

Finance for Exports: United States Policies and Institutions

1. The background of export finance in the United States

The development of present-day export credit guarantees and financing facilities in the United States provides an apt illustration of the problems which are met when trying to pour new wine in old bottles, that is to adapt existing institutions to the requirements of a changing situation.

The establishment in 1934 of the principal United States agency in the field of international finance, the Export-Import Bank of Washington, cannot be understood except against the background of the great depression of the 'thirties. The Government's major concern at that time was to stimulate business, and it was thought that the export sector could make a valuable contribution provided foreign purchases were encouraged by generous credit facilities.

The post-war activity of the Export-Import Bank developed against a radically different background, that is, the reconstruction and later the development needs of third countries wishing to purchase equipment from American industries working at full capacity and in a general context of shortage of exportable goods. Under such circumstances, the emphasis of the lending institution was bound to be mainly on factors which might be defined as "political". A prospective loan was judged mainly in the light of the broad objectives of United States policy, but due weight was also given to the impact of the development of new productive facilities abroad on the market for imported American products as well as to the danger that competing export industries might be set up there with the help of Eximbank finance.

It is hardly possible to overstress the importance of the support which American exporters received from Eximbank lending abroad in the form of project loans and of balance of payment loans. Project loans resulted in a multitude of new export orders for

American industry — since the loans were tied to purchase in the United States — while the development of resources abroad placed additional purchasing power in the hands of potential customers. Eximbank also extended credits to the central banks of other countries to tide them over temporary exchange difficulties, and such credits prevented, or at least moderated, what might otherwise have been serious disruptions in the flow of American exports to such countries.

The sheer volume of credit extended in these forms by the Export-Import Bank, running into billions of dollars, is the most eloquent testimony of the importance of this institution's contribution to American export trade: one cannot fail therefore to be struck by the sharpness of the criticism voiced from time to time by American business circles, which point to the United States' failure to provide export credit facilities comparable to those in European countries.

There is little doubt that, from an overall point of view this criticism is unfounded: the length of credit and the cost of the facilities made available by Eximbank to *foreign importers*, as well as the fact that American industry did not have to bear a share of the necessary finance and of the risks (as is the case with European export credits) made Eximbank credits vastly superior to any comparable facilities elsewhere. Yet for the American exporter with a prospect of an interesting order provided the necessary finance is forthcoming and the appropriate arrangements can be made quickly, all this appears irrelevant: what interests him is merely the ready availability of guarantees and credit facilities for the particular transaction he is concerned with, and not for the United States export business as a whole.

In fact, what exporters demanded was that a system which directly furthered certain national policy aims — and only indirectly the interests of the exporters — should be supplemented by facilities meant as a direct service to exporters and only indirectly as an instrument of foreign economic policy.

In a situation characterized by the ever-increasing competitiveness of European and Japanese exporters on the world market, such demands found the Eximbank very receptive and, as we shall see, steps were taken to meet them as early as 1955. However, it took a definite weakening of the dollar in 1959 to create fresh concern for the improvement of export credits, in the hope of enlisting the

support of the business community for an all-out export drive. It was at this time that facilities of the type most current in Europe for guaranteeing and financing export credits were offered to American exporters or, if these facilities already existed, they were streamlined to enhance their efficiency.

One obstacle still had to be eliminated, and it was a serious one, since it concerned the attitude of the Bank in the processing of credit applications.

The type of business — large project loans — mainly transacted by the Bank called for a close study of the economic situation of the borrowing country and of the impact of the project on that situation, and also for a careful analysis of the financial statements of the firms involved. Such an approach, in the more "commercial" field of export finance proper, had to be replaced by the simpler system of relying on credit experience and on credit reports concerning prospective foreign buyers, if an answer was to be given in a matter of a few days at the most, as is usually the case. Such a shift in procedure is at present under way, and it is no exaggeration to say that once it is completed, the picture of the export credit field in the United States will be radically different. In fact, the combined availability of a wide set of guarantees, as well as of credit facilities, obtainable over the whole country thanks to the close co-operation to be established between commercial banks, insurance companies and the Export-Import Bank, will offer American exporters a variety of financial facilities at once more complete and cheaper than those currently enjoyed by their competitors anywhere in the world.

