \$7.2 trillion (150% growth), while emerging market goods and services exports and primary income grew from \$3.5 trillion to \$7.5 trillion (110% growth).¹¹ External debt growth outpacing export growth over this period implies that emerging markets increasingly need to borrow to continue investing. This trend aligns with borrowers and exporter reports that anticipate a solid demand for MLT export finance in emerging markets moving forward.

Several sectors that are generally large users of MLT ECA export finance experienced downturns in 2016. The freight shipping industry continued to deal with bankruptcies and financial troubles stemming from overcapacity. In project finance, low commodity prices over the last five years have made long-term commodity investments less attractive. According to Wood Mackenzie, an energy consultancy, half as many large oil and gas projects were started in 2016 as in 2014. Even with prices rebounding at the end of 2016, commodities were still down 48 percent from a 2011 post-financial crisis high. Aircraft financing demand is up moderately as suppliers work through record high orders from previous years. Cruise ship orders were also up, driven by demand in Asia.

Demand for official export finance from Middle Eastern countries is up. Low oil prices adversely affected cash reserves and the ability for domestic banks to provide market liquidity. These developments have led Middle Eastern and North African countries to explore alternative means, including official export finance for projects. In countries like Brazil and Nigeria, domestic concerns (including economic contraction), falling business sentiment, and political uncertainty, continue to be a drag on demand.

SUPPLY OF MLT EXPORT FINANCE

On the supply side, the story was a combination of exceptional highs and lows. The cumulative result of several years of quantitative easing in the United States, the European Union, and Japan created a massively liquid (and very low rate) commercial market. While parts of the commercial banking market continued their retreat from the MLT export finance market (several commercial banks either exited the market or downsized their export finance desks), the ones that remained in the market were more aggressive on rates and terms than in recent years. More dramatically, the search for better

Despite a significant decline in official OECD MLT activity, official non-aircraft OECD MLT activity was still some 15 percent larger than in 2006.

returns led a flood of capital into both the private MLT export credit insurance market and the highly specialized world of large commercial jet aircraft financing.

The resulting declines in export credit activity were concentrated on the official side, where EXIM and the Airbus ECAs (UKEF, COFACE, and Euler Hermes) offered little support for aircraft in 2016.


NET IMPACT ON ECA FINANCING

A modest increase in demand for overall export finance and increased availability from the private sector led to a noticeable decline in ECA financing for 2016 (excluding defense). In particular, demand for official export finance fell in the aircraft, freight-line shipbuilding, and project finance sectors. The fall in demand was tempered by growth in the cruise line and defense sectors. If there is any easing of the official supply constraints, market participants expect the 2017 supply and demand mix to yield considerably higher official MLT activity levels.

¹¹ Export of income receipts refers to investment income and employee compensation.

SECTION 2:

**THE EVOLVING SCALE AND NATURE
OF OFFICIAL EXPORT CREDIT
OUTSIDE OF THE UNITED STATES**



The purpose of the three chapters in this section is to highlight the activity and programs of the world's major ECAs in 2016, with particular focus on:

- Activity by major type of ECA and program, with attempts to highlight priorities and trends with competitive implications;
- An in-depth look at the objectives and uses of the trade-related programs provided by the major Asian OECD ECAs; and
- The creation of a mechanism to measure how the world's major ECAs are doing in their attempts to become "Highly Effective" ECAs.

CHAPTER 5

Official Medium- and Long-Term Export Credit Activity

OVERVIEW

While some ECAs saw record high activity in 2016 due to exceptionally large transactions, overall OECD Arrangement-covered MLT activity was down in 2016. In Asia, ECAs were stifled by downturns in strategic sectors. In Europe and the United States, ECA activity declined due to the absence of large aircraft deals.¹² Most importantly, all ECAs saw a lack of project finance opportunities. Many ECAs, however, report relatively full pipelines of transactions and expect more of the large cases that increasingly dominate ECA MLT financing to be finalized in the years ahead.

More importantly, since 2000, the world of official export credit activity has continued to shift away from the arena covered by the OECD Arrangement and towards programs that exist outside of its confines. As recently as 2011, OECD Arrangement activity was greater than 50 percent of total trade-related support provided by ECAs – now it composes less than one-third. This trend has been, and continues to be, driven by growth of non-OECD ECAs and the dramatic increase in use of investment and untied programs. Similar to their OECD counterparts, non-OECD ECA activity was also down in 2016.

Another important challenge is the emergence (or at least the first observation) of “Mixed Credits” (blending of standard export credit with development finance) in the MLT arena. It appears that China makes regular use of the practice.

OECD ARRANGEMENT MLT ACTIVITY

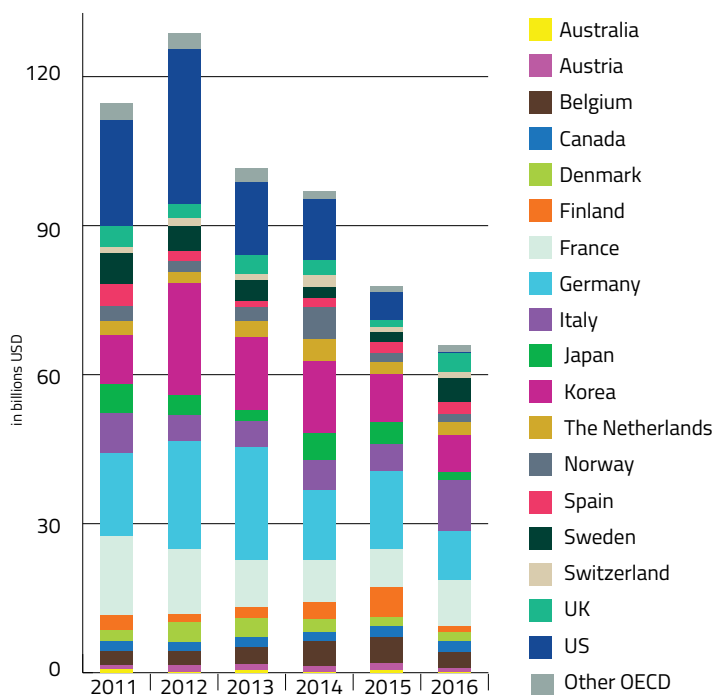
As shown in Figure 6, OECD MLT activity was approximately \$66 billion in 2016, down 15 percent compared with the year prior. This fall continued the trend of declining MLT official export credits under the Arrangement that began in 2013, with a corollary surge in trade-related activity occurring outside Arrangement terms. Activity under the Arrangement

was not down across the board, however. France (+24%), Italy (+93%), Sweden (+141%), and the United Kingdom (+198%) all demonstrated strong growth in their MLT programs. These gains were offset by falling volumes in the United States (-97%), Japan (-63%), Germany (-39%), and Korea (-23%).

BRAZIL, RUSSIA, INDIA, CHINA, SOUTH AFRICA (BRICS) MLT ACTIVITY

As a whole, the BRICS countries provided more than \$51 billion in official MLT export credit support in 2016. Chinese official MLT export credit activity remained the world’s largest at \$34 billion.¹³ India and South Africa demonstrated strong growth

Figure 6: New OECD MLT Official Export Credit Volumes



Sources: EXIM, bilateral engagement, Berne Union, annual reports

¹² In Europe, the Airbus ECAs (UKEF, COFACE, and Euler Hermes) elected to temporarily cease providing export credit to Airbus due to an ongoing investigation by the U.K. Serious Fraud Office. In the United States, EXIM’s lack of board quorum and its inability to provide support in excess of \$10 million resulted in a lack of large aircraft being financed.

¹³ Chinese MLT figures are composed of CEXIM’s Buyer’s and Seller’s Credit programs and Sinosure’s MLT activity. The change in Chinese MLT activity between 2015 and 2016 is largely attributed to newly available information that informed the methodology used to calculate the size of CEXIM’s programs, particularly the Seller’s Credit program, as described later in this report and in an appendix explaining EXIM’s China data methodology available on the EXIM website. Given the lack of transparency regarding Chinese data, the total figures for Chinese financing should be considered broad but conservative estimates, subject to revision.

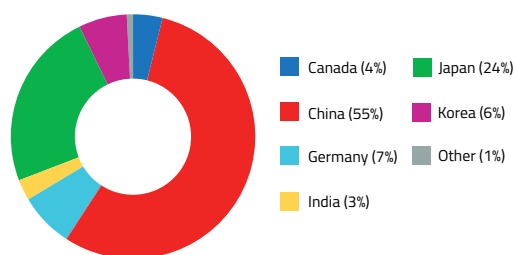
with increases in MLT commitments of 41 percent and 555 percent, respectively. Russia saw the largest change in support, increasing from \$0.6 billion in 2015 to \$4.6 billion (659%) in 2016, almost completely due to domestic support for export-oriented projects, as opposed to cross-border risks.

INVESTMENT, MARKET WINDOW, AND UNTIED SUPPORT

These programs tend to be highly associated with special or major projects where national interest is significant. As the major project sectors in 2016 were concentrated in transportation (cruise ships) and defense, these “outside Arrangement scope” program volumes were all steady to slightly down.

Investment support is estimated to be virtually unchanged in 2016. Similar to last year, China led the group with an estimated \$50 billion in new activity. In fact, China continued to provide more trade-related investment support than the rest of the world combined. Within the OECD, Japan, Korea, and Germany committed substantial volumes of investment support, comprising more than 75 percent of the OECD’s \$32 billion total.

Figure 7: Composition of Global Trade-Related Investment Support, 2016



Sources: bilateral engagement, annual reports

Untied and market window financing continue to be used regularly by foreign ECAs, particularly those in Asia. Compared with previous years’ reported volumes, it appears that total untied and market window MLT activity is up slightly from 2015.

Figure 8: Untied and Market Window (billions USD)

	2012	2013	2014	2015	2016
China*	4.0	3.3	5.6	4.5	3.9
Korea	2.7	3.5	8.4	7.7	6.3
Japan**	5.2	3.1	2.8	1.3	1.4
Other OECD	13.0	14.0	7.0	4.0	8.0
TOTAL	24.9	23.9	23.8	17.5	19.6

*The Chinese ECAs do not report their untied and market window activity in their annual reports or international forums. China’s activity is therefore estimated to be half the total Japanese and Korean activity. This conservative assessment is based on EXIM’s experience encountering this type of financing in the marketplace.

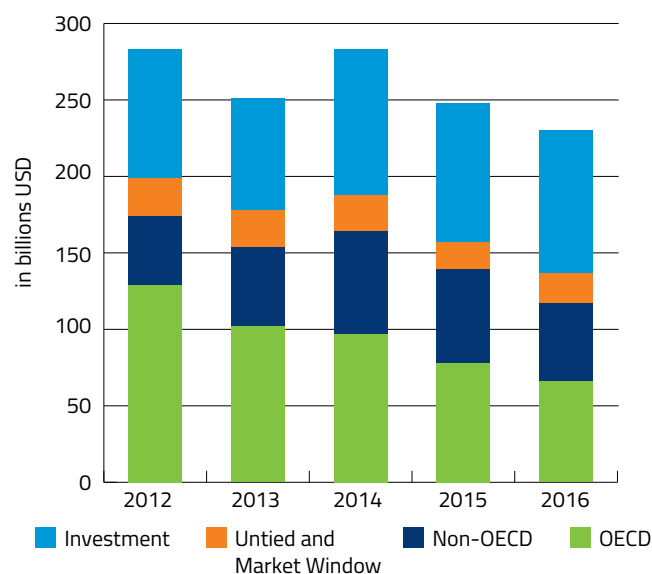
**Japan’s 2015 figure only includes JBIC.

Source: bilateral engagement

TOTAL TRADE-RELATED SUPPORT

As shown in Figure 9, total trade-related MLT support is estimated to have fallen to \$230 billion in 2016.¹⁴ However the trend away from OECD-regulated MLT activity continued. In 2016, OECD-regulated MLT activity comprised approximately 29 percent of total trade-related support, slightly more than half the 2012 level.

Figure 9: Total Trade-Related Support



Sources: EXIM, bilateral engagement, Berne Union, annual reports

Since 2000, the world of official export credit activity has continued to shift away from the arena covered by the OECD Arrangement and towards programs outside of its confines.

¹⁴ This apparent decline may be attributed to EXIM’s new methodology for calculating Chinese trade-related support, as described in Footnote 13.

CHINESE OFFICIAL EXPORT FINANCING

China formally identifies only two official export credit agencies: Sinosure, which provides short-, medium-, and long-term insurance; and the Export-Import Bank of China (CEXIM), which provides MLT financing. Although not included in the “core” Chinese MLT totals in this report, the China Development Bank also provides some \$10 billion a year in MLT financing support that strongly resembles export credit in many of its transaction-specific applications.

Each year, EXIM estimates the total volume of Chinese MLT official export finance based on an aggregation of MLT data that Sinosure provides to international organizations of which it is a member, and estimates of CEXIM activity based on both EXIM’s own open-source research and the CEXIM Annual Report.¹⁵

- **MLT Export Credits:** CEXIM’s Buyer’s Credit program typically has terms provided to overseas buyers that are similar to OECD Arrangement export credits. As such, EXIM includes this program as part of the official Chinese “core” that is comparable to OECD MLT activity. EXIM calculated new commitments of \$4 billion from the CEXIM Annual Report and \$10 billion based on EXIM’s open-source research.^{16,17} Given estimates between \$4–10 billion, EXIM used the midpoint of the range, \$7 billion, for official estimates of CEXIM MLT in 2016. It is worth noting that actual Chinese activity in the MLT arena, as well as the others described below, could be larger than these figures suggest.
- **Investment:** The CEXIM Annual Report discloses exposure figures for several investment programs that appear similar in nature to those reported by other ECAs. Based on these figures, EXIM estimates investment volumes of approximately \$9 billion in 2016.
- **Seller’s Credit:** CEXIM offers a Seller’s Credit program, wherein it provides financing to a domestic exporter. This program has historically contributed an estimated \$10 to \$20 billion per year but seems to have declined significantly in 2016 to approximately \$5 billion. These funds may be used to finance an eventual export, and, as

such, would be an officially supported export credit, as well as have competitive implications for U.S. exporters.

Additionally, CEXIM operates concessional export credit programs that were not included in the analysis of trade-related support:

- **Concessional Loans:** CEXIM operates two programs (the “Preferential Export Buyer’s Credit” and “Government Concessional Loan”) that appear to offer at least some loans on terms that would typically be considered concessional – an interest rate of 2 percent, a tenor of 20 years, and a grace period of five years. EXIM research indicated that these programs are typically two to three times larger than CEXIM’s standard MLT buyer’s credit program, at \$16.5 billion for 2016. More importantly, these programs are sometimes offered alongside MLT export credits, a practice referred to as blended finance. According to the China-Africa Research Initiative, the Nairobi–Mombasa railway in Kenya received \$2 billion dollars at market rates (MLT export credit) from CEXIM and another \$1.6 billion on concessional terms.

It appears that the large and ever growing presence of the Chinese ECA model (which includes large volumes of tied, untied, concessional, and investment financing intended to maximize flexibility) spurred the other major Asian ECAs to bolster these programs as well. Recent developments suggest that even some major European ECAs are introducing programs aimed at neutralizing this Asian competition.

