

Export Credits to Under-Developed Countries on a Multilateral Basis

"The evolution of under-developed countries is the problem of the century".

MENDÈS-FRANCE

Those countries are considered by authoritative opinion to be non-industrialised, in the process of development or under-developed, where, if modern productive techniques are adopted, full employment of existing capital does not fully absorb the available manpower. In under-developed countries available manpower is kept fully employed by the use of antiquated production techniques with a very low productivity level. Unemployment and inefficient full employment result in personal incomes, that on the average are far lower than in industrialised countries. Nearly the whole of the African Continent, most of Latin America, parts of Southern Europe (Portugal, Spain, Southern and Insular Italy, Greece and Turkey) and of Russia, some countries of the Near and Middle East, many Asiatic countries (among which India and Continental China) are all under-developed areas or areas in the process of development. About two-thirds of the world population live in these areas; in some the rate of population increase is very high.

A Multilateral System to Finance Development Plans

1. The above definition of under-developed areas implies that capital imports are the prime necessity of a development policy. Such imports can be classified under three main headings:

(a) finance for social infra-structures (aqueducts, basic communications, hospitals, elementary schools, etc.). It is difficult to

measure the returns such investments may yield within a reasonable period of time: therefore finance for such projects should take the form of "gifts";

(b) finance for basic projects (power plants, power cable networks, oil prospecting and drilling, land drainage, mining, roads, large industrial plants, etc.). These projects may be amortised over a long period of time: therefore finance should be obtained either by direct investment or by loans repayable over a period of fifteen to twenty five years;

(c) finance for the purchase of capital goods (machine tools, industrial and agricultural machinery, shipping, railway stock, buses, lorries, etc.). They may be amortised over a period of two to fifteen years and it should be possible to finance their purchase with medium-term credits.

The planning and implementation of the individual projects in a development plan — particularly in the field of capital investments — often produce clashes of interests between the authorities of the two groups of countries. Although these contrasts cannot be entirely eliminated, even in a multilateral organisation, they are far more acute when reciprocal relations are on a bilateral basis. Usually they arise because, rightly or wrongly, the industrialised countries are determined to apply criteria valid for their own economies (economic stability, expansion without inflation, protection of private enterprise) when assessing the needs of countries in the course of development, whereas the latter are not always prepared to accept such criteria.

The main points of contrast arise from the structure of development plans, the usefulness of any particular project for the success of these plans, the order of priorities and particularly the rate of development. On moral grounds the aspiration of under-developed nations to reduce or eliminate the enormous gap between their own standard of living and that of industrialised countries is incontestably legitimate. It is in the interest of the Government of an under-developed country to ensure that development takes place at the speediest rate compatible with the evolution of the mentality and customs of the local population. This rate is often more rapid than that allowed by the saving capacity of industrialised countries, where, if adopted, it would bring about the same inflationary processes that invariably accompany any accelerated expansion in an under-devel-

oped country. Industrialised countries are reluctant to accept this approach, whereas to under-developed countries, accustomed to view inflation without excessive apprehension, the argument seems specious.

It is easier for a multilateral organisation to overcome the clash of interests between the two groups of countries than it is for a bilateral one. The proof lies in the success of I.B.R.D. and I.F.C., which distribute medium and long term credits on a multilateral basis. A multilateral organisation for reciprocal capital investments could be achieved on the following conditions:

- the distribution of gifts through international institutions, in order to avoid suspicions — which arise more easily on a bilateral basis — as to whether the motives of the industrialised country are in the best interests of the assisted country;

- for direct investments, joint action by a number of industrialised countries to create concerns with joint administration and fifty-fifty division of profits, whatever the proportion of the total capital invested by the industrialised countries;

- the concession of “untied” long and medium-term loans by international institutions, which implies the right freely to use the proceeds of these loans for purchases in any of the industrialised countries participating in the multilateral organisation.

Present Organisation of Medium and Long-Term Finance for Under-Developed Countries

2. In addition to the I.M.F. and the European Fund, which on certain conditions and for relatively short periods contribute to finance temporary deficits in the balance of payments of member countries, and which — particularly the second, clearly a duplicate of the first — might well be used as a means to stabilise the economies of under-developed countries (financing buffer stocks, or other plans to normalise the price of raw materials and basic products), at present medium and long-term finance for under-developed countries is mainly provided by the following institutions and systems:

- the International Bank for Reconstruction and Development finances basic projects, on certain conditions, by granting direct medium or long-term loans when private capital is not available at reasonable terms, or by integrating or under-writing private invest-

ments. The Bank takes into consideration the contribution of a project to the success of the development plan. The proceeds of I.B.R.D. loans can be spent in any country;

- the International Finance Corporation participates, jointly with private capital, to medium and long-term financing (usually 5 to 15 years) of basic projects of an industrial character, involving moderate sums and promoted by private enterprise. Unlike the World Bank, I.F.C. is only concerned with the potential profits of the project, without considering the part it may play in any particular development plan. These loans can be freely used;

- the Export-Import Bank finances long term loans (15-20 years) for basic projects and United States exports of capital goods; these are “tied loans”.