2. The Export-Import Bank: structure and organization

After this thumbnail sketch of the general development of export finance in the United States, we may now turn to the work of the agency which is by far the most important instrument in this field. It may seem that we are thus neglecting the tremendous impact of the finance provided by the International Cooperation Administration and its predecessors — estimated to have resulted in over \$13 billion worth of American exports since 1948 — or the role played more recently by the Development Loan Fund, which, particularly after the policy decision of September 1959 tying this agency's credits to

the purchase of American goods, has led to very substantial additional business for United States exporters.

In fact, this apparent neglect is simply due to the fact that this study is focused on guarantees and credit facilities *available directly to exporters* for the finance of their overseas business and not on the more general problem of the financing of a country's foreign trade. For this reason, no further mention will be made of what has been so far the most important aspect of the Export-Import Bank's activity, involving credit authorizations in the ten-year period 1951-60 of the order of six billion dollars. These were in respect of the large post-war reconstruction loans, the development loans to foreign governments and other organisations and the so-called balance of payments loans. Since disbursement is tied to payment for United States produced goods and services, the American exporter derives full benefit from these loans, the more so as he is paid cash, and does not have to bear a share of the risk or of the finance. The initiative, however, rests with the foreign borrower. Hence, this form of lending is in quite a different category from the one we are at present considering.

As a background for the discussion of the export credit facilities provided in recent times by the Export-Import Bank, a brief description of the structure and organisation of the Bank may be useful. The Export-Import Bank of Washington was established in 1934 as a District of Columbia corporation to finance trade with the Soviet Union; its charter was modified several times, with respect to the scope of its lending activities, its borrowing power and other details, until more radical changes were introduced by the Export-Import Bank Act of 1945. This Act, as amended, is still the basic text regulating the life of the agency. The Export-Import Bank is now an independent agency of the United States and is managed by a Board of five Directors appointed by the President and assisted by an Advisory Committee of nine members which the Board of Directors itself appoints and which represent "the interests of production, commerce, finance, agriculture and labor".

The capital stock of the Bank amounts to \$1 billion, subscribed by the United States. The resources of the Bank are obtained through the purchase by the Treasury of its notes, debentures, bonds or other obligations up to a ceiling of \$6 billion. Such obligations are issued on conditions agreed between the Board of Directors and the Treasury, the only explicit stipulation in the law being that the rate

of interest will be determined "by the Secretary of the Treasury taking into consideration the current average rate on outstanding market obligations of the United States as of the last day of the month preceding the issuance of the obligations of the Bank".

A limit is imposed on the total amount of loans and guarantees that the Bank may have outstanding at any given time: such lending authority is at present fixed at \$7 billion.

3. Early export financing facilities

Guarantees and finance for medium-term export credits granted by American exporters to their foreign customers have been available at the Export-Import Bank since 1955, when a programme providing for different types of facilities gradually got under way. The approach chosen was different from that followed in European countries, in that exporters could ask from the same institution for either a simple guarantee or non-recourse finance, which may be compared to a guarantee *plus* credit.

The various forms of assistance made available were the following:

(a) *Political risks guarantee*: In cases in which the exporter or his bank was prepared to provide the financing and to assume the commercial credit risks involved, Eximbank would issue a guarantee limited to the political risks, to the extent of 90% of the financed portion of the transaction. It was expected that the buyer abroad would have paid at least 20% of the invoice value of the goods by the time of delivery. The risks covered under the heading of "political risks" concerned inconvertibility or non-transferability of foreign currencies; legislative or administrative measures resulting in the cancellation of the order or of the import licence or in the expropriation of the exported items; war, rebellion and civil commotion.

(b) *Comprehensive guarantee*: In cases in which the exporter or his bank was prepared to provide the financing but also wished to be protected against the possibility of insolvency or default on the part of the importer, Eximbank would issue a guarantee to the exporter or his bank covering both commercial and political risks to the extent of 85% of the financed portion of the transaction. The same requirement as above applied to payments before delivery.

Such type of cover enabled the exporter to obtain non-recourse finance from his bank, and in fact the willingness of Eximbank to grant the guarantee directly to the bank made it possible for the exporter not to be involved at all in the financial side of the transaction, except of course for the uncovered 15%, for which non-recourse finance could not normally be obtained. However, as was mentioned above, the exporter had also the option of turning to the Export-Import Bank for direct financing in one of the following two forms.