BLENDED FINANCE

The practice of “blending” standard export credit and developmental finance was the most significant (both in size and importance) competitive issue within the OECD beginning in the 1970s, finally ending in 1999 after years of international negotiations. As the practice brings both financial costs and near-prohibitive competitive advantages into the dealings of commercial transactions, seeing its return is a particularly concerning development.

¹⁵ EXIM cannot make direct comparisons based on CEXIM’s Annual Report because it presents activity on a portfolio exposure basis versus new commitments and in categories that do not correspond with the programs of other ECAs.

¹⁶ Based on volumes and growth rates presented in the CEXIM Annual Report, as well as on information on ECA portfolio retirement rates.

¹⁷ A complete list of projects captured in EXIM’s research is available on the EXIM website.

KEY POINTS

- Chinese activity accounts for roughly 40 percent of global total trade-related MLT support.
- The Chinese ECAs support trade policy. Sinosure and CEXIM have explicit mandates to support China's One Belt, One Road (OBOR) initiative (*see Figure 10*). According to EXIM's research, more than one-half of CEXIM's MLT financing in 2016 went to countries associated with OBOR. The ECAs also play a role in helping to ease domestic oversupply of products like steel, by promoting projects abroad that use it. This policy is reflected in the high number of rail, construction, and dam projects CEXIM backed in 2016.

Figure 10: Map of One Belt, One Road



Source: "Our Bulldozers, our rules." The Economist, 2 July 2016.

New Major Medium- and Long-Term Official Export Credit Volumes

In 2016, 26 countries provided noteworthy levels of export credit for MLT transactions. Among this group, the United States provided the least amount of financing.¹⁸

in billions USD

OECD Countries/Participants to the OECD Arrangement

Austria (0.8)
Belgium (3.3)
Canada (2.1)
Denmark (1.9)
Finland (1.1)
France (9.4)
Germany (9.7)
Hungary (0.5)
Italy (10.3)
Japan (1.6)
Korea (7.4)
Netherlands (2.7)
Norway (1.6)
Spain (2.4)
Sweden (4.8)
Switzerland (1.2)
United Kingdom (3.9)
United States (0.2)
Other OECD Countries (0.8)

Non-OECD Countries/Non-Participants to the OECD Arrangement's General Provisions but Participants to the Aircraft Sector Understanding

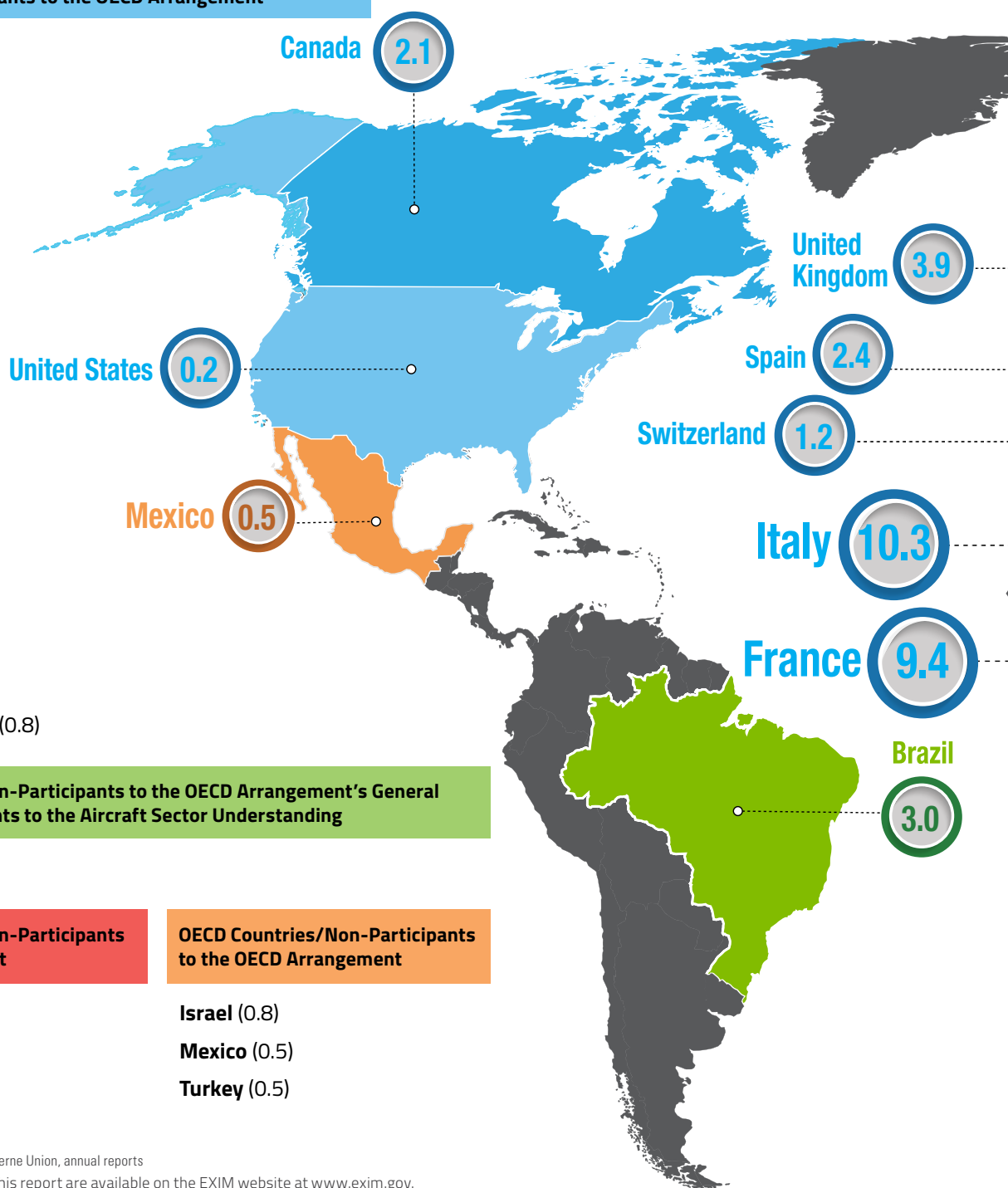
Brazil (3.0)

Non-OECD Countries/Non-Participants to the OECD Arrangement

China (34.3)
India (6.2)
Russia (4.5)
South Africa (1.3)

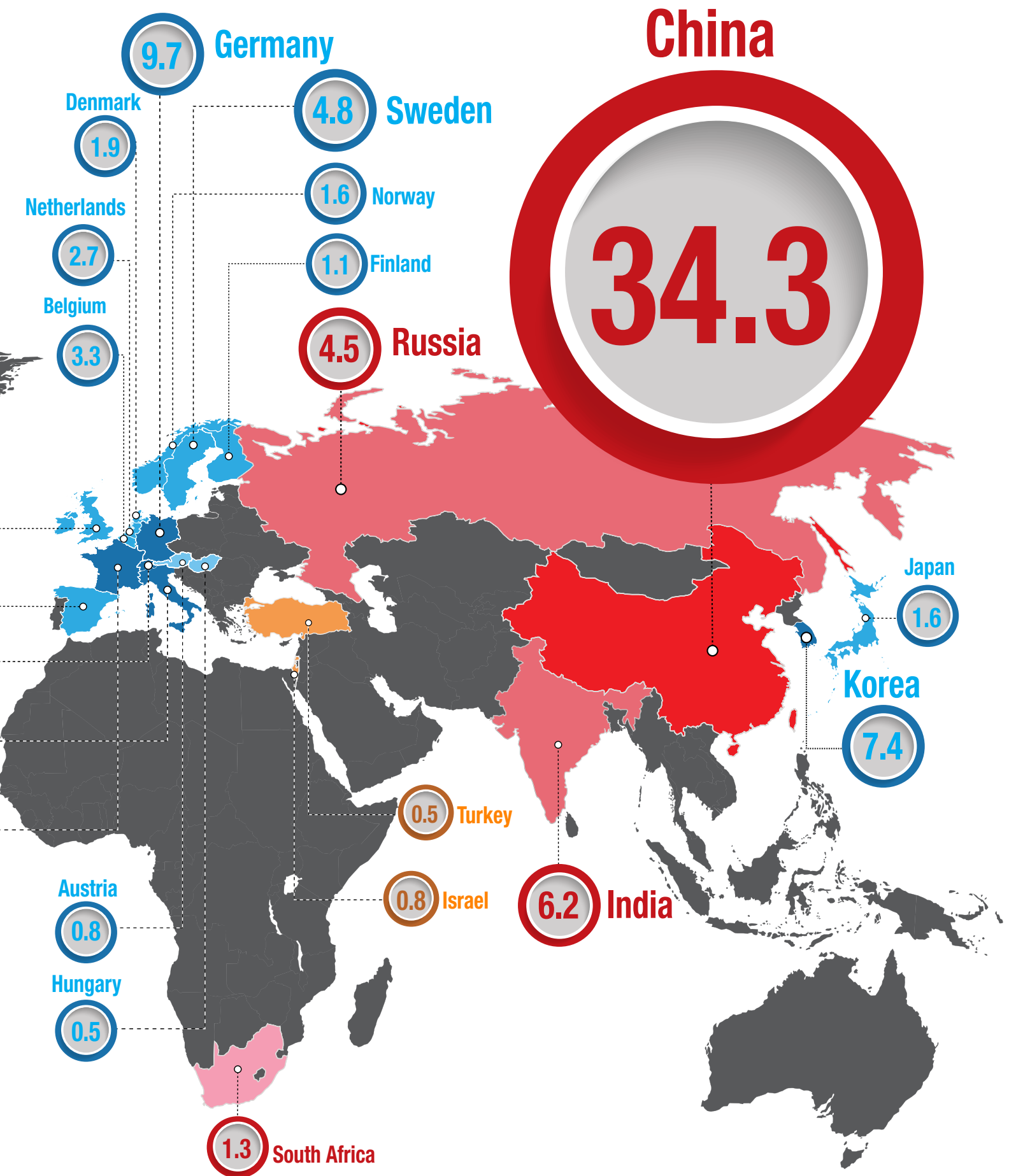
OECD Countries/Non-Participants to the OECD Arrangement

Israel (0.8)
Mexico (0.5)
Turkey (0.5)



Sources: EXIM, bilateral engagement, Berne Union, annual reports

¹⁸ Data used for the figures in this report are available on the EXIM website at www.exim.gov.



CHAPTER 6

Asian Export Credit Agencies' Investment and Untied Programs – Up Close

OVERVIEW

EXIM's mandate is to support U.S. jobs through the exports that create them. In Japan and Korea, ECAs are used strategically to advance domestic economic objectives as well as the internationalization of exporters that drive economic benefits back home. This distinction, the support of exports versus the support of exporters, has always existed between the Asian ECA system and that of European and North American ECAs. This distinction helps explain why Japan and Korea (for different reasons and with different focuses) turned so quickly to untied and investment financing programs in their response to the world of competitive financing flowing from China.

While these types of programs strengthen the global competitiveness of Asian "National Champions," they may not boost exports or create domestic jobs directly. Nevertheless, in certain cases, investment and untied programs can help guide supply chain procurement back to domestic companies, which can either be involved as EPC contractors or partner with local developers to help structure and develop the foreign project.

Between 2012 and 2016, Japan and Korea provided approximately \$86 billion in official MLT export credits compared with more than \$224 billion in MLT investment and untied support, totaling a massive \$310 billion of trade-related support. The following sections detail the untied features of the Asian ECA model, distinguishing between the Korean and Japanese systems, with the goal of describing the competitive implications of these models for U.S. exporters.

KOREA

The two Korean ECAs, K-sure (the insurer) and KEXIM (the lender), are mandated to strengthen the Korean national economy by supporting the competitiveness of Korean exports. This mission, as explained to EXIM, is understood to mean supporting Korean companies and financial institutions – with

THE ASIAN MODEL

- Among the major official MLT providers in Asia (China, Korea, Japan, and India), the ECA systems typically involves two separate institutions: one, an insurer, focusing on short-term transactions, with programs stretching into the MLT arena; the other a lender, focusing on MLT (but with many objectives besides simply export credit).
- Historically, the role of the private sector (commercial banks and private export credit insurers) has been minimal to modest in the overall MLT arena within Asia. Hence, the insurers tend to dominate (if not monopolize) the short-term arena and the lenders typically dominate the long-term one.
- Given the focus on "National Champion" exporters and an Asian business model heavy on foreign subsidiaries, the Asian ECAs have always had sizeable investment and untied programs.

an emphasis on Korean multinationals and EPCs bidding on large international projects. To that end, Korean ECA officials emphasize the limited experience and willingness of Korean financial institutions to engage in export credit transactions as a key consideration that has led to the Korean government focus on building out official support capacity through K-sure and KEXIM.

K-SURE: K-sure's untied and investment insurance programs function as forms of sponsor support, and are intended to promote Korean overseas investments.¹⁹ Both programs are done on non-Arrangement terms that are commercially-oriented rather than concessional in nature.

¹⁹ Sponsor support refers to financing provided to a special purpose vehicle (SPV). An SPV is a legal entity, often created when undertaking a large project, that isolates the financial risks associated with a project and thereby protects the owner's other assets.

In a typical investment transaction, K-sure provides cover to Korean banks that are financing Korean equity investors. This type of financing is available only when the EPC contract for a given project is awarded to a Korean company on the basis that the company's Korean supply chain will help guide project procurement. In the untied scheme, K-sure provides cover to the debt portion of a project that has a Korean investor, but which does not have a Korean EPC contractor leading the project development. Without a Korean EPC contractor, the project attracts less official debt support, as there are fewer Korean benefits. Conversely, K-sure's willingness to cover larger debt (tied and untied) and equity portions of the project expands when a Korean EPC contractor is involved. Other features of the K-sure programs can be found in Figure 11.

The benefits derived from these programs generally include some or all of the following: (1) some one-time Korean exports; (2) some minor supply chain-related exports (though much higher if a Korean EPC is involved); (3) the growth of Korean companies; and (4) broader returns like profit repatriation and use of Korean labor.

KEXIM: KEXIM also operates an untied program for debt support and an investment program for equity support.

For untied support, KEXIM offers two products: an untied interbank loan and an overseas facilitation loan. For its untied interbank loans, KEXIM provides funds to a foreign bank which in turn provides support to a local buyer or Korean subsidiary – typically to protect a Korean investor's stake in a project or to augment the project's successful completion (which will typically lead to supply chain benefits to Korean companies). The funding is used for procurement from a Korean company located outside of Korea. KEXIM also offers an untied overseas business facilitation loan. These loans are provided to companies or governments in order to spur the overseas business or investment activities of Korean companies that will expand the market presence of Korean companies, lead to brand awareness, and generate supply chain benefits. The decision to support these efforts is made on a case-by-case basis after evaluating criteria such as profit repatriation and confirming that

the funds will be reinvested in Korean companies, thereby ensuring benefits to Korean labor.