- Swiss and American money markets. So far the latter have contributed little to the financing of under-developed countries. However, partly as a result of I.B.R.D. action, the New York market has lately shown an increasing interest in foreign debentures;

- the European Investments Bank grants medium and long-term loans or underwrites such loans, to finance projects for the improvement of less developed regions. Usually the projects to be financed are within the European territories of members of the Common Market; however, under certain conditions, this Bank may also finance projects entirely or partly outside these territories. The proceeds of the loans can be spent in any of the common market countries;

- national systems for the insurance of export credits and for the granting of medium-term export credits, subsidised to a larger or smaller extent and in many different ways by Governments; these exist at present in the principal O.E.E.C. countries to provide credits, on a strictly bilateral basis, for the export of capital goods and the financing of basic projects.

Claude Segré has reviewed in detail the technical aspects of credit insurance and export credits in the United Kingdom, Germany and France and also the general economic aspect of the problem (1) so that it is unnecessary for me to describe these systems;

(1) C. Segré, “Medium Term Export Finance. European Problems and Experiences”, this *Review*, June 1958. See also: A. Roux, “Long and Medium Term Industrial Credit in

I shall hope to show, in the two following paragraphs, their basic similarities and dissimilarities.

3. National credit insurance systems are managed either by a State institute (Denmark, United Kingdom, Switzerland) or by an institute under ultimate State control (Belgium, France, Eire, Italy, Norway, Sweden) or by a private firm on behalf of the State (Austria, Germany, Holland) (2). Whether or not the management is entrusted to a Government Department, the State intervenes, either alone or jointly with the administrators, to decide in each case, which classes of risks, shall be covered. State intervention also takes the form of financial contributions in the Budget, either annually (United Kingdom, Eire, Germany and Switzerland) or once for all as an endowment fund (Austria, Belgium, Italy, Holland), of fiscal exemptions and of a guarantee for the risks covered, either limited (Austria, Belgium, Denmark, Germany, United Kingdom, Eire, Italy, Norway and Sweden) or unlimited (France, Holland and Switzerland).

The maximum period of cover for capital goods export credits averages five years (Norway 3, Italy 4, Denmark 6).

The percentage of the risk covered varies according to the nature and extent of the risk; it is higher in the United Kingdom (85-95%), Eire (90%), France (70-100%), Holland (75-95%) and Italy (85%) than in Switzerland (60-72%) and Sweden (50-75%).

With the exception of Denmark and Switzerland, which charge a fixed premium, all the other insurance institutions fix the premium according to the nature and extent of the risk and often according

Italy", this *Review*, June 1957; B. R., "Export Incentives Measures in Italy", this *Review*, January-June 1956; "Le Marché Commun et le Crédit à l'Exportation", *Les Problèmes de l'Europe*, 1959, No. 3.

(2) The Central Insurance Institutions are the following: in Austria, "Oesterreichische Kontrollbank A.G."; in Belgium, "Office National du Ducroire"; in Denmark, "Statens Eksportkreditudvalg, Ministeriet for Handel, Industri OG Sofart"; in France, "Compagnie Française d'Assurance pour le Commerce Extérieur (C.O.F.A.C.E.)"; in Germany, "Hermes Kreditversicherungs A.G. (Hermes)" and "Deutsche Revisions und Treuhand A.G. (Treuarbeit)"; in the United Kingdom, "Export Credits Guarantee Department (E.C.G.D.)"; in Eire, "An Roinn Tionscail Agus Trachtala" (Ministry for Industry and Trade) and "Coras Trachtala Teoranta"; in Italy, "Istituto Nazionale delle Assicurazioni"; in Norway, "Statens Eksportkredit Komisjon"; in Holland, "Nederlandsche Kreditverzekering Maatschappij N.V."; in Sweden, "Eksportkredit Namnden"; in Switzerland, "Bureau pour la Garantie contre les Risques à l'Exportation", "Office Fédéral de l'Industrie, des Arts et Métiers et du Travail" and "Département Fédéral de l'Economie Publique".

to the importing country; they use no accurate actuarial material. For more important contracts, the premium is fixed as the case arises.

Many different types of operations are insured. Few institutes underwrite every type of ordinary contract (export of home-produced goods, goods in transit, services, work carried out abroad, work carried out at home for account of foreign clients) and every type of special contract (market research and publicity, stock-piling abroad, fluctuations in the cost of freight and shipping, fluctuations in the cost of raw materials and wages during manufacture). Germany, France and the United Kingdom, in that order, are the countries offering the most extensive facilities.