(c) *Exporter credits on a case-by-case basis*: Where direct financing by Eximbank was required, the bank would purchase from the exporter, for cash and without recourse, obligations of the buyer representing up to 85% of the financed portion of the transaction. Here again, 20% of the invoiced value of the goods must have been paid by the buyer by the time of delivery.

(d) *Revolving credits*: Once an exporter had established the credit standing of a foreign dealer or other customer to whom a number of sales were anticipated, Eximbank would agree upon a credit ceiling against which the exporter could carry out a series of sales without prior reference to the Bank in each instance. This facility was a simple variation of that described above, designed to assist exporters having adequate experience in export sales and having established business relations abroad.

Going over the figures for Eximbank's activity in the field of guarantees and export credits, we are struck by the very limited extent to which use has been made of the facilities just described. In the case of guarantees, the record shows that in 1955 twenty-five comprehensive guarantees were issued, covering a total of \$8.8 million of export transactions, and in 1956 only two for a total of \$259,000; after a complete blank in 1957, 1958 and 1959, two more comprehensive guarantees were approved in 1960. When we come to guarantees against political risks only, one single approval was granted in 1955, in the amount of \$875,000. (It was subsequently cancelled). Only in 1960, after the reforms to be mentioned later, were there again transactions in this type of business, eleven operations, to be precise.

As for exporter credits, at the time when a general overhaul of the programme was being considered (early 1960), commitments

since 1955 had totalled only \$178 million, falling from a high of \$66 million in 1957 to 28 million in 1958 and 5.5 million in 1959.

Under the exporter credit lines programme, which was designed to provide stable facilities and which was recently discontinued, the Bank had established lines of credit for 155 concerns involving a total of over \$ 200 million. However, of these, 34 had been allowed to lapse, and 55 companies had had no export transactions approved by the Bank, while the total volume of the credits actually granted amounted to only \$42 million in the course of five years.

4. The inadequacies of the programme

This record just cited may appear extremely modest, and requires a certain amount of comment. The lack of success of the medium-term guarantees programme is comparatively easy to explain, given the fact that exporters have always had the option of obtaining a guarantee or direct financing from Eximbank, the requirements for the Bank's approval being roughly the same in both cases. Once an exporter had to go to the trouble of providing Eximbank with the necessary information, it was just as simple for him to obtain non-recourse financing. As has been aptly observed, "... the major reason for the lack of effectiveness of the guarantee program has been that the Eximbank normally offers guarantees only where it would be willing to offer direct financing in the first instance. In this sense, direct financing and a guarantee are equated in terms of Bank policy. Since Eximbank's rates are normally lower than those that could be offered by commercial banks, the latter are normally not called on and private financing is simply not brought into the picture" (1).

Of course, it might have been otherwise if commercial banks had considered this an interesting field and had shown a greater degree of aggressiveness in seeking out new business. They could then, with the assistance of comprehensive guarantees from Eximbank, have offered the exporter the equivalent of non-recourse financing: in general, however, two factors have worked against this. In the first place, the tight money market situation has resulted in

(1) *Statement of the Machinery and Allied Products Institute before the Senate Committee on Interstate and Foreign Commerce (Hearings of April 28 and 29, 1960, on export credit guarantees)*, U.S. Govt. Printing Office, 1960, p. 178.

the banks encouraging the exporters to turn directly to the Export-Import Bank for financing. Secondly, commercial banks have participated to a significant extent in Eximbank loans in connection with cotton credits or development projects, where they could buy a part of the maturities of the loan with a "take-out" agreement with Eximbank. In the case of individual export credits, on the contrary, the volume of business involved has probably been too small to interest them. Even the specific initiative taken by a group of banking institutions to meet the need for export credit, the creation of the American Overseas Finance Corporation, seems not to have lived up to expectations.