KEXIM's investment program seeks to strengthen Korea's presence overseas by supporting supply chains or building networks for Korean companies. Similar to K-sure's investment program, the overseas investment loan program is used when a Korean company is taking an equity position in a company abroad. In order to qualify for this type of support, and in determining how much support to provide, KEXIM considers whether the firm is domiciled in Korea, whether dividends are being repatriated, whether the company receiving the equity investment is using Korean labor, the type of company or project being supported, and how all of these factors will impact Korea's economic condition.

JAPAN

The Japanese export credit system has come to terms with the role and responsibilities for ECAs in a post-industrial world that prioritizes capital productivity over labor promotion. In that regard, Japan has led ECA policy development away from tied export credit policies, whose central role was to improve labor opportunities in the domestic market, and instead established

Between 2012 and 2016, Japan and Korea provided approximately \$86 billion in official MLT export credits compared with more than \$224 billion in MLT investment and untied support.

Figure 11: Key Features of K-sure's Investment and Untied Programs

Program	Description of Support	EPC	Korean Export	Benefits	Decisions to Support	OECD Terms
Investment	K-sure provides cover to a commercial bank funding a Korean equity investment in a project	Korean	None directly required	(+) EPC gains international experience (+) Can drive supply chain procurement back to Korea	Equity investor must prove that project is in national interest	No
Untied	K-sure provides cover to a portion of a project's debt (a Korean company must have an equity stake in the project)	non-Korean	None formally required	(+) K-sure is able to protect the Korean equity investor (+) Can drive supply chain procurement back to Korea	Case-by-case basis based on analysis of project - includes criteria like profit repatriation	No

Source: Bilateral engagement

a model aimed at maintaining a central role for Japanese companies in international commerce. Japanese companies are trusted to maximize whatever direct and, more likely, indirect benefits can accrue to Japan. These benefits may include employment but also upstream (e.g., procurement and follow on sales) and downstream (e.g., energy access) supply chain benefits. As such, it is not surprising that tied Japanese export credit support is dwindling alongside a thriving investment and untied support framework supported by its two ECAs, JBIC (the lender) and NEXI (the insurer).

The Japanese ECAs operate untied and investment programs that are similar in nature to those offered in Korea. These programs aim to help Japanese companies expand in global markets.

JBIC: JBIC operates an untied loan program, wherein it provides debt funding to foreign governments or enterprises in line with four broad goals. These goals include environmental benefit, natural resource development, Japanese companies' competitiveness, and global financial stability. These loans do not require any Japanese content, though the funds could be used to drive some procurement back to Japan. Loans to improve competitiveness are approved on a case-by-case basis following internal evaluation of the impact they will have on the Japanese business' ability to compete internationally.

Experienced Japanese investors are the catalyst through which JBIC introduces its overseas investment (equity) loans into frontier markets. From the investment platform, Japanese investors conduct mergers and acquisitions, ultimately expanding Japanese investor revenue growth. Benefits to Japan include (1) future procurement; (2) greater resiliency of Japanese supply chains (if the target company is a supplier); or (3) Japanese expansion into new markets.

NEXI: NEXI offers two untied programs: an untied loan insurance program and an investment insurance program for projects deemed to be of national interest. As with K-sure, NEXI's investment insurance program provides cover to domestic investors taking a stake in a project. This cover helps Japanese businesses take cross-border risks that may otherwise be unmanageable or beyond the risk appetite of conservative Japanese investors. Depending on the needs of the project, both untied loan insurance and investment insurance can be provided to the same project, but the exact metrics used to determine the Japanese benefits of a project are not standardized.

Instead, NEXI reported to EXIM that the Japanese government weighs the information regarding the level and contributions of a Japanese company to a project (e.g., tax domicile; profit repatriation; procurement from a foreign subsidiary

of a Japanese company). If a Japanese investor is playing an important role in a project (or there is a Japanese EPC contractor), greater investment financing may be coupled with untied loans and made available for a project to ensure its success. One such project was the Freeport LNG project in Texas.

COMPETITIVENESS IMPLICATIONS

The competitive implications of the Asian untied and investment model are best illustrated through a hypothetical example, presented below:

The government of Indonesia, through the government-run power company, has decided to construct a new gas and steam-turbine power plant. Exporters from Japan, Germany, and the United States each elect to bid on equipment essential to the project (the tied portion), supported by their relevant ECAs. In addition to the tied portion, the Japanese bid also includes equity investment and untied portions funded by the Japanese ECAs.

When the time comes to award the contract, all three countries may be selected to provide specialty equipment to the project. However, Japan, through its untied and investment financing, is better positioned to secure a disproportionate share of the contract balance of plant (auxiliary components) sales and follow-on benefits for its vendors. Alternatively, if Japan, Germany, and the United States are all able to provide comparable equipment, the involvement of a Japanese exporter and equity investor, as well as a larger financing package (e.g. a combination of tied and untied financing) being offered by the Japanese ECAs, may spur project owners to source most (or all) project needs from Japan. In either case, this approach maximizes the Japanese benefit of the individual project and helps Japanese firms build relationships with the foreign government for future projects.

In Japan and Korea, ECAs are used strategically to advance domestic economic objectives through the official export credit support of exporters.

CHAPTER 7

A Model “Highly Effective” Export Credit Agency

OVERVIEW

EXIM’s charter requires that the Competitiveness Report show in specific rates, terms, and other conditions how EXIM compares with other ECAs. Historically, this meant an examination of MLT support by volume and discussions of important EXIM policies. Due to EXIM’s inability to provide support in excess of \$10 million, analysis of that type would not capture the realities of EXIM’s competitive environment for 2016. Hence, EXIM is revisiting a concept introduced in 2013 as a mechanism to measure how others have changed while EXIM was constrained.

EXIM introduced the “Highly Effective” ECA framework (then called the “Ideal ECA”) in the 2013 Competitiveness Report to describe the package of capabilities that might enable an ECA to compete most effectively in the export finance world the Competitiveness Report saw evolving in 2013. By having an ECA with these capabilities, governments could maximize their exports and support a greater number of domestic jobs. Now three years on from that initial discussion, this year’s Competitiveness Report revisits these criteria to track the major ECAs’ progress toward becoming “Highly Effective” competitors, while EXIM was without a quorum.

In Europe, 80 percent of ECAs have SME-related mandates and many have or are planning to introduce supply chain programs.

THE COMPONENTS OF THE “HIGHLY EFFECTIVE” ECA

Previous Competitiveness Reports separated ECAs into three region-based models – Europe, Asia, and the United States. Borrowing strengths from each of these models, it was envisaged that a “Highly Effective” ECA of the future would have the following capabilities:

1. Programs (usually insurance to facilitate efficiency) to support small- and medium-sized enterprises (SMEs)
2. A disciplined yet aggressive risk appetite
3. A capital markets guarantee program
4. Direct lending on both a fixed- and floating-rate basis
5. Untied or market-window programs
6. Refinancing tools

Between 2013 and 2016, many ECAs made considerable progress in building up their “Highly Effective” ECA capabilities. A brief summary of this progress is presented below and illustrated in Figure 12.

ECA CHANGES

SMEs are now a major focus of ECAs worldwide. In Europe, 80 percent of ECAs have SME-related mandates and many have, or are planning to introduce, supply chain programs (which typically assist SMEs) as described in Chapter 3. In Asia, JBIC (Japan) declared the support of SMEs to be one of five key action plans to undertake between 2015 and 2017. KEXIM (Korea) introduced the “Hidden Champions Initiative” through which it aims to incubate 100 SME companies to better compete globally.

Both OECD and non-OECD ECAs demonstrated a greater willingness to take risk. For example, many ECAs are regularly

supporting projects in countries or at tenors that EXIM would not. EXIM tracked more than 40 MLT projects authorized in 2016 in countries where EXIM was closed or open only for short- and medium-term transactions. More than 90 percent of these projects were done by Euler Hermes (Germany), COFACE (France), or SACE (Italy), thus continuing a trend of strong risk appetite among European ECAs. According to responses received as part of the EXIM Exporter and Lender Survey, China leads the pack of non-OECD ECAs in this regard.

Since 2013, EXIM, COFACE (now Bpifrance), and UKEF (United Kingdom) were joined by KEXIM (Korea) in offering export-related guaranteed bonds to access capital market funding.

Nearly every major ECA-country now has at least one official direct lending or funding program. Among OECD ECAs, nearly three-quarters have official lending capacity with more than half offering both fixed- and floating-rate loans. ECAs in Europe and Asia increasingly have the ability to offer fixed- or floating-rate direct lending as dictated by a given project.

Among OECD ECAs, nearly three-quarters have official lending capacity, with more than half offering both fixed- and floating-rate loans.

Few countries have introduced new untied or market-window programs over the last three years. However, volumes continue to be substantial for ECAs with these programs. As noted in past Competitiveness Reports, the Asian ECAs lead in this regard, especially when investment is included – Japan and Korea accounted for 39 percent of this activity. EDC (Canada) continues to grow its untied “Pull Loan” program as well.²⁰

²⁰ Pull Loan: EDC identifies a target foreign company that has a procurement need in line with domestic Canadian producers. A loan offer is made, conditional on a general commitment (though not tied to an export contract) to work with EDC to find Canadian exporters. Although the loan is untied, this close working relationship often leads to a foreign buyer selecting a Canadian exporter.

Figure 12: Tracking Progress using the “Highly Effective” ECA Framework

	Canada		China		France		Germany	
	2013	2016	2013	2016	2013	2016	2013	2016
Support for SMEs								
Risk Appetite								
Capital Markets Guarantee*	N/A	N/A	N/A	N/A				
Direct Lending								
Programs Outside the Arrangement								
Refinancing*	N/A	N/A	N/A	N/A				

	Italy		Japan		Korea		United Kingdom	
	2013	2016	2013	2016	2013	2016	2013	2016
Support for SMEs								
Risk Appetite								
Capital Markets Guarantee*								
Direct Lending								
Programs Outside the Arrangement								
Refinancing*			N/A	N/A	N/A	N/A		

Performance Relative to a “Highly Competitive ECA”

Strong performance	Moderate performance	Weak performance	Does not have the relevant program	N/A
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* Countries that have robust direct lending programs, especially those with a more proactive stance in the market (as opposed to lenders-of-last-resort), often do not require capital markets or refinancing programs.

Sources: Bilateral engagement, Berne Union, annual reports, OECD, Bloomberg

Refinancing is an emerging area of interest among ECAs that depend systematically on banks to fund their MLT programs, especially in Europe. Both the United Kingdom and France introduced programs to refinance export credits in the last three years. Although none of the three large Asian ECA countries have a refinancing program, they all have official lending entities that could launch these programs if needed.

TRACKING PROGRESS

Figure 12 attempts to illustrate the progress of eight major ECA countries from 2013 to 2016 toward the “Highly Effective” ECA standard (all dark green or N.A.). In this “heat map” methodology, China, Canada, and Korea are closest to being “Highly Effective.” Notably, the United States does not feature in this analysis. This exercise is intended to demonstrate changes, over a three-year period, in areas where EXIM was either absent or unable to institute changes for a year and a half.

SECTION 3:

SPECIAL SECTIONS

The following special sections examine two areas of unique relevance in 2016. These sections reveal insights on topics that our stakeholders, including banks and exporters, as well as foreign buyers, have identified as relevant and important to ECA competitiveness. These are:

- **The Medium-Term Program:** Given that the medium-term (MT) program was the only MLT program available from EXIM in 2016, EXIM staff undertook a one-time effort to collect MT data for major competitor ECAs, then compared activity levels and operational functions with these ECAs. The goal of this exercise was to provide a deep dive into the competitive details of a program that has been the primary complaint over the past several years by respondents to EXIM's Exporter and Lender Survey.
- **Stakeholder Views:** Pursuant to its charter, EXIM conducts a survey of Bank customers in an effort to capture and then distill first-hand experiences of the U.S. export community into the Competitiveness Report. Given EXIM's limited scope of customers in 2016, this year EXIM supplemented its survey feedback with the findings of a global export credit survey commissioned by TXF, a trade and export finance news organization, and conducted by CLEVIS Research, a market research firm. The findings of these surveys and an analysis of the results follow.

CHAPTER 8

The Medium-Term Program

BACKGROUND

EXIM's MT program has not historically been an explicit focus of the Competitiveness Report because foreign ECAs do not differentiate between medium- and long-term (LT) support. In 2016, EXIM's lack of a quorum prevented any new LT authorizations but did not impact the MT program as it operates under delegated authority, as opposed to requiring board approval. This situation (a lack of LT authorizations) provides a unique opportunity to examine the MT program more closely.

OVERVIEW

EXIM is the only official ECA to differentiate MT longer than (tenor between two and seven years or up to \$10 million) from LT (longer than seven years or more than \$10 million) and the historical reason is simple – PR-17 shipping regulations. EXIM's direct loans have always been subject to broad cargo regulations requiring that exports supported by direct loans be shipped on a U.S.-flagged ship if exported by sea. When the ST export credit was created nearly 60 years ago, the shipping regulation was not applied to this financing because the support was to the export supplier (or the bank), not to the foreign buyer. Also, the support was to hundreds (or thousands) of relatively small exporters, and collecting shipping documents on that population would be problematic. When the ST supplier credit program grew into MT supplier credits in the 1960s, the shipping exception followed. (More information on the PR-17 shipping requirements can be found in Appendix G.)

Hence, more than 30 years ago, EXIM had three core programs – a ST supplier credit insurance program, MT supplier credits (insurance and bank guarantee programs), and a LT buyer credit and financial guarantee program. The shipping requirement only applied to the LT programs. The MT programs happened to concentrate in the range of five to seven years and export values

of up to \$10 million. As exporters and banks considered the MT bank guarantee inferior to the LT financial guarantee due to its conditional nature, the 1986 EXIM re-chartering required EXIM to create one guarantee program. Accordingly, EXIM created a simple "guarantee" program with all the characteristics of the LT "financial" guarantee, including the shipping requirement.

As there was broad stakeholder consensus for retaining the shipping exception, EXIM officially carved out the financial aspects that typified the "bank" financing program and called it the MT program (and kept the shipping exception for cases authorized under the program).

Reflecting that history, today EXIM splits transactions with a tenor of two years or more into two segments:

Medium-Term: The medium-term program typically refers to insurance and guarantees on transactions up to \$10 million in value or with a tenor between two and seven years.²¹ EXIM does not require board approval for these transactions because the Board of Directors delegated its approval authority to EXIM staff.

Long-Term: The long-term program refers to guarantees and direct loans that have a tenor greater than seven years or value greater than \$10 million. In general, long-term deals require board approval.

While foreign ECAs do not make the above distinction between MT and LT, all do offer support for deals of this size and term. The next few paragraphs compare activity and operational practices of select other ECAs for this segment to EXIM's MT program.