As for the nature of the risks covered — commercial (default, non-payment, failure to honour other contractual clauses), catastrophe (war, strikes, floods, earthquakes), political (cancellation or refusal to renew import or export licences, other administrative acts on the part of Authorities in the importing or exporting country impairing rights acquired, legal moratoria, delay or default in the transfer of payments) and economic risks (variation in the prices of raw materials and wages during manufacture; variation in the cost of transport and insurance; exchange fluctuations that cannot be covered on the futures market) — risks having a variable incidence according to whether the period covered starts from after delivery of the goods or from the first stages of their manufacture — the practice varies considerably in the different countries we are considering. Germany, France, the United Kingdom, Norway and Holland offer, in that order, the greatest facilities; Italy and Switzerland do not cover commercial and economic risks at all. Some institutes prefer and some impose global policies covering all risks relating to the sum total of business or a considerable part of it with any one country.

The field of competition among the different national institutes is therefore very wide. Credit insurance has now become an instrument of economic policy that Governments employ in a growing trade rivalry for the penetration of foreign markets.

4. In some countries (United Kingdom, Eire, Switzerland and the Scandinavian countries) export credit is part of the general credit system and obtains no special facilities from the Government, official intervention remaining confined to the field of insurance.

In the Common Market countries and in Austria, on the other hand, the State intervenes in the field of credit as well as in that of insurance: the central institutes for medium-term credit are either under the ultimate control of the State (Austria, France, Italy) or they are private or joint organisations with a State contribution to capital and management and a State guarantee for their commitments (Belgium and Holland). They may also be organisations where the State has no part in the management (Germany) (3). Furthermore, in nearly all these countries official intervention takes the form of a direct or indirect contribution to the cost of credit (Austria, Belgium, France and Italy) or of facilities to rediscount medium-term bills at the Central Bank (Germany, Austria, France).

Pre-financing, *i.e.* finance for the manufacture of goods for export, is practised in all the above countries, with the exception of Italy (in Belgium 5 years, in Germany 4, in France 2, in Austria and Holland for an indeterminate period) and is often coupled with facilities to rediscount at the Central Bank (Germany, Austria, France).

Finance proper, *i.e.* credit granted from the time the goods are delivered, extends over four years in Austria and Italy, five in France and Germany, six in Belgium and seven in Holland. The percentage financed is 60-80 per cent of the contract in Germany, 80 per cent in Austria, 100 per cent in Belgium, 70-90 per cent in France, 75 per cent in Italy and 40-80 per cent in Holland. Some countries set individual ceilings, beyond which specific authority is required (France 500 million francs).

Except for Germany and Holland, interest rates on medium term export credits are lower than the market rate, in a measure that varies from 0.5 to 1.5 per cent. The total cost of the credit to the exporter, including commission, seems to be lower in France than elsewhere.

Nearly all the central institutes — and therefore nearly all initial lenders — do not consider an operation as eligible for finance unless it is covered by an insurance policy and the relevant bills bear the acceptance of the exporter or his banker. The operations that qualify

(3) The Central Institutes for medium term export credits are the following: in Austria, "Oesterreichische Exportfonds"; in Belgium, "Institut de Réescompte et de Garantie (I.R.G.)" and "Société Nationale de Crédit à l'Industrie (S.N.C.I.)"; in France, "Banque Française du Commerce Extérieur (B.F.C.E.)" and "Crédit National"; in Germany, "Ausfuhrkredit A.G. (AKA)"; in Italy, "Mediocredito"; in Holland, "Export-Financiering Mij".

for finance are: in Italy and Holland exports of capital goods; in Austria of manufactured goods, where workmanship is important and the destination is the dollar area or an O.E.E.C. country; in the other countries of any supplies not banned by special economic embargoes.

Neither the countries where export credit is integrated in the general credit system nor the countries where it is State-subsidised usually grant credits to the importer; it is the exporter who receives the credit so that, in turn, he may grant the importer credit. In some countries the initial lenders are the commercial banks, the rediscounters the central institutes, and the ultimate lender is the Central Bank; in other, medium term credit has no access to the Central Bank and the ultimate lender is the central institute; in others again, such as Italy, medium term credit cannot be rediscounted at the Central Bank, but neither do commercial banks intervene as initial lenders, and the entire operation is reserved to specialised institutes.

Disadvantages of Financing Under-Developed Countries on a Bilateral Basis

5. On the whole, with the exception of I.B.R.D., I.F.C. and the new institute now being created, the International Development Association (affiliated to I.B.R.D., with a capital of one thousand million dollars, formed to grant loans to under-developed countries at 2% interest for periods up to 30 years), medium and long-term finance to under-developed countries is primarily based on a bilateral system. On the one hand, the exporter must finance his exports with the facilities offered by the insurance system and the money or capital market of his own country; on the other, these facilities are only available to promote national exports.