If the failures of the guarantee programme can thus be easily accounted for, the limited use by American exporters of the credit facilities made available to them by the Export-Import Bank is harder to understand without a thorough analysis of the attitude of these exporters in the field of medium-term credit sales and of the procedures employed by the Bank in the administration of its facilities. It appears strange that the comparatively cheap facilities — say between $4\frac{1}{2}$ and $5\frac{3}{4}$ % — of the Export-Import Bank should go begging while European exporters were not discouraged from engaging in medium-term export finance on a large scale by the generally higher cost of the credit facilities available to them.

It must be realized that the position of American exporters on the world market for capital goods, at least for the first post-war decade, has been substantially different from that of European exporters, who had to fight their way back into many markets by aggressive sales techniques, including generous payment terms and the assumption of considerable credit risks in connection with their foreign customers. It seems fair to say that, for the United States exporters, used to payment on letter of credit terms, the idea of incorporating in their financial structure the substantial volume of medium-term credit on foreign customers that was bound to result from a generous recourse to Eximbank's facilities — 15% of the credits granted, that is, normally 12% of the invoice value — must have appeared highly unattractive. It is only quite recently that American exporters seem to have realized that the choice open to them was not between letter of credit terms and medium-term credits, but rather between medium-term credits and no sales at all.

There is evidence, however, that the lack of demand for Eximbank export credit facilities has also been due largely to the way

in which the programme has been administered, and particularly to the problems arising from the fact that the financing agency was carrying over into the new field a set of procedures which had been designed to meet quite different needs. This difficulty has been particularly acute for small loans — say under \$100,000 —, which frequently occur in the normal run of export sales of light industrial equipment. To apply to small credits the same tests which are normally required for large project loans appears a highly questionable practice even if this can be justified in principle. If the distinction between these two types of loan is not recognized, the cost of the application process and of the subsequent examination becomes prohibitive both for the exporter and for the Bank. Evidence has been offered time and again that the Export-Import Bank has relied too much on balance-sheet information, whereas European agencies have relied more upon the credit experience of customers and have equipped themselves accordingly, by building up substantial files of credit information. This material has helped them to reduce the time needed for processing applications and the cost which the applicant has to bear.

An analysis of the delays involved between application for, and action on, the loan has been provided by the Export-Import Bank (2). It would appear from this document that the interval between the moment the Bank is in possession of all the necessary information and the point of time when action is taken has in general not been excessive, varying from a few days to little over a month; on the other hand, considerable delays occurred between the date on which the application was first received and the moment the Export-Import Bank considered itself in possession of all relevant information. Additional details were actually often asked from the exporter after the first application had been received and business circles generally complained that such additional information put them to excessive and unjustified trouble. It must be added that, the Export-Import Bank having no field offices or agents outside Washington, contacts between the exporters and the Bank have not been particularly speedy and have very often lacked the personal element of ordinary banker-customer relationships.

(2) *Hearings of Senate Committee on Interstate and Foreign Commerce, op. cit.*, pp. 13-15.

Another source of complaint has been the inability to get an advance commitment in principle from the Eximbank on prospective credits. Companies often demand such advance commitments because they realize that it would be highly expensive for them to complete the negotiations with the foreign customer and to supply all the information demanded by Eximbank if they found later that the business proposed was of a type Eximbank does not in principle agree to finance.

This leads to a further point which has been of some importance in the past, that is, the imposition for political reasons of special limitations on the availability of Eximbank credits. Such limitations have at times affected particular countries but more often certain classes of transactions which Eximbank refused to finance, regardless of the country under consideration. By far the most important case was the refusal to finance equipment purchases by state-controlled oil monopolies abroad, a policy which has proved self-defeating and, as we shall see, was recently abandoned. Other such cases have concerned printing equipment and broadcasting equipment which was not financed whenever it appeared likely to be used for propaganda purposes in a foreign country.

We should add a word about the insufficient use made of exporter credit lines. It appears that although, in mid 1960, active lines totalled some 180 million dollars, transactions approved, net of cancellations, hardly exceeded 40 million dollars. In fact, a majority of the companies that have established lines of credit have made little or no use at all of such facilities. The major problem appears to be "that the line of credit lends itself to use only when the exporter has an established distributor or customer relationship. Frequently the product in question is such that relationships of this type cannot be developed. On the other hand, even where the line of credit is used, it is questionable whether it actually expedites the processing of applications" (3).