EXIM ACTIVITY

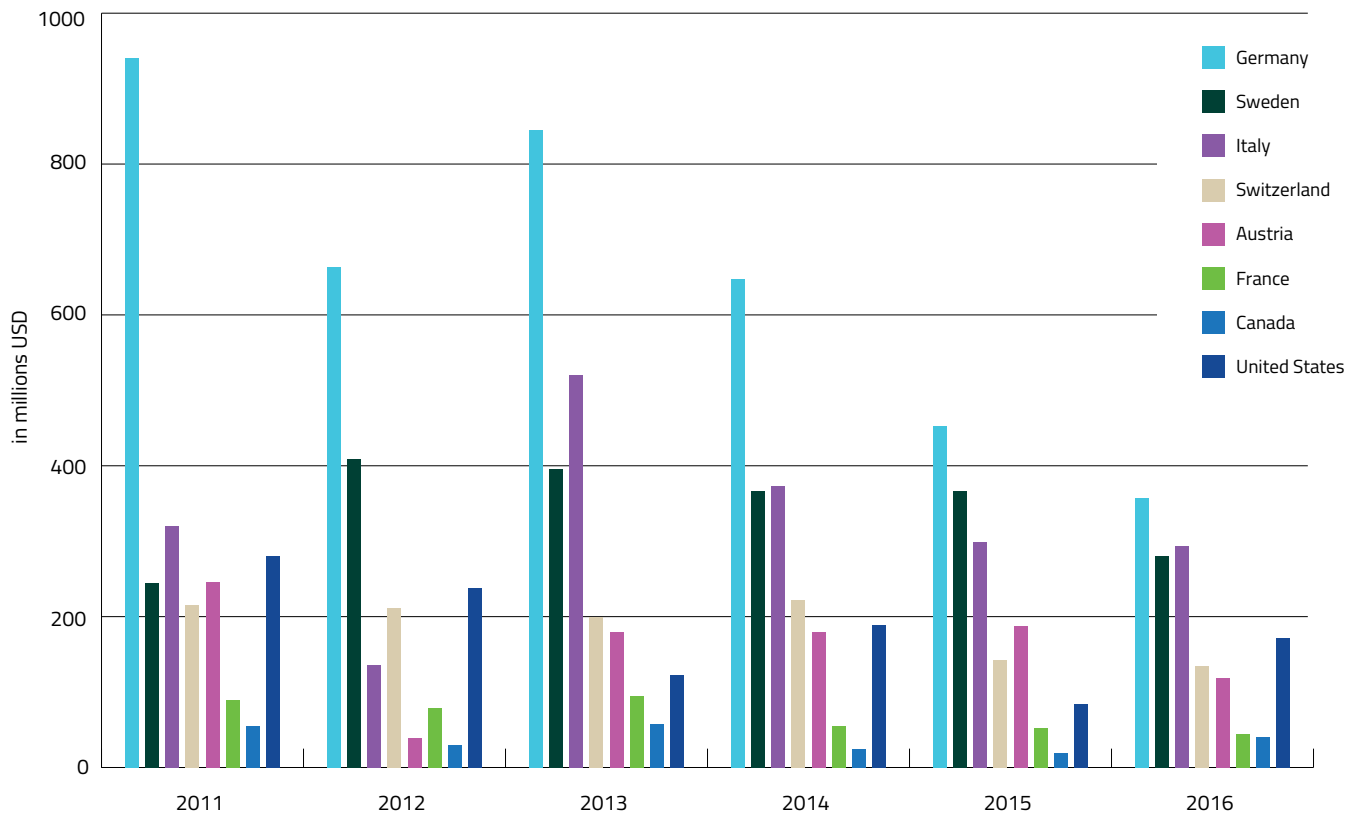
EXIM authorized \$168.8 million of MT transactions in 2016, on par with activity in 2014, but down from \$281 million in 2011.^{22,23} Over the last five full fiscal years (2010–2014), EXIM's MT

21 In certain cases, for example, an environmentally beneficial export, EXIM can provide support under the MT program for longer than 7 years. In rare circumstances, EXIM can also provide direct loans under the MT program – this has been done only three times in the last 10 years.

22 EXIM was lapsed for half of 2015, during which time no new deals were authorized.

23 Data for 2013 to 2016 are derived from ex-post notifications reported under the OECD Arrangement. Data from 2011 and 2012 refer only to transactions with a repayment term of five years or greater, and may be incomplete.

Figure 13: Medium-Term Activity



Sources: EXIM, OECD²⁴

program made up three percent of its total MLT activity, on average. This is down from just more than 10 percent prior to the Global Financial Crisis. Historically, EXIM's largest MT markets have been Mexico, China, and Brazil.

FOREIGN ECA ACTIVITY

As no other ECA differentiates MT from LT transactions, EXIM reviewed OECD ECA MLT authorizations from the last six years and designated the cases that appeared to fit EXIM's MT criteria. After collection, EXIM sent the data to select ECAs and asked (1) if the data looked reasonable and (2) questions about operational procedures in the MT arena. This exercise provided the basis for comparison of activity, risk appetite, and premia; the bilateral conversation allowed for some operational comparison.

ECA ACTIVITY: As shown in Figure 13, activity in the MT segment among key EXIM competitors was down in 2016 (but EXIM was up). Germany, Sweden, and Italy continued to be the market leaders combining for approximately \$800 million in support. MT

transactions authorized by Germany and other European ECAs tended to fund projects and exports destined for Russia, Turkey, Brazil, and Mexico. Although EXIM does little MT business in some of these markets, Brazil and Mexico are significant export destinations for U.S. goods and services (more than \$170 million and more than \$240 million over the last five years). As such, enhanced and enlarged foreign ECA activity into key U.S. markets represents a competitive threat to U.S. exporters.

RISK APPETITE: EXIM has generally shown lower risk appetite in the MT segment than OECD competitors, as demonstrated by transaction buyer and country risk scores reported to the OECD. After converting those to a single credit rating agency score, the chart below shows the risk distribution of various countries' non-aircraft, non-sovereign MT transactions in 2016. The distribution by dollar value is functionally the same as the distribution by number of transactions.

²⁴ EXIM MT activity peaked in 2004 at approximately \$800 million.

Figure 14: Composition of MT Activity by Risk Rating, 2016²⁵

	Investment Grade	BB+ through BB-	B+ or lower	Unable to Rate ²⁶
United States	0%	76%	24%	0%
Germany	5%	33%	56%	6%
Sweden	2%	41%	56%	1%
Italy*	0%	3%	85%	11%
Switzerland	8%	28%	53%	11%
Austria	6%	25%	48%	21%
Canada	10%	40%	40%	10%
France	4%	19%	70%	7%

* Figures may not add up to 100% due to rounding.

Source: OECD

While EXIM was not as active in transactions of investment grade as some ECAs, it also has a smaller share of transactions rated less than BB-, with only about a quarter of transactions at that level. In comparison, over half of Germany's and Sweden's MT transactions were rated that low, and nearly all of Italy's were.

More than 93 percent of EXIM's MT non-sovereign transactions contain risk mitigants, such as liens, and personal or corporate guarantees.²⁷ Foreign ECAs generally do not require such security for small transactions. However, when they do, the foreign ECAs often take advantage of discounts available under the OECD rules for such mitigants, reflecting the view that additional risk mitigation improves the risk profile of the transaction and as such, can translate into a lower risk premia. EXIM never takes advantage of the premia discounts available under the OECD rules.²⁸ In comparison, Germany applied an average discount of 7.5 percent to 15 of their MT transactions in 2016. The primary risk mitigant applied by Germany was the asset-backed structure.

PREMIA: EXIM's modest risk appetite is also demonstrated by its reluctance to consider premia discounts that may be commensurate with the risk mitigation imposed on the

transaction. The table below shows the difference in pricing for five-year transactions between Germany and the United States. This difference is driven both by Germany applying discounts and Germany providing less cover (95% rather than 100%).²⁹

Figure 15: Average Premium Charged for Five-Year Transactions³⁰

Risk Category	Germany	United States	Price Difference
B- or worse	8.50%	11.50%	35%
B+	5.50%	6.50%	18%
BB-	4.00%	5.00%	25%
BB+ to BB	3.50%	4.00%	14%

Source: OECD

Additionally, even in countries with the same risk level (in the example below, Category 4), EXIM charges higher fees.

Figure 16: Average MT Premia Charged in Category 3 and 4 Countries (2015-16)^{31, 32}

Country	Category 3	Category 4
Austria	3.00%	3.50%
Germany	3.50%	4.00%
Italy	4.50%	4.50%
Switzerland	3.50%	4.00%
United States	4.50%	6.00%

Source: OECD

DELEGATED AUTHORITY: All MT EXIM cases (up to \$10 million) operate under internal delegated authority, in which line staff and management make the final decision on approval.

Other ECAs report various levels of delegated authority. Germany, for example, delegates down to loan officers approval of transactions under \$5 million. However, their transactions greater than \$5 million normally require an inter-ministerial review. Other ECAs vary the level of delegated authority based on the country and type of project being supported. For example, both COFACE – now Bpifrance – and K-sure (Korea) said they varied the level based on the buyer country. Additionally,

25 There is no common rating system among OECD countries, and, therefore, the table represents an estimate of risk distribution.

26 Some transactions could not be rated due to insufficient data or the use of market benchmark pricing mechanisms. When certain transactions are completed in a High-Income Country, pricing must be consistent with at least one of the market benchmarks outlined in the OECD Arrangement.

27 These mitigants could partially explain the relatively stronger credit ratings of EXIM transactions, as the mitigants are used to transform riskier transactions into better ones.

28 EXIM must ensure that the premia collected meets U.S. government minimum budgetary requirements. EXIM's minimum budgetary requirements are calculated annually, based on a model that takes both historical experience and relevant qualitative factors into account. This model generally results in premia higher than the OECD minimums.

29 The difference may change in the future as Germany is now able to provide Arrangement maximum cover of 100%.

30 All premia rounded to the nearest half-percent.

31 All premia rounded to the nearest half-percent.

32 Reflects rating at the time of the transaction. Ratings may have subsequently changed.

Category 3 Countries: Bahamas, Brazil, Costa Rica, India, Indonesia, Mauritius, Mexico, Morocco, Namibia, Oman, Panama, Peru, Philippines, Qatar, Romania, South Africa, Thailand, Uruguay

Category 4 Countries: Argentina, Bahrain, Bulgaria, Colombia, Egypt, El Salvador, Guatemala, Hungary, Russia, Tunisia, Turkey

EXIM operates in the MT segment differently than other ECAs—particularly in regard to risk-taking, use of risk mitigants, and pricing of risk mitigants.

KEXIM (Korea) indicated they have multiple levels of delegated authority, with the lowest level occurring at \$5 million. In general, it appears delegated authority allows other countries to provide a provisional approval in less than two weeks. Other ECAs are automating some decision making processes in order to better streamline the decision making process and provide even quicker turnaround times.

SURVEY COMMENTS ON THE MEDIUM-TERM COMPETITIVE LANDSCAPE

EXIM customers surveyed as part of EXIM's Congressionally-mandated Exporter and Lender Survey, as well as in related focus groups, expressed the need for a more competitive MT program at EXIM. Exporters felt that EXIM has moved away from reasonable assurance of repayment, and was not taking enough risk. Respondents indicated that other ECAs were able to provide much faster initial responses to deals, particularly when they had prior experience with the deal participants. Exporters and lenders specifically identified many European ECAs who were particularly effective in providing MT support for capital goods exports. Repeatedly referenced were UKEF (United Kingdom), SACE (Italy), EDC (Canada) and, again this year, Euler Hermes (Germany). Euler Hermes, whose MT support is typically characterized as competitively poised given its premia levels align with the minimum premia levels required by OECD rules and the documentary process associated with their cover is less burdensome than that of EXIM, is often used as the point of reference among U.S. respondents.

Finally, survey results suggest that, although EXIM's MT exposure fees are more reasonable now than in the past, they are still above the levels charged by other ECAs (18 percent of respondents stated that EXIM's fees were higher than average, with just 4.5 percent reporting them as lower).

Respondents to the TXF survey, discussed in Chapter 9, did not comment on EXIM's MT program in particular, but their comments generally reflect attitudes toward the MT program. While EXIM's risk appetite on a transaction level was considered low, EXIM was more willing to take concentration risk due to the lack of country limits (assuming EXIM is open in the country).

COMPETITIVE IMPLICATIONS

This one-time detailed competitive review of MT activity and operations indicates that EXIM operates in the MT segment differently than other ECAs—particularly with regard to risk-taking, use of risk mitigants, and pricing of risk mitigants. The U.S. export community considers that combination of policies broadly uncompetitive, and the TXF survey indicates that both willingness to take risk and processing speed are key factors in being effective in the MT arena.

CHAPTER 9

Surveys

OVERVIEW

EXIM conducts a Congressionally-mandated annual survey of *EXIM customers* in an effort to provide the views of the U.S. export community to readers of the Competitiveness Report.³³ The survey asks U.S. exporters, lenders, and project sponsors to describe the impact of EXIM policies on their respective organization's ability to secure export financing and, where relevant, how this compares with other ECAs encountered in the marketplace. In addition, EXIM conducts two focus groups, one with lenders and one with exporters. These sessions provide informal feedback on how EXIM and foreign ECAs are performing.

This year EXIM further supplemented its survey feedback with a commissioned study by TXF and CLEVIS Research. While the survey looks at broad characteristics (e.g., "flexibility" and "speed") on an institutional, as opposed to a program or policy, basis, it brings insight from a *global sample of exporters and buyers*. The key findings of these exercises are presented below to provide additional context on policies of EXIM and foreign ECAs.³⁴

EXIM EXPORTER AND LENDER SURVEY AND FOCUS GROUPS

For the 2016 Competitiveness Report, EXIM surveyed a total of 96 Bank customers and received 50 responses – a response rate of 52 percent. Slightly more than half of the respondents were exporters. Among bank respondents, seven of the 15 largest banks in the United States and nine of the 25 largest banks in the world were represented.³⁵ Four project sponsors also responded.

Almost all survey respondents (90%) reported interactions with foreign ECAs in the marketplace with 27 reporting that a foreign ECA either financed some of their exports or guaranteed their loans and an additional 18 respondents encountered foreign ECAs on a transaction. This group of respondents reported most often working with Euler Hermes (20), EDC (15), UKEF (13), and COFACE (13) for 2016. EXIM was rated as slightly or far less competitive by 70 percent of this group in 2016.

EXIM customers reported encountering non-OECD compliant financing (12 respondents) and official untied programs (15 respondents), generally from one of the Asian ECAs.

It was also noted throughout the responses to EXIM's survey that foreign ECAs are actively courting U.S. businesses through both export credit and other trade-related support. In fact, focus group participants explained that among commercial banks still engaged in ECA-related finance, additional resources are being devoted to building relationships with other ECAs. Specifically, EDC (Canada), SACE (Italy), and UKEF (United Kingdom) were cited, not only because these ECAs can cover large amounts of foreign content, but also because of policies aimed at pulling supply chain procurement and production into their domestic markets.

TXF AND CLEVIS SURVEY

The CLEVIS survey included interviews with more than 100 global users, including exporters and buyers, of export finance across the Americas, Asia, and Europe. The sentiments captured by the CLEVIS survey are in many cases different than those captured by EXIM's activities. In general, the CLEVIS survey reflects more positive feelings associated with EXIM.

³³ More information about survey methodology is available on the EXIM website.

³⁴ The TXF/CLEVIS survey was conducted in mid-2016 and so may not fully reflect the year-end views of Bank customers. EXIM's survey was conducted during the first quarter of 2017.

³⁵ Based on total assets.