This bilateral method of financing medium and long term credits to under-developed countries — which is only one aspect of the bilateral structure of the global relations between under-developed and industrialised countries — is the source of many evils which we enumerate below:

I. In view of their shortage of funds, the Authorities of under-developed countries tend to subordinate the granting of import licences for capital goods to the concession, from suppliers to im-

porters, of increasingly deferred terms of payment and may even require a deferment of the first payment for two or three years. These deferments are determined by the Authorities of the importing country in accordance with the national balance of payments (or rather, in function of the ability of the development plan, considered as a whole, to ensure a balance of payments allowing a regular reimbursement of credits), without any consideration of the condition of the importer's affairs and the potential profits accruing from the capital goods purchased — two factors which might demand terms of settlement quite different (either shorter or longer) than those laid down by the Authorities. If the "administrative" reimbursement periods are longer than those the business would require, the importer may be tempted to come to a private agreement with the supplier, pay cash on the black market, but declare the import as one with deferred payment; transactions of this nature often take place, and of course they are detrimental to the currency of the importing country. When this procedure proves too expensive, instead of choosing the market most suitable as regards prices and quality, the importer may prefer one where exporters can more easily obtain finance on terms conforming to the requirements of the importing country's Authorities as to rate of interest and terms of reimbursement (particularly the latter). The importer will then use the funds obtained through these facilities to finance projects other than those the credit was obtained for. In cases where the "administrative" period for reimbursement is shorter than the business would require, the importer may be encouraged to use funds from new credits to meet commitments falling due. In both cases, where the two requirements, administrative and business, do not harmonise, we have the following consequences: the duration of the credit becomes more important than considerations of price and quality; control by the exporter and the financing institute over the actual use of the credits granted becomes more difficult; the solvency of the importer — a risk not all national systems cover — may become weaker. None the less, under a bilateral system these two requirements inevitably clash.

II. A bilateral system encourages European countries to compete, by manoeuvring credit insurance and export credit, to offer importers in under-developed countries facilities conforming to the demands of their Authorities, and this in spite of binding inter-

national agreements (Hague "club", Paris "club", Union de Berne). Competition among European countries is generated by pressures of internal industrial groups, public and private, on their respective Authorities to obtain an increase of global medium and long term facilities, the allocation of a disproportionate part of them to markets where they are already introduced, the reduction of rates of interest and the extension of periods of settlement. They say they would lose important contracts, auctions or orders if they lacked the finance that foreign competitors could easily find elsewhere, an argument which is highly debatable because it is advanced in almost all countries exporting capital goods. This competition is kept alive by the skill with which entrepreneurs and even official circles in importing countries manage to propagate the most fantastic tales of facilities obtained in this or that exporting country (instances of this nature are endless), tales having the sole aim of creating an atmosphere of mistrust and suspicion which is liable to endanger co-operation among European countries, but succeeds in extracting a few concessions from one or another and breaking up the united front, where this exists. From this angle, private trade missions to under-developed countries and official missions from the latter visiting large European industrial centres, are pernicious; they elaborate, beyond the control of European Authorities, plans that will later be used as instruments of pressure.

III. Bilateralism and the ensuing competition among European countries tend to encourage importers in under-developed countries to purchase goods indiscriminately, provided an import licence and credit terms are available. This tendency is harmful not only to the ultimate success of the development plan but, in the long run, even to the interests of the individual business concerned. So that bilateralism does not even favour the interests of the under-developed countries themselves.

IV. Bilateralism makes it difficult for the Authorities of the exporting country to assess the validity of a project from the viewpoint of the overall development plan. The object of a development plan is to initiate and support expansion until it can continue without appreciable outside aid. When conducted at a very rapid pace, expansion inevitably brings about a deficit in the balance of payments, however sound the projects; but some deficits are caused by

ill-devised projects. In a rigidly bilateral system, the Authorities of the exporting country are unable to turn down the financing of unsound projects: the building of a beautiful capital city in the middle of the jungle, although it may be profitable to the contractors, is certainly an unsound project within a development plan, and would never be financed under a multilateral system. In a bilateral system large contracts always find finance somehow, whatever their development value, because criticism would be resented as injurious to the prestige of the country concerned.

V. It follows that it is impossible in a bilateral organisation to establish with reasonable accuracy whether the duration of the credits conforms to the requirements of the development plan. In recent years European countries have probably granted medium-term credits for too short periods, *i.e.* for projects requiring more extended terms to be profitable from the viewpoint of the development plan, not to mention that of the individual importer. This is proved by the succession of financial crises suffered by many under-developed countries, which in the end will prove costly to European countries unless they learn their lesson.

VI. Bilateralism is in part responsible for the shortage of funds available for development. This shortage can hardly be denied, even though Mr. Black maintains that as far as he is concerned it does not exist (4). There is no doubt, however, that if all resources were pooled and distributed on a multilateral basis, shortages would be less acute. The effect of insufficient resources is not so much a slowing down in the rate of development as a reduction in essential imports of consumer goods and consequently a lowering of the already low standard of living in under-developed countries.