5. The transition to the new systems of guarantee and finance

The difficulties met with by exporters in the field of guarantees and medium-term finance have been brought time and again to the attention of both the legislative and the executive branch and

(3) *Statement of Machinery and Allied Products Institute, loc. cit.*, p. 173.

have been the object of careful scrutiny. Without attempting to summarize the lengthy debates that have taken place on this topic, it seems nevertheless worthwhile indicating the major steps by which the facilities described above have been transformed into the present wide-ranging system of export credit guarantees and finance.

The striking feature of this process is that it shows a recurrent pattern: in the first stage, we see business circles complaining about the inadequacy of the existing facilities and managing to have legislation involving radical reforms introduced in Congress; in the second stage, we see a Senate Committee holding hearings on the problem and being told by the executive branch and by the Export-Import Bank that the problems being discussed could be met within the existing framework and that in fact the Export-Import Bank has just introduced or is about to introduce new facilities that make the recourse to new institutions altogether superfluous.

The efforts of a study group on the problems of export finance led in 1955 to the introduction of a bill (S. 2256) for the establishment of a wholly Government-owned Export Credit Guarantee Corporation. However, by the time hearings were held by the Senate Committee on Banking and Currency (June 8, 1956), the Export-Import Bank had announced its programme of financing on the basis of direct exporter credit lines, and the bill was shelved. A similar fate befell the Fulbright bill (S. 3149): in the course of the hearings (February 3, 1958) the Senate Committee on Banking and Currency was told by Eximbank officials that their institution was willing and able to meet the needs of American business in the field of export credit guarantees, and the matter was not pursued further, until the rapid deterioration of the United States foreign trade position led to the assumption of a more positive attitude on the part of the executive branch.

A subcommittee of the National Advisory Council on International Monetary and Financial Problems was set up in December 1959 to look into the question. The subcommittee, after consulting with Government agencies, as well as with exporters and bankers, and after examining the practices of other countries, came to the conclusion that changes in techniques should be introduced in order to ensure more effective use of the existing possibilities. To quote from the Treasury's statement before the Senate Committee on

Interstate and Foreign Commerce: "We decided against recommending any new facilities in this field because we felt that our aim of improving our balance of payments would not be achieved if we provided guarantees and financing not offering reasonable possibilities of repayment. The only form of credit insurance provided by other countries which we have not made available to our exporters in the past in any important degree is the insurance for short-term transactions of a maturity of less than one year. The subcommittee came to the conclusion that there was a great deal of support for an extended program covering such transactions... Also it has seemed to us that smaller business firms and firms which do not have ready access to Washington facilities would be greatly encouraged to make use of these new facilities if they were able to handle these transactions through their local banking or insurance institutions. For this and for other general reasons we recommended maximum participation by private enterprise in handling these new facilities" (4).

The announcement that Eximbank was going to offer short-term export credit guarantees and new decentralized financing facilities with the co-operation of commercial banks took the sting out of a good deal of the criticisms expressed before that Committee. Nevertheless, a proposal for establishing a new comprehensive insurance programme on a private basis, but with the support of the United States Treasury, was put before the Committee by a study group organized in 1959 under the auspices of the New York Board of Trade, the National Coordinating Committee for Export Credit Guarantees.

By that time — the spring of 1960 — Eximbank facilities were, on paper, practically complete except for the cover of commercial credit risks on short-term contracts, a problem complicated by the fact that two private companies were operating in the field of commercial credit insurance and that the introduction of Government facilities might have appeared as unduly interfering with private enterprise. Soon after the new Administration came into office, an expansion of export credit facilities was proposed in the President's balance of payments message to Congress (February 6,

(4) Statement of A. H. von Klemperer, Assistant to the Secretary of the Treasury, *op. cit.*, p. 37.

1961) with the aim of putting American exporters on an equal footing with those in other countries. Eximbank facilities, the President noted, "were not yet adequate nor comparable to those offered by foreign countries, especially those offered to small and medium sized concerns and those offered for the financing of consumer goods". The President directed the Bank to present, by April 1st, 1961 proposals to round off the existing facilities.

Such proposals were duly elaborated and presented. They also covered the introduction of comprehensive guarantees for short-term credits, and procedural improvements aimed at making possible advance commitments and at decentralizing the existing facilities; and some previously existing restrictions on the cover of semi-finished products and consumer durable goods exports, as well as of equipment sales to public-owned oil companies abroad, were eliminated.