Figure 17: TXF/CLEVIS Survey Results

ECA	Flexibility/ Innovation	Expertise	Understanding of business	Risk Appetite	Capacity	Breadth of product offering	Speed/ Quality of execution	Customer Service	Competitiveness on price	Total average
OeKB	8,10	8,50	8,30	8,40	8,10	8,20	7,90	8,70	7,90	8,23
Euler Hermes	7,53	8,50	8,28	7,69	8,03	7,94	7,41	7,81	7,66	7,87
UKEF	7,56	7,89	8,11	7,22	8,00	7,89	7,00	7,78	8,00	7,72
EKF	8,00	7,86	7,86	7,29	7,71	7,14	7,14	8,00	7,14	7,57
US-EXIM	7,06	8,18	8,06	7,24	7,59	7,53	6,76	8,00	7,63	7,56
SACE	7,44	7,89	7,56	7,11	7,44	7,44	6,78	7,89	7,00	7,40
China-Exim	7,29	7,29	7,29	7,64	7,36	7,21	6,64	7,64	7,57	7,33
Ducroire	8,14	6,57	7,57	7,57	7,29	7,14	6,57	7,14	7,14	7,24
Sinosure	7,00	7,13	7,50	7,00	6,75	7,13	7,00	7,50	7,88	7,21
COFACE	6,28	7,61	7,33	6,67	8,00	7,61	6,28	7,17	7,11	7,12
Other ECAs*	7,00	7,17	7,46	6,97	7,55	7,06	6,76	7,25	6,97	7,13
Average	7,29	7,77	7,75	7,28	7,69	7,47	6,92	7,65	7,45	

*Others include, EKN, GIEK, SERV, KEXIM, Atradius, etc.

Sources: Trade and Export Finance, CLEVIS Research

0 to 5: underperforming
5 to 7: sufficient performance
7 to 8: very good performance
8 to 10: excellent performance

ECAs in the CLEVIS survey are rated on a scale from 1 (worst performance) to 10 (best performance) across nine categories (refer to Figure 17). While questions are categorized differently, much of the content covered in EXIM's and CLEVIS' surveys is the same. Using the CLEVIS rating system, the three best performing ECAs were OeKB of Austria (8.23), Euler Hermes of Germany (7.87) and UKEF of the United Kingdom (7.72). The two Chinese ECAs, Sinosure and CEXIM, received scores of 7.33 and 7.21 respectively. EXIM was ranked the fifth best ECA (7.56).

EXIM received high marks on its staff's expertise, its understanding of exporters' businesses, and its pricing, with scores of 8.18, 8.06, and 7.63, respectively. These categories roughly track EXIM survey questions dealing with key sectors such as aircraft and project finance, where an ECA's ability to handle large, complex deal structures impacts competitiveness, and CIRR pricing. Of the 16 respondents to the EXIM survey with project finance experience, EXIM was rated equally or more competitive by 13 survey takers, while seven of nine survey

takers rated EXIM's aircraft finance to be equally competitive or better than other ECAs.

In contrast, EXIM received below average scores on flexibility and innovation, risk appetite, and speed and quality of execution. In flexibility and innovation, EXIM (7.06) ranked below average (7.29), with comments suggesting that EXIM's strict adherence to policies and inability to be flexible to client needs on content hurt EXIM's competitiveness. This is in line with EXIM survey responses to questions on topics like foreign content, where respondents said EXIM was the least flexible ECA. In the CLEVIS survey, the European ECAs generally scored the highest marks in flexibility, with CEXIM (7.29) also scoring higher than EXIM.

In risk appetite, EXIM scored a 7.24, compared with an average of 7.28. This is in line with EXIM's survey, in which 31 of 46 respondents said that EXIM was equally likely or less likely to take risks. According to CLEVIS, the European ECAs typically performed well in this category, as did CEXIM (China) which rounded out a top three that included OeKB (Austria) and Euler Hermes (Germany).

According to an independent survey, EXIM received high marks on its staff expertise, its understanding of exporters' businesses, and its pricing.

SECTION 4:

**HIGHLIGHTS OF ACTIVITY IN MAJOR
PROGRAMS AND POLICIES**

This section offers some analytical insights typically covered every year in the Competitiveness Report to Congress. Although this year's report is unique due to the Bank's limited scope of activity, this section provides a quick overview of the export credit market in key areas where EXIM was less or not active, as a reference for if and when EXIM regains its ability to provide long-term export credit.

Highlights in specific program areas address:

- Aircraft
- Project Finance
- Co-financing
- Environment

Highlights of particular financing terms and conditions include:

- Interest Rates
- Premia (exposure or risk fee)
- Economic Impact
- Foreign Content
- Local Cost

CHAPTER 10

Program and Policy Updates

OVERVIEW

In order to maintain continuity between Competitiveness Reports, this chapter provides updates on programs and policies that historically received more in-depth discussion, but which this year's circumstances did not support. The programs covered in this chapter are those that typically experience high levels of competition between U.S. and foreign exporters. The policies and terms discussed are those which are frequently described by EXIM stakeholders as having strong competitiveness implications.

HIGHLIGHTS OF SPECIFIC PROGRAMMATIC AREAS

AIRCRAFT

- The two major manufacturers of large commercial aircraft (Boeing and Airbus) were unable to access ECA financing. As a result, official export credit activity was dominated by regional aircraft from Brazil and Canada.
- Among participants to the OECD Arrangement's Aircraft Sector Understanding, EDC (Canada) was responsible for the only deal involving large aircraft in 2016, in support of the Canadian C Series 300.
- Looking ahead, China's domestic aircraft industry is making rapid progress, demonstrated by their first successful flight of a domestically built large commercial aircraft in May 2017.

PROJECT FINANCE

- Volumes were down in 2016 – most likely linked to the collapse in the global commodity markets and the impact of sluggish growth trends on government and corporate capital expenditures. Among OECD ECAs, volumes fell over 10 percent in 2016 to roughly \$12 billion.

- Despite the overarching market conditions of 2016, many ECAs are ramping up efforts to attract more project-related business. There appears to be a strong correlation between competition for large, nationally important project finance transactions and the emergence of non-OECD Arrangement financing in this arena. That is, in order to compete with non-OECD ECAs, OECD ECAs have adopted a suite of programs (e.g., matching, untied and investment) that provide flexibility needed to potentially win these large contracts. In fact, nearly one-third of OECD support provided on a project or structured finance basis in 2016 was through these non-OECD programs. While originally a largely Asian ECA attribute, other ECAs, such as Germany, are steadily making the changes required to match these programs.

CO-FINANCING

- In 2016, EXIM added two new co-financing agreements – with Türk Eximbank (Turkey) and SERV (Switzerland) – and was the follower ECA on a transaction co-financed with UKEF (United Kingdom).³⁶
- SACE's (Italy) co-financing portfolio is the only one showing notable growth in co-financing from year to year.

ENVIRONMENT

- As per a charter requirement, EXIM continued to promote renewable energy exports. While EXIM authorized \$27.2 million in short-term transactions (FY2016) as seen in Appendix E, EXIM medium- and long-term renewable energy authorizations fell to zero. Other OECD ECA MLT offers totaled approximately \$7.3 billion in 2016.
- EXIM's Environmental and Social Due Diligence Procedures and Guidelines (ESPG) did not come into play from a competitive standpoint in 2016 given the constraints on EXIM's ability to authorize transactions to which the ESGP generally apply.

³⁶ EXIM has framework agreements with the following ECAs: ASHRA (Israel), Atradius (The Netherlands), Bpifrance (France), UKEF (UK), EDC (Canada), EFIC (Australia), EKF (Denmark), Euler Hermes (Germany), KEXIM (Korea), NEXI (Japan), JIBC (Japan), SACE (Italy), Türk EximBank (Turkey), and SERV (Switzerland).

HIGHLIGHTS OF PARTICULAR FINANCING TERMS AND CONDITIONS

INTEREST RATES

- Reflecting both the massive commercial market liquidity and the general lack of large transactions, official OECD fixed-rate CIRR activity in 2016 (at \$3.2 billion) was down by 85 percent from the 2012 peak volume.
- On the other hand, in 2016 there were roughly twice as many European official floating rate lenders in the market as before the Global Financial Crisis. The significant expansion in official floating rate lending appears to be raising two related issues:
 - how to measure competition between the official floating rate lenders and commercial banks; and
 - how to deal with the competition between ECAs that have official floating-rate lending and ECAs that do not, which instead depend on commercial banks funding their guarantees or insurance.

PREMIA

- New rules for pricing in High Income countries went into effect in 2016, further standardizing procedures across the OECD for transactions done in these countries.
- Early feedback from industry stakeholders suggests these rules have increased rates across all risk categories, relative to non-High Income Countries.

ECONOMIC IMPACT

- In accordance with the EXIM charter, EXIM reviews all applications for adverse economic impact on U.S. industry or U.S. employment, as well as any applicable trade measures. The lack of an EXIM board quorum prevented the Bank from considering applications over \$10 million, and the absence of relevant trade measures resulted in no detailed analyses being conducted in 2016.
- Over the 2016 calendar year, foreign ECAs continued to authorize transactions for large projects that potentially increased foreign production capacity, such as steel transactions. For example, there were 24 steel transactions reported in 2016, totaling \$166 million of foreign ECA support for steel projects.

FOREIGN CONTENT

- Nearly 75 percent of EXIM's MT authorization volume contained some foreign content; foreign content averaged approximately 13 percent of the value of such transactions.
- Euler Hermes (Germany) made its content policy more streamlined and flexible in 2016.

LOCAL COSTS

- EXIM supported \$3 million in local cost activity, with zero capital goods supported.
- OECD ECAs are facing pressure from stakeholders to increase the Arrangement's maximum 30 percent local cost support limit.

Despite the overarching market conditions of 2016, many ECAs are ramping up efforts to attract more project-related business.

SECTION 5:

APPENDICES

CHARTER REQUIREMENTS

EXIM's charter requires that the Competitiveness Report provide Congress with additional information on the following topics:

- Appendix A: Purpose of EXIM Transactions
- Appendix B: Equal Access for U.S. Insurance
- Appendix C: Tied-Aid Credit Program and Fund
- Appendix D: EXIM Co-financed Transactions
- Appendix E: Environmental Policy
- Appendix F: Services

FURTHER READING

Although not required as part of the Competitiveness Report, these appendices feature discussions of topics otherwise required by Congress or those that are intended to help readers better understand key policies and topics that impact EXIM's competitiveness vis-à-vis foreign ECAs. A list of active ECAs and a glossary of commonly used terms is available at the end of this section.

- Appendix G: U.S.-Flag Shipping Requirements
- Appendix H: Trade Promotion Coordinating Committee
- Appendix I: Transaction Processing Time
- Appendix J: Point-of-Experience Customer Survey
- Appendix K: List of Active Export Credit Agencies

Glossary

Acronyms and Abbreviations

APPENDIX A:

Purpose of EXIM Transactions

The purposes for EXIM support for transactions are to fill the financing gap when private sector financing is limited or when the private sector is unwilling to take risks, and to counter potential foreign ECA competition. Each transaction may satisfy one or all of the purposes.

Pursuant to the EXIM charter requirement to report on the purpose of EXIM financing, Figure 18 below summarizes, by program, the purpose of EXIM support for the \$3.9 billion of transactions authorized by the Bank in 2016. EXIM collects this information from the applicant at the time of application.

Figure 18: EXIM Transactions by Purpose, 2016

	Private Sector Limitations		Private Sector Unwilling to Take Risks		Potential ECA Competition		Total	
	(in millions)	#	(in millions)	#	(in millions)	#	(in millions)	#
Medium-Term Guarantee	\$37.6	4	\$44.4	13	\$70.6	20	\$152.6	37
Medium-Term Insurance	-	-	\$0.8	1	\$15.3	16	\$16.2	17
Short-Term Insurance	\$1,423.7	2,096	\$1,333.7	662	-	-	\$2,757.4	2,758
Short-Term Working Capital	-	-	\$974.7	209	-	-	\$974.7	209
TOTAL	\$1,461.3	2,100	\$2,353.7	885	\$85.9	36	\$3,900.9	3,021

Source: EXIM

APPENDIX B:

Equal Access for U.S. Insurance

Pursuant to Section 2(d)(2) of the EXIM Charter, the Bank is mandated to ensure that, for long-term transactions valued \$25 million or more, United States insurance companies are afforded an equal and nondiscriminatory opportunity to bid for insurance in connection with transactions assisted by the Bank. During calendar year 2016 (the reporting period covered by this report), EXIM was not able to authorize transactions of this size. As a result there were no new applicable transactions. The Bank is not aware of any applicable transactions in its portfolio which fail to comply with this requirement of the EXIM Charter or of any pending financing in which the underlying project would be in violation of this requirement if successfully completed.

APPENDIX C:

Tied-Aid Credit Program and Fund

OVERVIEW AND BACKGROUND

Section 10(g) of EXIM's charter requires EXIM to report on several aspects of its activities related to the use of tied aid. EXIM did not make use of its Tied-Aid Credit Program and Fund (TACPF) in 2016. EXIM use of the TACPF is reactive. That is, it is long-standing U.S. government policy to not initiate – but instead match – foreign tied-aid offers. EXIM has not authorized any matching offers since 2011, and only three tied-aid offers were issued by EXIM since 2002. Foreign tied-aid activity increased again in 2016, including one instance of foreign ECA tied-aid matching of a foreign offer.

For over 20 years, tied aid has been a competitiveness issue for U.S. exporters. Tied aid is considered to be concessional, trade-related aid credit provided by a donor government that is tied to the procurement of equipment or services from the donor country. As official aid, these are loans extended on terms substantially more generous than standard export credits. While the degree and scope of competitive concerns have been greatly diminished since 1991 by the introduction of the OECD tied-aid rules, known as the Helsinki Package, U.S. exporters have faced competitive challenges in certain circumstances that result from foreign tied-aid offers.

The OECD rules successfully redirected tied aid away from commercially viable projects in higher-income markets towards commercially non-viable projects in lower-income countries. However, the growth in non-OECD country activity that is not bound by the OECD tied aid disciplines coupled with the spike in blended financing (referenced in Chapters 3 and 5) represent a wider range of attractive financing options for foreign buyers that fall outside the purview of the OECD disciplines. This trend deserves careful attention to ensure that trade-distorting tied aid or partially tied aid offered by foreign ECAs continues to be kept at bay. Moreover, sustained U.S. government efforts to promote transparency in the use of both tied and untied aid over 2016 may need to be extended to non-OECD and blended

financing to ensure the level playing field for U.S. exporters is properly guarded.

This appendix details competitive issues pertaining to the use of tied and untied aid and contains information that addresses the tied aid reporting requirements of EXIM's charter.

DESCRIPTION OF THE IMPLEMENTATION OF THE ARRANGEMENT

Section 10(g)A of EXIM's charter requires EXIM to report on the implementation of the Arrangement rules on tied aid. Tied aid (when initiated) is typically offered as a component of development assistance to the recipient country, such as when a donor country offers a loan to a recipient country at favorable terms, below market rates, in exchange for the purchase of goods and/or services from the donor country. Tied aid can distort trade flows when the recipient country makes its purchasing decision based on the country offering aid at the most favorable financial terms, rather than the best quality or service of the product. Under these circumstances, a donor government's tied aid offer may be used as an attempt to attract a sale for its national exporter through the provision of low cost financing to a recipient country. It is for this reason that the OECD rules allow governments to match foreign tied-aid offers that are either noncompliant with OECD rules or competing with standard export credit support.