VII. Bilateral medium and long-term credits make multilateral payments and convertibility an illusion in relations with under-developed countries (5). Since convertibility was restored, exchanges between European countries and under-developed countries are being settled in convertible currency, with the exception of some surviving

(4) Address given by E. BLACK, President of I.B.R.D. before the XII International Banking School, Burgenstock, Switzerland, June 1959, "We have never refused a loan for lack of funds".

(5) On the dangers of a return to bilateralism, see the author's article in *Moneta e Credito* of June 1959 "Dal bilateralismo alla convertibilità nei paesi dell'O.E.C.E. ".

clearings that are being liquidated. But as the under-developed countries are primarily purchasers of capital goods, as capital goods are purchased with funds from medium-term credits and these credits are bilaterally granted, convertibility is not applied in reciprocal relations, which in fact continue to be governed by methods similar to the antiquated clearing system.

VIII. My last point is that bilateralism makes it difficult to use medium and long-term credit as an instrument to regulate the business cycle (there is no doubt that relations between industrialised and under-developed countries can be arranged so as to contribute to the ironing out of the business cycle, although this viewpoint has been challenged on the grounds that it shows a faulty knowledge of economics) (6). Since a recession affects a large number of countries, a multilateral rather than a bilateral system should prove more effective as an antidote.

6. From a strictly banking viewpoint, the drawbacks of a bilateral organisation of medium-term credit are equally numerous.

In the first place, the identity of the borrower is not clear. The credit is granted to the exporter so that he may grant deferred terms to the importer, who is the real borrower. In an ordered and rational system, the importer should seek a loan on the basis of his own credit-worthiness, possibly backed by collateral; the exporter should be paid cash or within normal trade terms. On the contrary, present systems entail the exporter engaging his credit-worthiness, which is obviously proportionately committed and reduced for his normal engagements; as a result small and medium concerns find it increasingly difficult to remain in the field.

In the second place, the integration of medium term export credits in the general credit system of a country, whatever the methods adopted, gives rise to inevitable contradictions. Commercial banks are usually reluctant to grant medium-term export credits, even negotiable ones, unless they are covered by a standing and irrevocable right to rediscount at a central organisation or at the Central Bank; when, as in the United Kingdom, they do grant them

(6) For this somewhat crude criticism on G. CARLI, see his interview with *Tempo* of March 2, 1958 and his letter reproduced in *Commercio Estero*, May 1957-June 1958.

without this right, they are making a serious and unique exception to traditional principles and, were the amounts involved to increase considerably and the terms further to be deferred, it is doubtful whether this exception could be maintained. Where, as in France, the principle of irrevocable right to rediscount has been accepted, banks have agreed to contribute to medium-term finance, because although they bear the risk of the operation (mitigated, it may be, by credit insurance) they transfer to the *Crédit National* the burden of locked-up capital. The result of these rediscounting facilities is that banks are inclined to consider their medium-credit portfolio as a first liquidity reserve, all the more so because the rediscount of export bills at the Central Bank remains outside the ceiling; in fact at one time practically the entire volume of these bills ultimately bore on the monetary circulation (today this is less noticeable in view of the prevailing exceptional liquidity, but in a recent past it did take on a dramatic aspect). Where the irrevocable right to rediscount has not been granted, as in Italy, commercial banks neither wish to nor can take part in export financing, which therefore falls to specialised institutes working on a regional or national scale and backed by *Mediocredito* as lender of last resort. But even this system is not devoid of disadvantages: specialised institutes are not in constant contact with customers and are therefore unable to follow the trend of every business; demand for medium term export credits is sporadic and does not necessarily run parallel with the collection of funds by specialised institutes, so that sometimes funds are overabundant and sometimes they are scarce. To conclude, whatever the method adopted to integrate medium term credit in the national credit system — *i.e.* whether funds originate from the money market and the Central Bank or from the capital market — results are never satisfactory. On the whole the French system has probably worked less satisfactorily than others, while the Italian system is perhaps the soundest from a monetary angle.

Some Recent and Dangerous Trends

7. Shortage of funds and insufficiently deferred terms of settlement for export credits have recently caused business circles affected to increase pressure on their own Authorities for reform of the system.

In the United Kingdom, the Federation of British Industries suggests an extension of cover up to 10-15 years, by analogy with the practice instituted by Eximbank for development loans; the granting of the credit direct to the importer; rediscount at the Bank of England of medium-term export bills and rediscount by insurance companies of longer term bills; extension of credit insurance to the period of manufacture, etc (7). Other British interests affected suggest that State cover be increased to 95% of the contract value for all risks and the remaining 5% be covered on the national insurance market. A bill before the House of Commons proposes an increase from £750 million to £1,000 million for normal trade deals, and from £250 million to £400 million for contracts of national interest.