A committee was also established to consult with exporters and commercial banks on their special needs for assistance and to develop with insurance companies and financial institutions, plans for additional participation by private organisations in export credit assistance. Members of the committee included representatives not only of Eximbank but also of the Department of the Treasury, the Department of Commerce, and consultants from the export and banking communities.

The improvements introduced step by step in Eximbank's facilities have by now given shape to a full-fledged system of guarantees and finance for credits extended by American exporters to their customers abroad. At the time of writing (August 1961) arrangements were still being sought, in consultations between Eximbank on the one side and commercial banks and insurance companies on the other, in order to define the appropriate conditions and procedures for mutual co-operation within the new system. It is nevertheless possible to even give at this stage a general picture of the position, though some vital factors affecting the functioning of the system have probably not yet been finalized (5).

(5) When this article was already in the proof-reading stage, President Kennedy announced (October 27, 1961) the completion of the arrangements mentioned above between Eximbank and the Foreign Credit Insurance Association, a voluntary unincorporated group of insurance companies. Legislation was also passed to give Eximbank the authority to insure exporters against political and credit risks up to a ceiling of \$1 billion.

6. Guarantees for short-term export credits

Eximbank commenced operations in a new field of export guarantees on May 23, 1960 by offering to cover political risks in short-term credit transactions (up to 180 days after delivery). On March 24, 1961, it was announced that cover would be extended to commercial credit risks with the co-operation of private insurers. As soon as procedural details were completed, American exporters would therefore have at their disposal a comprehensive system of all-risk guarantees in this field, as well as in the medium-term field.

In its definition of political risks, Eximbank includes (a) inconvertibility or non-transferability of foreign currencies; (b) imposition of law or regulation beyond the control of the exporter and the buyer, which prevent the delivery of the goods; (c) cancellation of an import licence; (d) war, hostilities, rebellion and civil commotion; (e) expropriation of the exported items by the foreign authorities.

As for the commercial credit risks to be covered jointly by Eximbank and private insurers, not only bankruptcy or insolvency will probably be covered, but also protracted default. In their ordinary business private insurers of commercial credit risks, before liquidating the indemnities, demand proof of the importer's bankruptcy, which is often difficult or impossible to obtain in the case of a foreign customer. This fact has often been cited as the reason why the private facilities offered in this field have been considered as being of little or no use by the exporters. The cover offered in the new joint programme proposed by Eximbank in this respect, as well as the rates charged, will have to be substantially more favorable than those of the pre-existing private facilities if the system is not to remain a dead letter.

Cover is uniformly established at 90% and exporters are expected to insure their whole turnover (except for sales to Canada and sales on letter of credit terms), and accordingly to pay fees on all their exports for a period of one year. Premiums for the cover of political risks vary between 0.25% for sales with credit terms not exceeding 30 days and 0.50% for sales with credit terms between 151 and 180 days: the rates for all-risk cover were not yet known at the time of writing.

When the short-term guarantee programme was first established, commercial banks with foreign departments were enlisted to act as

agents for Eximbank under an arrangement through which the commercial banks would issue the political risks guarantees directly to exporters on behalf of Eximbank. Insurance companies engaged in writing export credit insurance could also be designated as agents for Eximbank. As has already been mentioned, negotiations have lately been undertaken by Eximbank with commercial banks and insurance companies interested in issuing guarantees on short-term transactions to exporters, in order to arrange for the private insurer to issue the comprehensive coverage now available, whereupon Eximbank will issue appropriate guarantees to the insurer. The object is of course to ensure that contracts are executed and put into effect without direct prior reference to Eximbank in Washington. The organizational form will probably be that of an association open to any qualified insurance company that wishes to become a member. The association would be responsible for the administration of the guarantees, and its members would initially assume a very substantial proportion of each commercial credit risk insured. Eximbank would at the start assume the remainder of each such risk as a co-insurer and would assume the political risks involved. Premiums and expenses would be borne in proportion to the interests of the various parties.