Tied aid can take the form of a grant, a mixed credit, which is a grant in addition to a standard export credit, or a "soft" loan that can be offered as a long-term loan bearing a low interest rate and/or extended grace period. OECD members that are Participants to the Arrangement have agreed to a set of rules known as the Helsinki Package. These rules govern "Helsinki-type" tied aid, the form of tied aid that has the greatest potential for trade distortion. The Helsinki Disciplines can be summarized as follows:

1. No tied aid shall be extended for upper-middle income and high-income countries;^{37,38}
2. No tied aid shall be extended for commercially viable projects;³⁹
3. Tied-aid offers must have a minimum concessionality level of 35 percent, or 50 percent in the case of UN-declared Least Developed Countries (LDCs);⁴⁰ and
4. Tied aid must be notified to OECD members at least 30 business days before the country makes a financing commitment.⁴¹

These disciplines were agreed to by the Participants to the Arrangement in 1991 and went into effect in February 1992. The OECD tied aid rules have helped reduce tied aid from OECD countries and almost all remaining tied aid volumes have been redirected away from commercially viable sectors and toward commercially non-viable sectors, and from high-and middle-income countries to lower-income countries.

EXIM TIED-AID PRACTICES

EXIM strictly applies the Helsinki Disciplines and is more stringent than most other OECD members in that it does not initiate tied aid for commercial purposes. Instead, EXIM seeks to match foreign offers through its Tied-Aid Credit Program and Fund (TACPF). The TACPF can be used in consultation with the Department of the Treasury as soon as information about competing offers has been collected and certain criteria have been fulfilled, including the prospect of future sales on non-concessional terms. Historically, exporters and lenders have had difficulty meeting the requirements necessary to match foreign tied aid. Verifying the terms and conditions of a foreign tied-aid offer may take longer than the timeframe associated with the bid tender. Moreover, establishing that future transactions would be financed on commercial terms can be equally difficult as many tied-aid recipient countries rely on concessional and standard export credits. Finally, exporters' lack of awareness of EXIM's tied-aid matching procedures can further impact EXIM's effectiveness as matching cases must be brought to the Bank by concerned exporters. This was further pronounced in this

year's survey responses, where respondents commented that they were unaware of a tied-aid program at EXIM, and, for that reason, "did not use it to compete with other foreign tied-aid programs."

In 2016, the volume of Helsinki tied aid spiked to \$6.1 billion, which is among the highest Helsinki tied aid volumes since regular reporting began in 1995.

FOREIGN ECA TIED-AID ACTIVITY

Section 10(g)B of EXIM's charter requires a description of foreign tied-aid activity. Total tied aid offered under the Arrangement increased by roughly 35 percent from 2015 volumes. Specifically, *de minimis* tied aid saw a significant increase, and Denmark dramatically increased the volume of their tied aid activity in 2016.

In 2016, the volume of Helsinki tied aid spiked to \$6.1 billion, which is among the highest Helsinki tied aid volumes since regular reporting began in 1995. There were 150 tied-aid notifications with a total volume of \$9.4 billion, which represents an increase in the number of notifications by about 30 percent and an increase in volume of notifications of roughly 35 percent compared to 2015. Of these:

1. Helsinki-type tied aid: 69 notifications totaling \$6.1 billion, representing an increase in volume of 17.3 percent.
2. Highly concessional tied aid:⁴² 35 notifications totaling \$1.7 billion, representing an increase in volume of 161.6 percent.

37 Upper-middle income and high-income countries are defined as those countries with a per capita gross national income (GNI) between \$4,036 and \$12,475, and above \$12,476, respectively, with this figure updated yearly based on annually adjusted World Bank income classification criteria.

38 This rule does not apply to tied aid to Least Developed Countries (LDCs). It also does not apply to tied aid with a concessionality level of 80 percent or more with the exception of tied aid that forms part of an associated financing package.

39 This rule does not apply to tied aid to LDCs. It also does not apply to tied aid with a concessionality level of 80 percent or more or tied aid with a value of less than Special Drawing Rights (SDR) 2 million, except for tied aid that forms part of an associated financing package.

40 This rule does not apply to tied aid where the official development aid component consists solely of technical cooperation that is less than either 3 percent of the total value of the transaction or SDR 1 million, whichever is lower, and tied aid in the form of grants for small capital projects of less than SDR 1 million.

41 This rule does not apply to tied aid where the official development aid component consists solely of technical cooperation that is less than either 3 percent of the total value of the transaction or SDR 1 million, whichever is lower, and tied aid in the form of grants for small capital projects of less than SDR 1 million.

42 Tied aid with concessionality greater than 80 percent.

3. *De minimis* tied aid:⁴³ 12 notifications totaling \$19.6 million, representing an overwhelming increase in volume of 840.9 percent.
4. Tied aid to LDCs: 34 notifications totaling \$1.6 billion, representing an increase in volume of 35.5 percent.

More specifically, Poland largely increased its tied aid offers from two in 2015 to 12 in 2016, all of which were *de minimis*. Denmark increased its overall tied-aid activity by 1,754 percent in volume from 2015, all of which was Helsinki-type tied aid in 2016. The large increase in Denmark's volume was due to a few additional large offers, but Denmark's tied-aid activity still pales in comparison to the clear leader in OECD tied aid – Japan. This year, Japan's offers dipped in volume from 2015 by 7.3 percent, but it still provided over \$1 billion dollars more in tied aid than the next country.

Out of the volume of Helsinki-type tied aid, the transportation sector remained the sector receiving the highest volume of tied-aid offers in 2016. According to the OECD, the transportation sector is “normally considered as financially non-viable,” which is the first key test for tied-aid use. Although this suggests an appropriate use of tied aid in this regard, voluminous tied aid for certain types of transportation transactions (e.g., rail projects) may have competitive implications. In that regard, there was one instance of matching in 2016, for a rail transaction, compared with zero in 2015, evidencing increasing competitive concerns in the transportation sector.

In terms of recipients of tied aid, Indonesia received the highest share of all types of tied aid, followed by India, which were far ahead of the next largest recipients, Egypt and Vietnam. It appears that the lead recipients of tied aid changes easily, as last year both Indonesia and India received none of the tied aid offered. In 2015, the Philippines received 43.6 percent of all tied aid provided and was the recipient of only 0.3 percent of all tied-aid offers in 2016. This trend could be due to tied-aid support going to large projects in a country in a single year.

NON-OECD ACTIVITY

OECD tied-aid rules and transparency requirements do not apply to non-OECD tied-aid offers. Additionally, U.S. exporters have expressed competitive concerns regarding non-OECD concessional aid offers, in particular with respect to Chinese offers. Given the unregulated nature of this aid, and the difficulty in obtaining information on its volume or terms, EXIM conducted a survey of press articles to find instances of Chinese concessional export credits. Bearing in mind that articles yielded by this search have not been verified by the Chinese government, and the information reported may be inaccurate or

misreported, EXIM found a total of approximately \$16.5 billion in concessional activity.

According to CEXIM's Annual Report on CEXIM's Concessional Loan and Preferential Export Buyer's Credit, “[T]he Bank worked to ensure steady growth of the two concessional facilities with an impressive increase in asset quality...”

CEXIM also used its concessional products to finance:

China's major strategic plans, including the Belt and Road Initiative, China-Pakistan Economic Corridor, Bangladesh-China-India-Myanmar Economic Corridor, the building of railway, highway and regional aviation networks and industrialization in Africa, and international industrial capacity cooperation. The Bank's [CEXIM] financial services cover over 90 countries in the ASEAN, South Asia, Central Asia, West Asia, Africa, Latin America and the South Pacific. Fields supported include power, telecommunication, transportation, water resources and other infrastructures, as well as the export of complete sets of equipment from China.

The clear distinction between export credits and aid is getting blurred.

COMBATting PREDATORY FINANCING PRACTICES

Section 10(g)D of EXIM's charter requires EXIM to report on any actions taken by the U.S. government to combat predatory financing practices from foreign governments, including additional negotiations among participating governments to the Arrangement. In 2016, the U.S. government, alongside other participants, has been engaged in discussions relating to changing the rules for untied aid, which may have competitive implications. The Development Assistance Committee (DAC) at the OECD is redefining the definition of aid. Historically, only concessional flows have been counted towards Official Development Assistance (ODA), the internationally recognized standard of what is considered aid. However, the DAC is now considering what portions of *non-concessional* officially financed private sector instruments should count as ODA. Additionally, changes in the methodology used to calculate the grant element of an ODA offer further erodes the efficacy of the OECD Helsinki disciplines that require between 35 and 50 percent overall concessional level for tied aid.

More pointedly, the clear distinction between export credits and aid is getting blurred. Untied aid is not subject to the same

⁴³ Tied aid less than two million SDRs.

financing rules as tied aid given that the financing terms of the Arrangement do not apply to untied activity. Should donor countries provide aid to private companies in developing countries that purchase exports from the donor country and label it untied, such financing could circumvent the Arrangement rules.

The Arrangement requires that governments report trade-related untied aid to the participants to the Arrangement 30 days prior to commitment. Furthermore, due to competitiveness concerns, Participant countries have committed to report untied aid credits prior to and following commitment in their Agreement on Untied ODA Credits Transparency. Untied aid in 2016 rose by 35.4 percent to \$17.3 billion. Of note, Japan comprised over \$12 billion of this activity. Untied aid volumes were approximately \$7.9 billion higher than tied aid volumes in 2016. Untied aid can have a concessionality level that falls below the 35 percent minimum concessionality level required for Helsinki tied aid, and thus, has the potential to be more trade-distorting than tied aid if it is *de facto* tied. In 2016, more than 70 percent of the untied aid provided (by volume) was below the 35 percent floor required for tied aid.

| Untied aid in 2016 rose by 35.4 percent to \$17.3 billion.

APPENDIX D:

Co-financing

Co-financing allows EXIM to provide U.S. exporters with the ability to offer a comprehensive financing package (a guarantee or insurance) to support transactions seeking to include content from two or more countries. With co-financing, the lead ECA provides the applicant (buyer, bank, or exporter) with export credit support in a single transaction. Behind the scenes, the follower ECA provides reinsurance (or a counter-guarantee)

to the lead ECA for the follower ECA's share of the export transaction. The country with the largest share of the sourcing and/or the location of the main contactor generally determines which ECA leads the transaction. The lead ECA is able to provide a common documentation structure, one set of terms and conditions, and one set of disbursement procedures to the foreign buyer for the entire financing package.

Figure 19: EXIM Co-financed Transactions, 2016

Co-Financing ECA	Market	Sector	Financed Amount (in millions)
EDC (Canada)	Chile	Agricultural Aircraft	\$0.82
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.68
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.63
EDC (Canada)	Brazil	Agricultural Aircraft	\$1.28
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.70
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.80
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.70
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.70
EDC (Canada)	Brazil	Agricultural Aircraft	\$0.72
EGAP (Czech Republic)	Brazil	Agricultural Aircraft	\$0.84
SACE (Italy)	Mexico	Small Aircraft	\$10.30
UKEF (United Kingdom)*	Germany	Aircraft Engine Maintenance	\$10.59
EDC (Canada)	Costa Rica	Small Aircraft	\$6.25
		TOTAL:	\$35.00

*EXIM was the follower ECA on this transaction

Source: EXIM

Figure 20: G-7 Co-financing Agreements, 2016

	EXIM	UKEF	EDC	Hermes	COFACE	SACE	NEXI/JBIC
EXIM		X	X	X	X	X	X
UKEF	X		X	X	X	X	
EDC	X	X		X	X	X	X*
Hermes	X	X	X		X	X	X
COFACE	X	X	X	X		X	X
SACE	X	X	X	X	X		X
NEXI/JBIC	X		X*	X	X	X	

*Indicates a co-financing framework agreement between NEXI and EDC

Source: EXIM

APPENDIX E:

Environmental Policy

OVERVIEW

EXIM's environmental policy focuses on two main objectives: first, environmental stewardship as it relates to EXIM's Environmental and Social Due Diligence Procedures and Guidelines (EPSG), and second, environmentally beneficial export promotion. The second aspect is, as mandated by EXIM's charter, particularly focused on renewable energy export promotion.

EXIM ACTIVITY

As noted in the report's Highlights, EXIM's ESPG did not come into play from a competitive standpoint in 2016 given the constraints on EXIM's ability to authorize transactions to which the ESPG generally apply.

EXIM's MLT renewable energy authorizations fell to zero in 2016, continuing a downward trend that began in 2011. While this report focuses on MLT activity in calendar year 2016, EXIM Charter requirement Sec.8A(5) refers to reporting total renewable energy authorizations on a fiscal year basis. As such, Figure 21 shows EXIM authorizations in fiscal year 2016, including short-term authorizations. While EXIM made no new MLT commitments in 2016, it did conduct promotional activities as per Section 2(b)(1)(k) of EXIM's charter. EXIM presented its products and services at several renewable energy conferences, trade missions, and meetings with renewable energy exporters and projects sponsors in major cities across the United States and Latin America. Additionally, EXIM staff and industry experts led a panel covering renewable energy at the 2016 EXIM Annual Conference.

Figure 21: Total EXIM Authorizations Associated with Renewable Energy Projects in FY2015 and FY2016

Fiscal Year	Total authorized amount	Percent Change
2015	\$121,492,241	-
2016	\$27,185,000	-77.6%

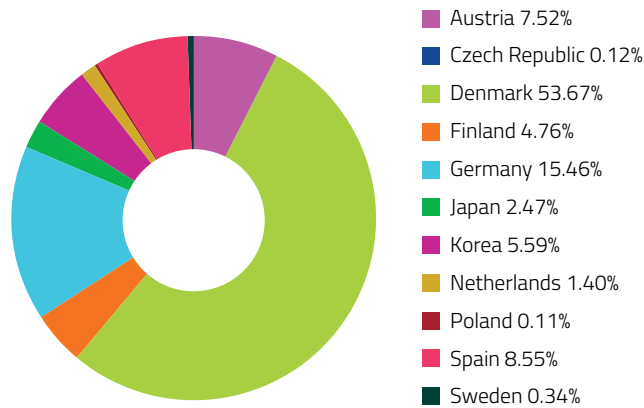
Source: EXIM

FOREIGN ECA ACTIVITY

In contrast with EXIM's lack of MLT activity, foreign ECA support for renewable energy remained steady in 2016, with Denmark and Germany continuing to lead OECD ECA support for renewable energy projects. In 2016, ECAs were willing to offer significant amounts of MLT support to renewable energy projects. In terms of volume, ECAs were willing to back over \$7 billion in the sector. Germany offered the most support by dollar value, exceeding \$4 billion, followed by Denmark, which offered \$2.6 billion. Germany also offered the maximum repayment term allowed for renewable energy projects under the Arrangement's Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects (CCSU) more frequently than any other ECA. In fact, all ECA offers that made use of the maximum 18-year repayment term in 2016, save one, were extended by Germany. In terms of *commitments*, Denmark continued to lead OECD ECAs by committing almost \$1.5 billion, and while some other ECAs increased the volume of their commitments in 2016, together Denmark and Germany still represented more than two-thirds of total commitments.⁴⁴ Denmark continues to push forward in this sector, as EKF (Denmark) reported the introduction of a specific sub-strategy for wind.