In Italy businesses affected ask for credit insurance to be extended to cover all types of supplies and not only special ones; for cover for short term contracts; for a raising of the insurance ceiling from one hundred thousand million lire to one hundred and fifty thousand (a measure now being approved) or even to two hundred thousand million lire; for the provision of more funds by means of a debenture issue for one hundred/one hundred and fifty thousand million lire, with Government contribution for part of the interest (2-3%) in order to allow the financing of medium term exports under conditions that will stand up to foreign competition (8).

On the other hand, L'Union des Assureurs des Crédits Internationaux (Union de Berne) reaffirmed at the Amsterdam assembly last June that terms of payment should not extend beyond 6 months for consumer goods, 18 months for durable consumer goods and 5 years for capital goods.

The suggestions advanced in the United Kingdom and elsewhere in regard to export credits, contain an accurate diagnosis: there exists a shortage of available funds, terms of settlement are too limited and everywhere the system works with serious drawbacks. But all the suggestions formulated tend to retain the bilateral system, and therefore, although they would no doubt succeed up to a point in helping national exports, they are liable gradually to aggravate

(7) Memorandum from the Federation of British Industries to the Treasury and Board of Trade: *Credit Facilities for Exports*, June 1959.

(8) CARLO MONOTTI, "Il credito all'exportazione", *Il Sole*, June 28, 1959.

the evils I have enumerated. To persist with bilateral systems must in the end produce the following results:

— European countries will be engaged in a more and more intensive credit race, a race that in fact has already begun (*e.g.* the credits some European countries are competing to offer Turkey, the Argentine, Brazil, etc.), and is liable to weigh heavily on national public finances;

— the under-developed countries will also suffer from the distortion of trade and the unsound basis of development plans that bilateralism produces. Once they have drained the "benefits" accrued by setting Europeans at variance, they themselves will favour the introduction of a multilateral credit system: this is not a new phenomenon, Brazil and the Argentine, not the Europeans, were the first to suggest the institution of multilateral clubs for current payments.

The true solution of the export credits problem must be sought in a multilateral framework — that is to say, by the introduction of principles embracing, in one pattern, the relations between industrialised and under-developed countries (9).

In the following paragraphs I propose to sketch a possible solution on a multilateral basis.

Broad Outlines of a Multilateral System to Finance Exports to Under-Developed Countries

8. The wider the basis, the more likely is a multilateral organisation for medium and long-term finance to under-developed countries to lead to ordered and rational relations between the two groups of countries concerned. Ideal conditions would be achieved if all industrialised countries were to take part in the effort, namely Western Europe, the U.S.A. and the industrialised countries with a socialist economy. It is, however, at least premature to expect the latter to participate under prevailing international political conditions and it is also unlikely that the United States will join; it is

(9) MENDÈS-FRANCE, "Une situation explosive? Les pays sous-développés", *Le Monde*, June 5, 1959: "The extent of these problems is such that no one country — however rich — is in a position to face them effectively on its own. There is therefore no field better suited to international co-operation".

more realistic, for the time being, to expect that membership of a multilateral medium and long-term credit organisation will be limited to O.E.E.C. countries or perhaps even only to Common Market countries. In this connection the latter have a definite obligation: Article 112 of the Rome Treaty, in fact, stipulates "systems of aid, granted by Member States for exports to third countries, shall gradually be harmonised before the end of the interim period, in the measure necessary to avoid a distortion of competition among concerns within the Community". The European Economic Cooperation Convention and the Code of Liberation do not contain a similar undertaking binding O.E.E.C. countries; none the less, apart from the fact that a multilateral system operated by seventeen countries would be more effective than one operated by six, the principle does conform to the spirit of inter-European cooperation. A renewal of negotiations to create a free trade area might offer the pretext to raise this problem.

9. Under a multilateral system there would be no reason to retain credit insurance. At present, Government subsidised credit insurance provides medium-term finance on lines that are the same as those practised, before the war, by the acceptance market to finance short-term credits. In other words, the risk involved in any credit granted, including medium-term, should be calculated in the rate of interest or covered by a special commission; this rate should be based on experience of the credit business and not of the insurance business. I might add that an insurance contract presupposes premiums calculated on an actuarial basis, *i.e.* on mathematical formulae valid for the greatest possible numbers, whereas credit insurance premiums are not calculated on an actuarial basis, mainly because the historical-statistical material available is insufficient. Equally, in a multilateral system of finance to under-developed countries, the declared beneficiary of the credit should be the person who at present is the *de facto* beneficiary, namely the importer: therefore the proper definition would be import credit insurance and import credits.

With this premise, I am prepared to admit that for a reasonably graduated progress — often necessary to success — it may be advisable to retain, at least at the initial stage of the transformation from bilateral to multilateral, the framework of national credit insurance

provided it was radically reformed; it might seem rather bold to eliminate certain hybrid devices.

10. Without going into a detailed technical analysis at this stage, I consider that the general structure of a provisional multilateral system of credit insurance might be envisaged on the following lines:

1) The countries intending to join a multilateral system within O.E.E.C. or the Common Market (medium and long-term credit club) should begin by reducing to a common pattern the conditions their respective national credit insurance organisations offer as to length of the State guarantee, percentage of contract covered, measure of premiums, nature of contracts covered and risks insured and any other important items.