7. Guarantees and finance for medium-term export credits

A variety of possibilities for the guarantee and finance of medium-term transactions are available to the United States exporter; they are designed to provide a flexibility in assistance that enables the exporter to choose the form which best suits his particular sales and market conditions. The facilities available for political risk guarantees, comprehensive guarantees, exporter credits and exporter credit lines, introduced a few years back, have already been described above (§ 3) and have remained substantially unchanged in scope except for the following two points: medium-term transactions are now defined as those involving credit beyond 180 days and up to five years after delivery, except in the case of jet aircraft, where seven years' credit is allowed. Also, whereas Eximbank facilities in the medium-term field were formerly available only for exports of capital goods, they have been extended in March 1961 to semi-finished products and consumer durable goods, provided the items

are sold on terms not in excess of those customary in international trade.

An important new form of assistance has, on the other hand, been introduced by Eximbank in May, 1960, when it announced that it would participate in the financing of medium-term transactions in sole reliance upon the credit judgement of a commercial bank in the United States, according to one of the following two formulas:

(a) If a commercial bank is prepared to finance for its own account, and without recourse on the exporter, the first three semi-annual installments of a credit having a final maturity not in excess of three years, or the first four semi-annual installments of a credit having a final maturity between three and five years, Eximbank will finance the remaining installments without participation of the exporter;

(b) If the exporter and a commercial bank participate in each of the installments, the exporter to the extent of 12% of the invoice value of the export transaction, and the commercial bank to the extent of 10% of the invoice value for its own account and without recourse on the exporter, then Eximbank will finance 58% of the invoice value, also without recourse on the exporter.

In both cases the foreign buyer must have paid at least 20% of the invoice value by the time of delivery. Therefore in the first alternative Eximbank would carry 50 to 60% of the credit granted, but its participation would be restricted to the later maturities; in the second alternative, Eximbank would carry 72.5% of the credit granted, but its participation would be spread evenly over all the maturities of the credit.

While Eximbank is ready to accept the judgement of the commercial bank as regards the creditworthiness of the foreign buyer under this procedure, it stipulates that "transactions should be in markets mutually acceptable to the commercial bank and Eximbank, and should meet the usual requirements of Eximbank with respect to terms". This means practically that the commercial bank will have no discretion as to the terms of its lending but will have to conform to a standard pattern set by Eximbank.

The objectives sought by this programme of co-operation with commercial banks can be explained on the following lines. In the first place, the participation by commercial banks in the finance

of medium-term export credits will substantially increase the volume of means available to exporters. In the second place, by enabling the exporter to work through his own bank without having to refer to Eximbank, it will reduce the burden which he has to bear when applying for a credit, both because his contacts with his bank will be easier than contacts with Eximbank and because the exporter's bank will actually perform a part of the necessary work. This in fact constitutes the third point, that is the help given to Eximbank from the commercial banks in the processing of loan applications through the examination of foreign credit risks. Finally, in the first alternative mentioned above, the exporter is not required to participate in the credit and this may facilitate the task of companies which cannot afford to or dislike to tie up their capital by extending credit abroad.

Considerable progress is also expected from the undertaking by Eximbank to simplify and speed up the handling of applications made directly to the Bank for medium-term credits and guarantees. In the past, the Bank has relied to a great extent upon the financial statements of the borrower, which at best required laborious analysis and often made necessary calls for additional information or verification. Coming into line with the accepted practice of foreign credit insurance institutions, the Bank will now rely to a greater extent upon the reported experience of exporters who have dealt with the prospective borrower, upon available credit agency reports, and upon the borrower's general reputation. This does not of course exclude that in certain cases financial statements or foreign bank guarantees will still be required.

8. Has the problem of export finance been solved?

The results of the introduction of the new facilities in mid-1960 cover much too short a time-span to permit a clear answer to the question. It may be said, however, that the pace of Eximbank's activity in the field of export credit guarantees and finance has quickened considerably since that time.

As far as short-term guarantees are concerned, by the end of 1960 162 contracts had been issued to United States exporters, with a business volume of \$120 million and an estimated 64,000 shipments. Of these, 13,000, with an invoice value of \$25.6 million, had

already been effected. The rhythm at which guarantees were issued shows a definite acceleration from month to month; it is to be expected that this phenomenon will become even more apparent, after the expanded programme for comprehensive risk cover gets under way.