⁴⁴ A direct comparison of ECA offers and commitments within the same year is not possible given the timing of the data reported, the possibility of offers not reaching the commitment stage, and the lack of a requirement to report all commitments in their offer stage. OECD commitment data is as of March 31, 2017. As of that date, a small number of countries had not fully reported their 2016 commitment activity and, as such, the data should not be considered fully complete. In addition, data is subject to amendment (including deletion) as new information is received.

Figure 22: OECD ECAs’ Share of Total Renewable Energy Commitment Volumes in 2016



Source: OECD commitment data

The major non-OECD ECA in this sector, CEXIM (China), ramped up support for projects in green finance according to its 2016 Annual Report. While wider in scope than renewable energy, CEXIM reported establishing “a green development approach that features active support to the development of green and environment-friendly industries...” Last year, EXIM found that CEXIM provided more support for renewable energy projects than all OECD ECAs combined. Although exact figures for 2016 are not available, CEXIM has reported that its green portfolio only grew over the past year, stating, “[b]y the end of 2016, the outstanding loan balance for energy efficient and environment-friendly projects and services rose by 21% [from] that of the beginning of the year.”

EXIM’s MLT renewable energy authorizations fell to zero in 2016, continuing a downward trend that began in 2011. In contrast, foreign ECA support for renewable energy remained steady in 2016.

APPENDIX F:

Services

EXIM AND FOREIGN ECA ACTIVITY

According to Section 8A(8) of EXIM's charter, EXIM must report on the participation of the Bank in providing financing for services exports. EXIM supports U.S. services exports through all of its programs.⁴⁵ In 2016, EXIM authorized nine medium-term transactions that included \$5 million of services exports. The services sectors represented in these nine transactions were: engineering and consulting, legal and banking, IT and telecommunications, and transportation. EXIM authorized 86 short-term services export transactions for \$98.7 million. The services sectors represented in these transactions were: engineering and consulting, transportation, and IT and telecommunications.

The top three services exports supported by OECD ECAs in 2016 were: engineering and consulting; IT and telecommunications; and delivery, installation or maintenance.

The top three services exports supported by OECD ECAs in 2016 were: engineering and consulting; IT and telecommunications; and delivery, installation or maintenance.

Figure 23: EXIM Medium-Term Services Activity

Service Industry	Authorized Amount for Services (in millions)
Engineering and Consulting	\$4.7
IT and Telecommunications	\$0.3
Legal and Banking	\$0.3
Transportation	\$0.1
TOTAL	\$5.4

Source: EXIM

Figure 24: EXIM Short-Term Services Activity

Service Industry	Authorized Amount for Services (in millions)
Engineering and Consulting	\$31.0
Transportation	\$20.0
IT and Telecommunications	\$15.6
Admin and Support Services	\$15.5
Management Services	\$9.0
Oil and Gas and Mining	\$4.5
Construction	\$1.1
Medical	\$0.9
Rental and Leasing	\$0.6
Other Services	\$0.6
TOTAL	\$98.7

Source: EXIM

⁴⁵ EXIM supports both "associated" and "stand-alone" service exports. Associated services are included in contracts that contain goods and services; stand-alone services contracts contain only the service export.

APPENDIX G:

U.S.-Flag Shipping Requirement

Public Resolution 17 (PR-17), enacted March 26, 1934, and reaffirmed in Public Law 109-304 on October 6, 2006, expresses the sense of Congress that ocean-borne exports financed by the U.S. government should be transported on U.S.-flagged vessels. Shipping on U.S.-flagged vessels, which must be manned by U.S. citizens, is required for U.S. ocean-borne exports supported by EXIM loans (of any size) or guaranteed transactions that are over \$20 million (excluding the exposure fee) or have a greater than seven-year repayment term (unless the export qualifies for a longer repayment term under EXIM's special medical, transportation security, or environmental initiative).⁴⁶ This U.S.-flag shipping requirement generates revenue for U.S.-flagged carriers and experience for crews to ensure an effective merchant marine industry able to maintain the flow of waterborne domestic and foreign commerce during wartime or national emergency.

EXIM is the only Participant to the OECD Arrangement that still maintains a national flag shipping requirement.⁴⁷ However, the \$10 million per transaction cap on EXIM activity in 2016 diminished the relevance of PR-17 to EXIM transactions and potentially reduced revenue earning opportunities for the U.S.-flagged shipping industry. In 2016, EXIM authorized only one transaction subject to PR-17, a \$10 million export of firetrucks to China with a 9-year repayment term.⁴⁸ No shipments have yet taken place under that authorization since the trucks are still in production, but PR-17-impelled shipments related to transactions authorized in prior years generated nearly \$18 million in revenue for U.S. carriers in 2016. This revenue, however, is approximately half the \$35.4 million earned by U.S. carriers in 2014 when EXIM was fully operational.

⁴⁶ When PR-17 was enacted, EXIM Bank only offered direct loans. Subsequently, EXIM and MARAD agreed that PR-17 would apply to EXIM-guaranteed transactions that were equivalent to direct loans. A 2004 Memorandum of Understanding signed by EXIM Bank and MARAD revised the parameters, which remain in force to date, for applying PR-17 to guaranteed transactions, most notably raising the limit from \$10 million to \$20 million for routine transactions with a repayment term not exceeding seven years.

⁴⁷ In bilateral inquiries to its Brazilian and Chinese counterparts, EXIM was notified that the use of national flagged vessels is not a condition for coverage.

⁴⁸ This transaction was approved under the China Framework Agreement, which was signed by EXIM and the Government of China in 2005. To encourage U.S. exports to China, EXIM will consider up to 10-year repayment terms, regardless of transaction size, provided the repayment term is in compliance with the OECD principle that repayment does not exceed the useful life of the product.

APPENDIX H:

Trade Promotion Coordinating Committee

BACKGROUND

Section 8A(a)(2) of EXIM's charter requires EXIM to report on its role in the Trade Promotion Coordinating Committee (TPCC), an interagency group which assists in the development and implementation of the Administration's National Export Strategy.⁴⁹ A key goal of this strategy is making it easier for more U.S. businesses to begin exporting or expanding international sales. A special focus is placed on customers that need the most assistance: small- and medium-sized businesses. EXIM staff actively participates in the TPCC small business working group and also attended the inaugural meeting of the new Department of Commerce Advisory Committee on trade finance. EXIM is primarily involved with the TPCC goals related to:

- 1) Expanding access to export financing by educating more financial institutions and corporations about U.S. government financing options and streamlining access;
- 2) Supporting state and local entities seeking to expand regional exports;
- 3) Providing exporters and potential foreign buyers tailored assistance and information to help them connect; and
- 4) Implementing a U.S. government-wide initiative to streamline export reporting requirements, services, and processes to facilitate U.S. exports.

RESULTS FOR 2016

Following a lapse in authority during the second half of 2015, EXIM accelerated its outreach to increase awareness of the Bank's programs and expand U.S. companies' access to export financing in 2016. EXIM resumed quarterly formal training

programs to educate exporters, lenders, and insurance brokers regarding the Bank's programs. In addition to formal training at headquarters, EXIM's 11 regional offices and staff hosted or attended over 580 events, including roundtables, seminars, and workshops, from coast-to-coast. EXIM also recast its City/State Partner Program as the new Regional Export Promotion Program (REPP). The REPP provides tailored content and seeks to bolster participant relationships through increased joint marketing. A new online portal, lead referral system, and a streamlined and automated onboarding process support this program.

Figure 25: Indicators of EXIM Support for Small Business, 2016

Number of Small Exporters Assisted	2,479
Value of Small Firm Exports Supported*	\$4.7 billion
Number of Lenders Trained	76
Number of Insurance Brokers Trained	7

** Value of Small Firm Exports Supported refers to the export value, not to amount authorized.*

Source: EXIM

In 2016, TAB Bank in Utah became a Master Guarantee holder under the Working Capital Loan Guarantee Program (WCGP), providing another small bank access to the working capital loan program, and Blue Hills Bank in Massachusetts was approved for WCGP delegated authority, which can reduce the time needed to process small businesses' applications. Additionally, in January 2016, EXIM launched a dedicated in-house contact center staffed by experienced officers knowledgeable about a range of products and policies. As a result, those with general questions or more detailed inquiries who reach out to the contact center can generally have their questions fully answered without further referral.⁵⁰

⁴⁹ Members of the TPCC are: U.S. Departments of Commerce (Chair), State, Treasury, Agriculture, Defense, Energy, Transportation, Interior, Labor; the Overseas Private Investment Corporation, the Export-Import Bank of the United States, U.S. Agency for International Development, Small Business Administration, U.S. Trade and Development Agency, U.S. Trade Representative, Environmental Protection Agency, the Council of Economic Advisors, National Security Council, National Economic Council, the Department of Homeland Security, and the Office of Management and Budget.

⁵⁰ The contact center can be reached by phone at (800) 565-3946 or online at www.exim.gov/contact.

EXIM's annual conference in Washington, D.C. again attracted a capacity crowd. More than 1,000 participants attended the 2-day conference in April 2016. Attendees not only learned about EXIM Bank's programs but also had the opportunity to connect with various public and private sector entities that provide financing, insurance, logistical support, and other services to U.S. exporters.

EXIM also supported the TPCC's "Look South" initiative through participation in the Department of Commerce-led monthly coordinating calls with state and local governments and trade associations focusing on increasing trade with Latin America and the Caribbean. Additionally, EXIM took part in several TPCC-related trade missions, such as the March 2016 "U.S.-Central China Business Summit." At conferences held in Wuhan and Fuzhou, EXIM's representative addressed packed audiences of over 500 companies. EXIM also staffed a booth at these events and spoke directly to many corporate and government officials from central and southeastern China. While in China, EXIM staff visited Shanghai and other important commercial centers to meet with Chinese companies and state-owned entities and utilities and to deliver presentations to local chambers of commerce. In April 2016, EXIM joined a 430-member delegation comprised of private companies, research institutions, and domestic economic development officers to the HANNOVER MESSE (HM) in Germany. The annual HM is renowned as the world's foremost trade fair for industrial technology, and the delegation enjoyed considerable success. According to a Department of Commerce survey to which 151 of the participants responded, over 3,000 strong business leads were generated for future follow-up, and 375 sales or partnership agreements were concluded on the spot.

EXIM was also involved in efforts, as mandated by its charter, to work in consultation with the Secretary of Commerce and the TPCC to promote the expansion of exports to sub-Saharan Africa. Most notably, then-Vice Chair Wanda Felton participated in a fact-finding mission to Nigeria and Rwanda with Secretary Pritzker and members of the President's Advisory Council on Doing Business in Africa. The purpose of the trip was to increase U.S. companies' awareness of trade and investment opportunities in sub-Saharan Africa and to advance a discussion of how U.S. government programs and policies can better support economic engagement between Africa and the United States.

Finally, EXIM continued to work toward improving its operations in support of the U.S. government-wide initiative to streamline international trade transactions.⁵¹ In March 2016, EXIM and

Following a lapse in authority during the second half of 2015, EXIM accelerated its outreach to increase awareness of the Bank's programs and expand U.S. companies' access to export financing in 2016.

Customs and Border Protection (CBP) within the Department of Homeland Security completed the process through which EXIM was granted membership in the CBP-built International Trade Data System (ITDS), an electronic information exchange or "single window" supporting secure online data transmission for customs (Automated Commercial Environment-ACE). As part of this effort, EXIM continues to develop an electronic portal concept for submittal of disbursement documents. This will enable EXIM to streamline its disbursement system and transition away from reliance on physical bills of lading and other shipping documents to electronic export data confirmation through ACE.

⁵¹ Executive Order (E.O.) 13659 Streamlining the Export/Import Process for America's Businesses was signed on February 19, 2014, and mandated the completion of the International Trade Data System to facilitate all relevant U.S. government agencies involved in trade moving from paper to efficient online processing of certain trade data.

APPENDIX I:

Transaction Processing Times

Transaction processing time is an important factor in customers' decisions to choose EXIM over foreign ECAs. EXIM regularly measures and manages cycle time, as one of its key customer experience performance metrics. Cycle-time monitoring helps to ensure timely handling of transactions by alerting management to transactions that may require additional support, due to transactional complexity, incomplete applications, or other issues. The Bank's cycle-time monitoring practices include:

- Real-time availability of comprehensive cycle-time dashboards and reports via EXIM's internal reporting system.
- Monthly Operations Review Working Group meetings, where representatives from offices across EXIM review and address open transactions that have exceeded service standards.
- Publication of cycle times by major product line, in the Bank's annual Government Performance and Results Act report.

In addition, cycle-time standards are periodically reviewed and refined to better meet customer needs and expectations.

In FY 2016, 91% of EXIM's transactions were completed in 30 days or fewer.

Figure 26 outlines high-level cycle-time averages over time at the Bank.

Figure 26: Overall Cycle Times

FISCAL YEAR	PERCENTAGE OF TRANSACTIONS COMPLETED IN ≤ 30 DAYS	PERCENTAGE OF TRANSACTIONS COMPLETED IN ≤ 100 DAYS
FY 2009	57%	90%
FY 2010	65%	93%
FY 2011	80%	99%
FY 2012	90%	98%
FY 2013	89%	98%
FY 2014	90%	98%
FY 2015	91%	98%
FY 2016	91%*	99%*

*Overall FY 2016 cycle times have been adjusted to account for the Bank's lapse of authority from July 1, 2015, through December 4, 2015.

Source: EXIM

APPENDIX J:

"Point of Experience" Customer Survey

In January 2015, EXIM implemented a "point of experience" survey⁵² for users of the Bank's Express multi-buyer and single-buyer insurance policies.⁵³ The five-question survey automatically generates via email directly to exporters when they accept quotes for Express or single-buyer export credit insurance policies via EXIM Online.⁵⁴ The survey gathers real-time feedback from customers as they progress through EXIM's application processes.

From January 1, 2016, through December 31, 2016, 95 customers responded to EXIM's point of experience survey—more than double the number of 2015's respondents. As shown in Figure 26, results of the 2016 survey were similar to those of 2015. Despite a slight decline in the percentage of customers who indicated they were able to accomplish what they set out to do in conducting their transactions—97.6 percent in 2015, compared to 94.7 percent in 2016—customers continue to find their EXIM Bank experience satisfactory.

Figure 27: Select Results from the Point of Experience Survey

SURVEY QUESTION OR MEASUREMENT	AVERAGE SCORE	
	2015	2016
Overall Customer Effort Score ⁵⁴	2.57 ⁵⁵	2.52 ⁵⁶
Explanations of the application process matched my actual experience	4.54	4.51
Written instructions provided within the policy application were clear and understandable	4.37	4.44
EXIM's processing time met with my expectations	4.48	4.45
I accomplished what I set out to do in conducting this transaction	97.6%	94.7%

Responses to questions in rows one to four based on a five-point scale.