2) Duration of credits: the club should contemplate extending the present average period of cover up to a maximum of 15 years and agree that, for the period exceeding the Berne Union terms, insurance cover be charged to the State budgets, *i.e.* financed with funds outside the resources of insurance institutions. Member countries should also recognise the need to grant finance for periods of over 15 and up to 25 years, by analogy with the I.B.R.D., I.F.C. and Eximbank practice. These loans should be granted outside any insurance system, through organisations relying on capital markets, as I shall explain later.

3) Extent of State guarantee: members of the club should agree to insure, possibly with one single policy, against risks that may arise from the start of production and not only from the date of delivery to the purchaser. Policies should be issued direct to the institute financing the importer.

4) Percentage of risk insured: member countries should agree to insure the entire contract, so that the exporter's only onus would be normal trade risks, just as they are in a short-term contract covered by irrevocable documentary credits, where the exporter is sure of encashing his credit if he keeps to the terms on which it was opened.

5) Member countries should set an agreed maximum to the cover the club is prepared to grant on a multilateral basis and a

maximum quota for each under-developed country, besides arranging procedure for any necessary revision.

6) Measure of premiums: member countries should agree to a common graduated tariff, whatever the origin of the export, for each importing country; the tariff should be set in relation to the percentage that country has used of the quota allotted. Another relevant point here is that importers should be required to insure against all risks: this would extend the basis of operations and allow the adoption of some actuarial principles.

7) The club should be run by an international "Import Credit Insurance Committee" formed by representatives from all member countries. Applications for insurance, presented by the importer, should first be examined and investigated by the "credit insurance committee" of the exporting country (in all countries there are institutes of this nature) and then placed before the "International Committee". It would be wrong to conclude that, since the investigation and approval of applications for credit insurance on the part of the International Committee take place after, and not before, the agreement between importer and exporter to fulfill the contract, here too, as in a bilateral system, the rules of competition would be distorted and the concession and insurance of the credit become, in fact, tied operations. In practice, the very structure of the committee ensures that its decisions disregard the origin of the goods; in any case, the terms it sets are the same, whatever that origin may be. Once the operation is approved, the International Committee would debit the cover to the quota of the importing country and instruct the national insurance institution of the exporting country to issue the policy. The policy would be underwritten globally by the insurance institutes of all the member countries; in this way the financing institutions would refrain from applying varying rates of interest on the grounds of varying assessments of solvency of each insurance institute and there would be no recurrence of these discriminations the club was created to eliminate. Premiums would be paid by the importer to the insurance institute of the exporting countries. Indemnities would be paid by the insurance institute of the exporting country to the financing bank or the rediscount institution whose portfolio carries the bills at the time of the loss. However, at the end of every year all the insurance institutes would effect a general equalization offsetting, on the basis of the volume of the

exports of each country within the multilateral system, of indemnities and premiums paid or received; this offsetting would ensure that the contribution of every member country to the management costs of the system were in proportion to the benefits received. Since one insurance policy might cover imports originating from several countries, the importer could be required to indicate the origin of the goods in his application for credit insurance. It could be that a member country would want to set a ceiling to its own global commitments for insurance; in that case it is obvious that when the volume of exports reaches that ceiling — account being taken of repayments — the International Committee would cease underwriting contracts relating to exports from the country concerned. In other words, the country would, temporarily, cease to take part in the system.

11. Again without going into a detailed technical analysis, the general structure of a provisional multilateral export credit system might be outlined as follows:

(a) an international institution — this could be the European Fund if the multilateral system were to embrace all O.E.E.C. countries (10), the European Investments Bank if it were confined to the Common Market countries (the system could be run by organisations subsidiary to either of them or autonomous departments) — should be held to issue, for every contract, on given conditions, an irrevocable engagement to rediscount the relevant bills, that is to say, be prepared to act as lender of the last resort.

The conditions should be that an application for rediscount must be accompanied by the credit insurance policy and by bills representing the debt of the importer towards the financing bank, carrying at least three or four acceptances: that of the importer, principal debtor because he has issued the bill on the financing bank; the acceptance of the "development bank" of the importer's country, a bank that should be among those listed by I.B.R.D.; the endorsement of the European institute initially providing finance; the endorsement of the central European medium-term credit institu-

(10) G. CARLI, Address delivered on April 15, 1959 to the Royal Institute of International Affairs.

tion, last to provide finance before the International credit institution, either as first, second or nth re-discounter of the bills. These bills would not be representative of the commercial operation involved, they would be purely financial bills; the connection with the commercial operation would only appear from the accompanying insurance policy, or from the documents it may have been broken into for convenience. The bill, in fact, should not carry the signature of the exporter, because this is not required in order to obtain finance: this is the feature which mainly distinguishes a multilateral from a bilateral system. The International Institution would obtain the funds required for its activity either by using its own capital or by issuing long-term debentures or medium-term bonds on the market.