Similar tendencies can be observed in the field of medium-term export credits and guarantees. In 1960, the Bank authorized a total of 297 such credits and guarantees, in an aggregate amount of \$141.1 million, and for a global invoice value of \$227.1 million. The acceleration is visible from the fact that the applications granted in 1960 were more than six times the number approved in 1959 and the second semester of 1960 accounted for over 70% of that total.

Included in the figures cited was a certain number of comparatively large credits for the sale of jet aircraft (for a total of \$93 million); however, approximately half of the medium-term credits and guarantees authorized at the request of American exporters were each for less than \$50,000.

The programme providing for participation by commercial banks in the finance of export credits on a non-recourse basis, inaugurated in April 1960, appears to have met with a good response on the part of the banking world. By the end of 1960, 37 commercial banks had submitted 150 such transactions for Eximbank's approval: according to the Bank, these were granted promptly, generally within 48 hours.

The remaining credits and guarantees were authorized by Eximbank after direct negotiations with the exporters in cases in which commercial banks were not interested. Of these, only 13 transactions were effected by means of guarantees rather than non-recourse credits, presumably for the reasons illustrated at the beginning of this paper.

The record of the months elapsed since the introduction of the latest reforms is encouraging, but this record does not enable us to judge whether the system has actually reached maturity. When we look at the structure of the system, we are inclined to answer in the affirmative, as the facilities offered cover pretty well the whole field of export finance. It appears, for instance, that the plans designed to supplement Eximbank's facilities by the institution of an "American Export Credit Guarantee Corporation" on a com-

mercial basis (6) have little chance of evoking a response and of being implemented. Surely exporters have not failed to complain about certain features of the present system (minimum down payment of 20% by the buyer, whole-turnover insurance, flat instead of differentiated rates, etc...); the system is, by its very nature, in need of a running-in period and in the course of such a period, it will not be difficult to take care of this sort of minor problems.

The vital test, however, will be whether Eximbank is able to inject into the administration of its export guarantees and its export credits the new spirit which is needed. There has been a very interesting discussion between Eximbank and some critics, who held that many of the difficulties met with in the past were due to the fact that the Bank had adopted the same criteria in its lending and in its guarantee operations. This, the critics said, is a misunderstanding of the insurer's function as a risk-bearer and a risk-spreader. The insurer "working on the law of averages, seeks to cover as broad a cross-section of the available business and as large a spread of the normal risks inherent in that business as he can attain. He expects to have losses but has to keep these losses well within his premium charges. The banker, on the other hand, before he lends out his funds must critically examine all the facets of each transaction with a view to avoiding a possible default" (7).

Eximbank refused to accept this thesis and maintained that "there is no basic difference between making a loan or extending a credit on the one hand and insuring or guaranteeing the payment of a credit on the other... Although the insurer is benefited by a spread of risk — since there will be losses in either banking or insurance — it is intended that every credit shall be guaranteed or extended on a sound basis".

On balance, one cannot help feeling that the critics of the Bank had at least one good argument, namely that if one wants to secure the advantages deriving from transacting a large number of operations, one also has to adopt a considerably simpler procedure than is customary with banking institutions. There are encouraging signs,

(6) See statement of Francis X. Scafuro, Chairman, National Coordinating Committee for Export Credit Guarantees, New York Board of Trade Inc. (Senate Committee on Interstate and Foreign Commerce, hearings of April 28 and 29, 1960, *op. cit.*, pp. 55 ff.).

(7) F. X. SCAFURO, "Credit Guarantees held under par with others", *Journal of Commerce*, November 14, 1960.

however, that the Bank has gradually come over to this view in recent times.

A final word of comment on the comparative facilities available to American and to European exporters seems now appropriate. In the present state of affairs, the facilities available in the United States appear more satisfactory for longer-term credits, while there is an element of superiority, as far as short and medium-term credits and guarantees are concerned, in the European institutions' longer experience. There is no doubt, however, that the growing awareness of these elements of difference is stimulating both sides to fill any gaps which may still exist. It is to be hoped that the gradual elimination of such differences will in the future make possible better co-operation in this field between the United States and the major European countries, in the interest of both the exporters and the importers in less developed countries.

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