Source: EXIM

52 A point of experience survey is a short survey that is designed to discover whether or not the customer achieved what he or she set out to do in a specific transaction. The survey is intended to help spot problems during the customer's transaction and fix the problem before it becomes an issue that leads to customer dissatisfaction.

53 Express and ESS export credit insurance policies are higher-volume product lines for EXIM and are generally held by U.S. small businesses to insure against nonpayment by a foreign buyer and/or to extend payment terms to those buyers.

54 EXIM Online is EXIM's online customer portal, where customers and their insurance brokers log in and can arrange and apply for new insurance, report shipments, and pay premiums, among other functions.

55 The Customer Effort Score is an industry-standard customer-satisfaction measurement that asks customers: On a scale of 1–5, how much effort do you personally have to put forth to complete transactions with EXIM? Customers rate their level of effort on a five-point scale from very low effort (1) to very high effort (5). A score of 3 indicates "about as much effort as expected." The customer effort score serves as a key external metric for EXIM because of its distinct linkage to the Bank's strategic goal to improve the ease of doing business for customers.

56 Low Customer Effort Scores equal low perceived effort by customers. Lower scores are positive.

57 Ibid.

APPENDIX K:

List of Active Export Credit Agencies

#	Country	Name	Nickname
1	Algeria	Compagnie Algérienne d'Assurance et de Garantie des Exportations	CAGEX
2	Argentina	Banco de Inversion y Comercio Exterior	BICE
3	Armenia	Export Insurance Agency of Armenia	EIAA*
4	Australia	Export Finance and Insurance Corporation	EFIC*+
5	Austria	Oesterreichische Kontrollbank AG	OeKB*+
6	Bangladesh	Sadharan Bima Corporation	SBC
7	Belarus	Eximgarant of Belarus	Eximgarant*
8	Belgium	Credendo Group (formerly ONDD)	Credendo Group*+
9	Bosnia and Herzegovina	Export Credit Agency of Bosnia and Herzegovina	IGA*
10	Botswana	Export Credit Insurance & Guarantee Company	BECI*
11	Brazil	Agência Brasileira Gestora de Fundos Garantidores e Garantias S.A.	ABGF*
12	Brazil	Brazilian Development Bank	BNDES
13	Bulgaria	Bulgarian Export Insurance Agency	BAEZ*
14	Canada	Export Development Canada	EDC*+
15	China	China Export and Credit Insurance Corporation	Sinosure*
16	China	The Export-Import Bank of China	CEXIM
17	China - Hong Kong	Hong Kong Export Credit Corporation	HKEC/ECIC*
18	Colombia	Banco de Comercio Exterior de Colombia	Bancoldex
19	Colombia	Fondo Nacional de Garantias S.A.	FNG
20	Croatia	Hrvatska banka za obnovu i razvitak	HBOR*
21	Czech Republic	Export Guarantee and Insurance Corporation	EGAP*
22	Czech Republic	Česká exportní banka, A.S.	CEB
23	Denmark	Eksport Kredit Fonden	EKF*+
24	Dominican Republic	National Bank of Exports	BANDEX
25	Ecuador	Corporacion Financiera Nacional Fondo de Promocion de Exportaciones	CFN
26	Egypt	Export Credit Guarantee Company of Egypt	ECGE*
27	Estonia	Kredex Krediidikindlustus	KredEx*
28	Finland	Finnvera	Finnvera*+
29	Finland	Finnish Fund for Industrial Cooperation Ltd.	FinnFund+
30	France	Banque Publique d'Investissement	Bpifrance*+
31	France	Societe de Financement Local	SFIL+
32	Germany	Export Credit Guarantee Scheme of the Federal Republic of Germany (Hermes Cover)	Euler Hermes*+
33	Germany	KfW IPEX-Bank	KfW/IPEX+
34	Ghana	Ghana Export Import Bank	Ghana Exim Bank
35	Greece	Export Credit Insurance Organisation	ECIO*+
36	Hungary	Hungarian Export-Import Bank Plc.	EXIM Hungary
37	Hungary	Hungarian Export Credit Insurance Ltd.	MEHIB*
38	India	Export Credit Guarantee Corporation of India	ECGC*
39	India	Export-Import Bank of India	I-Eximbank
40	Indonesia	PT. Asuransi Ekspor Indonesia	PT ASEI
41	Indonesia	Indonesian Eximbank	LPEI*
42	Iran	Export Guarantee Fund of Iran	EGFI*
43	Israel	Israel Export Insurance Corp. Ltd.	ASHRA*

#	Country	Name	Nickname
44	Italy	Servizi Assicurativi del Commercio Estero S.p.A.	SACE*+
45	Jamaica	EXIM Bank Jamaica	EXIM Bank J*
46	Japan	Nippon Export and Investment Insurance	NEXI*+
47	Japan	Japan Bank for International Cooperation	JBIC+
48	Jordan	Jordan Loan Guarantee Cooperation	JLGC*
49	Kazakhstan	KazExportGarant	KazExportGarant*
50	Kazakhstan	Eximbank Kazakhstan	Eximbank Kazakhstan
51	Latvia	SIA Latvijas Garantiju aģentūra [Latvian Guarantee Agency Ltd]	ALTUM*
52	Lebanon	Lebanese Credit Insurer	LCI*
53	Luxembourg	Office du Ducroire	ODL*+
54	Macedonia	Macedonian Bank for Development Promotion AD Skopje	MBDP*
55	Malaysia	Export-Import Bank of Malaysia Berhad	MEXIM*
56	Mexico	Banco Nacional de Comercio Exterior, SNC	Bancomext*
57	Morocco	Caisse Central de Garantie	CCG
58	the Netherlands	Atradius Dutch State Business	Atradius*+
59	New Zealand	New Zealand Export Credit Office	NZECO*+
60	Nigeria	Nigerian Export-Import Bank	NEXIM
61	Norway	Export Credit Norway	ECN+
62	Norway	Garanti-instituttet for eksportkreditt	GIEK*+
63	Oman	Export Credit Guarantee Agency of Oman (S.A.O.C)	ECGA Oman*
64	Poland	Korporacja Ubezpieczeń Kredytów Eksportowych	KUKE*
65	Portugal	Companhia de Seguro de Créditos	COSEC*+
66	Qatar	TASDEER (managed by the Qatar Development Bank)	TASDEER/QDB*
67	Romania	Eximbank of Romania	EXIM R*
68	Russia	Export Insurance Agency of Russia	EXIAR*
69	Russia	Vnesheconombank	VEB
70	Saudi Arabia	Saudi Export Program	SEP*
71	Senegal	Société Nationale d'Assurances du Crédit et du Cautionnement	SONAC*
72	Serbia	Serbian Export Credit and Insurance Agency	AOFI*
73	Singapore	ECICS Limited	ECICS*
74	Slovakia	Export-Import Bank of the Slovak Republic	EXIMBANKA SR*
75	Slovenia	Slovenska izvozna in razvojna banka	SID*
76	South Africa	Export-Import Credit Insurance Corporation of South Africa	ECIC*
77	South Korea	Korea Trade Insurance Corporation	K-sure*+
78	South Korea	Export-Import Bank of Korea	KEXIM+
79	Spain	Compañía Española de Seguros de Crédito a la Exportación	CESCE*+
80	Sri Lanka	Sri Lanka Export Credit Insurance Corporation	SLECIC*
81	Sudan	National Agency for Insurance and Finance of Export	NAIFE
82	Swaziland	Central Bank of Swaziland Export Credit Guarantee scheme	ECG
83	Sweden	Svensk Exportkredit	SEK+
84	Sweden	Exportkreditnämnden	EKN*+
85	Switzerland	Swiss Export Risk Insurance	SERV*+
86	Taiwan	Export-Import Bank of the Republic of China	TEBC*
87	Thailand	Export-Import Bank of Thailand	Thai EXIMBANK*
88	Trinidad and Tobago	Export-Import Bank of Trinidad & Tobago	Eximbank TT
89	Tunisia	Compagnie Tunisienne pour l'Assurance du Commerce Extérieur	COTUNACE
90	Turkey	Export Credit Bank of Turkey	Türk Exim*
91	UAE	Export Credit Insurance Company of the Emirates	ECIE*
92	Ukraine	Joint Stock Company The State Export-Import Bank of Ukraine (JSC Ukreximbank)	Ukreximbank*
93	United Kingdom	Export Credits Guarantee Department (ECGD) a/k/a UK Export Finance	UKEF*+
94	United States	Export Import Bank of the U.S.	EXIM*+
95	Uzbekistan	Uzbekinvest National Export-Import Insurance Company	Uzbekinvest*
96	Zambia	Zambia Export and Import Bank	ZEXIM

* Indicates member of the Berne Union

† Indicates participant to the OECD Arrangement on Officially Supported Export Credits

Glossary

Associated Service: A service export that is associated or related to the export of a good (e.g., transportation/logistical services related to the export of construction equipment).

Authorization: The approval of a transaction.

Blended Finance: The combination of a standard export credit with development finance, resulting in a more attractive financial offer.

Capital Markets: Financial markets for buying and selling long-term equity (stocks) and debt (bonds) instruments.

CIRR: Commercial Interest Reference Rates. Commercially-indexed official lending rates for export credit agencies established under the OECD Arrangement as a base for setting interest rates for export finance.

Concessional Financing: Financing that is extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these.

Coverage: The percentage of the total cost of a project that is funded through export finance.

Cover Policy: A risk-rating policy used by EXIM to determine which markets the Bank will extend credit guarantees and insurance credit to and what premia rates to charge to cover risk in those markets.

Credit: An amount for which there is an obligation of repayment over time.

Direct Lending: The ECA can provide funds directly to a borrower without the need for another institution to fund the transaction. Under the Arrangement, direct lending ECAs charge at least the currency-specific CIRR rate for fixed-rate loans. The Arrangement does not cover floating-rate loans.

Domestic Content: The portion of the export that originates in the United States.

EXIM Guaranteed Bond: A debt instrument issued in the capital markets by the borrower that includes a guarantee from EXIM Bank.

Export Credit: Credit extended to finance the cross-border purchase of goods or services.

Export Credit Agency: An agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services.

Exposure Fee: See "Premia"

Foreign Content: Any portion of an export, both for goods or services, which originates outside of the U.S. and outside the foreign buyer's country.

"Gentleman's Agreement": The OECD Arrangement is considered a "Gentleman's Agreement" because it is not legally binding. However, EXIM and its OECD counterparts treat the Arrangement as "rules" to follow for MLT transactions.

Investment Support: Official loans, guarantees, insurance, or other finances typically given to support domestic companies in overseas projects where they have equity participation.

Local Costs: Project or export related costs for goods and services incurred in the buyer's country.

Long-Term Finance: Export financing transactions with repayment terms greater than seven years and for amounts greater than \$10 million.

Market Window: Official export financing that is commercially priced by setting all financing terms on market conditions. This finance falls outside the OECD Arrangement.

Medium-Term Finance: Export financing transactions with repayment terms of between two and seven years and for amounts up to \$10 million.

Non-OECD Export Credit Agencies: ECAs that are not a party to the OECD Arrangement on Export Credits or its rules. Notable ECAs include Export-Import Bank of India, Sinosure, and the Export-Import Bank of China.

OECD Arrangement: A set of rules setting financing terms and conditions for participating ECAs. The OECD arrangement is a “gentleman’s agreement” with no enforceable punishments for misbehavior.

OECD Notification: The required means of informing the OECD Secretariat of an offer under the OECD Arrangement.

Offer: ECA support extended in relation to a project prior to commitment, which may not materialize in a transaction.

Project Finance: The financing of an asset (or “project”) whereby the lender relies purely on the underlying cash flows being generated by the asset as the sole source of repayment for the loan.

Pure Cover: Official support provided by or on behalf of a government by way of export credit guarantee or insurance only.

Premia (also known as exposure fee): The fee charged to cover the risk of non-payment. It is a form of compensation to investors for taking risk above other risk-free investments such as government bonds.

Special Drawing Right: The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries’ official reserves. SDRs can be exchanged for freely usable currencies. The value of the SDR is based on a basket of five major currencies—the U.S. dollar, the euro, the Chinese renminbi (RMB), the Japanese yen, and the British pound sterling.

Short-Term Finance: Export financing with repayment terms less than two years. The OECD Arrangement rules do not apply to these transactions.

Stand-Alone Service: A service export that is an export in and of itself (e.g. architectural or design services).

Structured Finance: The financing of a project that relies on the underlying project’s revenues to ensure against the risk of non-payment, but is not the sole source of repayment.

Tenor: The amount of time left on a loan before it must be repaid in full.

Tied Export Support: Support that is conditionally offered based on procurement restrictions.

Tied Aid: Aid which is in effect (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or a restricted number of countries, including loans, grants, or associated financing packages with a concessionality level greater than zero percent.

Transaction: Confirmed ECA support for a project signified by issuing a final commitment.

Untied Aid: Aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country.

Untied Export Support: Official export financing, guarantees, or insurance on non-concessional terms not formally linked or tied to procurement from the donor country. This support falls outside the OECD Arrangement disciplines.

Acronyms and Abbreviations

ACE	Automated Commercial Environment	LT	Long-term
BRICS	Brazil, Russia, India, China, South Africa	MT	Medium-term
CBP	Customs and Border Protection	MLT	Medium- and long-term
CCSU	Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects	OBOR	One Belt, One Road
CIRR	Commercial Interest Reference Rate	ODA	Official Development Assistance
DAC	Development Assistance Committee	OECD	Organisation for Economic Co-operation and Development
ECA	Export credit agency	REPP	Regional Export Promotion Program
EPC	Engineering, Procurement, and Construction	SDR	Special Drawing Right
EPSG	Environmental and Social Due Diligence Procedures and Guidelines	SME	Small and medium-sized enterprises
GDP	Gross domestic product	SPV	Special Purpose Vehicle
GNI	Gross national income	ST	Short-term
ITDS	International Trade Data System	TACPF	Tied-Aid Credit Program and Fund
IWG	International Working Group	TPCC	Trade Promotion Coordinating Committee
LDC	Least Developed Countries	TXF	Trade and Export Finance
LNG	Liquefied natural gas	WCGP	Working Capital Guarantee Program

A Sampling of Export Credit Agencies Across the Globe

 EXPORT-IMPORT BANK OF THE UNITED STATES		
 Credit Insurance	 EXPORT-IMPORT BANKA SLOVENSKEJ REPUBLIKY	 ONDD
		
 ई सी जी सी EGGC		
	 香港出口信用保險局	
	 COMPANHIA DE SEGURO DE CRÉDITOS, S.A.	
 Australian Government EFIC Export Finance & Insurance Corporation	 KOREA TRADE INSURANCE CORPORATION	 The Israel Foreign Trade Risks Insurance Corporation Ltd. מחלקת ביטוח מסחר בינלאומי
		 The Export-Import Bank of the Republic of China
 EULER HERMES		
	 LUXEMBOURG EXPORT CREDIT AGENCY	
 JAPAN BANK FOR INTERNATIONAL COOPERATION	 中国出口信用保險公司 China Export & Credit Insurance Corporation	
 THE EXPORT-IMPORT BANK OF KOREA	 Export Credits Guarantee Department	 Dutch State Business





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