(b) The Institution providing finance in the first place could be an institute of the exporting country. However, since the bills issued by the importer and accepted by the development bank of his own country, together with a 100% insurance policy, constitute a good investment, it should be easy for the importer to find finance from the banks of any other industrialised country. Since the bills also carry an irrevocable engagement to rediscount on the part of the International institution, the investment has a high degree of liquidity and would prove attractive even to ordinary commercial banks. Obviously, according to the due dates of the bills, the investment might also interest "banques d'affaires", merchant banks, specialised medium-term credit institutes, insurance companies, etc.

(c) The Institutes providing finance in the second, third, or nth stage should be the central institute of the exporting country or of any other industrialised country (A.K.A., Mediocredito, Crédit National, etc.) where finance has been initially supplied.

12. It is clear that after some time the insurance and the credit organisations of the multilateral club will end by amalgamating into one organisation, where the credit section will absorb the insurance section. It may be premature to anticipate events that are too far in the future, but there is some point in saying, that the line of evolution might consist in transforming a complicated system of multilateral credit insurance into a simple system of acceptance on the bills issued by the importer. Of course, for some time we can-

not contemplate a private acceptance House attending to this: the risk of medium and long-term in relations with under-developed countries is too high and complex to be covered without State support. None the less a guarantee by an international public organisation would be similar in nature, in spite of the difference in length — short or medium — to that given by a private acceptance House. The guarantee of the "public" acceptance House will be given at a fixed commission, even if under cost, proportional to the total risk the completion of the credit involves.

13. So far, when describing a multilateral organisation for financing under-developed countries, I have not stressed a clear distinction between medium and long-term credit. In relations with under-developed countries, I do not think this distinction should entail a rigid division as to how funds from such credits can be used: namely, long-term credit only for the objects indicated in para 1 (b) and medium-term for the objects indicated in section (c) of the same paragraph. In my view, the length of the credit should be considered less as a function of the potential profits from the equipment goods purchased than from the angle of wider considerations which go far beyond the limitations of the particular business concerned.

With this premise, of course medium-term techniques can differ from those employed for long term financing. For instance, as far as long-term loans are concerned, there seems to be no way of adapting, even provisionally, the organisation of insurance to the requirements of lender and borrower. These requirements would be better met by direct resort by the under-developed countries to the capital market and this could be facilitated by creating in Europe an institution working on the lines of I.B.R.D. or by adapting an already existing organisation, such as the European Investments Bank or the European Fund. This does not seem the place to investigate the matter in detail.

14. The multilateral organisation of finance to under-developed countries should be integrated — as in the case of the institution of the European, Brazilian and Argentine arbitrage system — by a code of "good conduct" rules, written or otherwise; the most important in my view are the following:

(a) member countries must abstain from granting export facilities (dumping of any sort, fiscal exemptions other than rebates of customs duty and purchase tax, and so on);

(b) member countries must agree to withhold Government subsidies from any form of credit insurance that may co-exist, on a bilateral basis, with the club;

(c) member countries must allow national banks or financial institutes to grant foreign importers of goods, from any country of the club, medium and long-term credits on terms and conditions equal to those granted to foreign importers of national goods.

If a national bank or finance institute is prepared to grant medium and long-term credits to finance the exports of a national firm, without the backing of multilateral insurance, it is of course free to do so at its own risk. This financing would not contravene the good conduct rules.

Some conclusions

15. The pattern of relations between industrialised and under-developed countries would prove far more effective if it were organised on a multilateral basis instead of on a bilateral one. This consideration is specially valid in regard to medium and long term finance to under-developed countries, which is but one aspect of "the problem of the century".

At present under-developed countries are financed mainly on bilateral lines; here the example of the worst disorder prevailing is the system of medium-term export credits. The drawbacks of bilateralism are very serious; on the economic plane they cause an enormous waste of resources for both groups of countries and, on a strictly banking plane, a hybrid and faulty organisation.

A solution of the problem on multilateral lines should consist in suppressing tied credits and loans, that is to say, in an organisation where the concept of export credits is replaced by one of import credits and the importer is free to choose supply markets on the sole basis of price and quality, to the exclusion of any other consideration. A multilateral system of credit insurance might be provisionally retained and later give way to a more rational system where the credit element absorbs the insurance element. This multi-

lateral solution should be instituted on the widest basis compatible with political realities of the time; at present an organisation covering O.E.E.C. would be preferable to one limited to the Common Market.

Whatever form it may take, a multilateral solution has become extremely urgent in view of the turmoil within industrial countries of private groups whose only interest is to press their own exports at all costs, even at the cost of a credit race, of considerable losses to their own country's Treasury, of the debasing of their own currency. Under-developed countries will be the first to benefit, since their own development plans will stand on firmer ground.

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