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Heidhues - Articles and speeches (1970)

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HEIDHUES

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From: ST/TAO/SER.C/129 (Mr Heidhues attended)
Report of the First Interregional Seminar on Export Credit Insurance and Export Credit Financing. Belgrade 28 Sept. to 7 Oct. 1970. 1971

surcharge. The resulting rate, however, could still be too high for exports and these institutions could not jeopardize the balance of their earnings accounts.

117. It had also become common practice, in almost every industrialized country, for the Government to intervene directly in order to reduce the export credit cost. It was achieved mainly in two ways. Budget funds could be used, through specialized institutions, for export financing; as the question of a return on these funds was incidental, it was easy to reduce the credit cost to the desired level. Governments, however, increasingly tended to grant subsidies intended to cover the difference between the cost of the capital earmarked for financing and the rate which it was advisable to apply to the exporter or foreign buyer.

118. In countries where commercial banks granted first-stage credits, the remuneration for their services (for investigation expenses and endorsement) was set at a ceiling in the order of 0.5 per cent annually on the bills discounted. On the other hand, the practice, for the entire part of a transaction payable on time, was not to come under a low-rate credit. A total of at least 10 per cent remained chargeable to the exporter, as this amount was deemed to correspond to the profit he was expected to make from the commercial transaction.

Financing of export credits and its impact on the balance of payments: international assistance for refinancing of export credits

119. It was emphasized during the Seminar that the financing of export credits granted by suppliers in developing countries depended on the exporting country's capacity to defer the collection of export proceeds, without placing too great a strain on its balance of payments or impeding the financing of imports required for its development programme (foreign exchange problem). Primary products were usually sold for cash or against letters of credit and did not generally give rise to export credit financing. However, serious concern was expressed in the case of processed agricultural products or manufactured consumer goods, since potential foreign buyers had been showing an increasing tendency to request deferred payment facilities. The difficulties were particularly acute in the case of capital goods, since suppliers in developing countries found it virtually impossible to sell such goods on the international market, unless they could offer the increasingly lengthy deferred-payment terms granted by suppliers in other countries.

120. While the provision of export credit financing undoubtedly benefited the individual exporter and might eventually benefit the country as a whole, by promoting exports and thus ultimately bringing about an increased inflow of foreign exchange, it might cause difficulties at the national level, since sales on deferred-payment terms delayed the receipt of external earnings for a certain period, thus worsening what might already be a chronic foreign exchange shortage. This explained why developing countries had stressed, in the Economic and Social Council, UNCTAD and elsewhere, the need for some form of international machinery for refinancing their export bills.

121. All the participants from developing countries who spoke on the subject strongly emphasized the need for international refinancing of export credits granted by developing countries. The participants from India, the Philippines, Spain, and Yugoslavia, in a joint statement annexed to this report, emphasized that developing

countries were "compelled to increase their export earnings in order to facilitate both the servicing of their foreign borrowings and the financing of their import requirements". Those participants were of the opinion that there were several ways in which an institution in the World Bank Group or an institution sponsored by the United Nations could render active assistance in that respect. They mentioned the following ways:

(a) The provision of refinance to the credit institutions in the exporting country. Refinance to the credit institution could be extended by purchasing usance promisory notes issued by the institutions or by rediscounting export bills obtained from the importers and discounted with the credit institutions;

(b) The provision of finance to the buyers in the importing country against the guarantees of their governments or other appropriate institutions;

(c) The guaranteeing of the export documents refinanced by the appropriate institution of the exporting country;

(d) The guaranteeing of a line of credit to the exporting country to be utilized against export documents.

122. Several participants inquired about the progress of the study on refinancing of export credits granted by developing countries, which was to be carried out by IBRD at the invitation of UNCTAD and of the Economic and Social Council. The participant from IBRD replied that various aspects of that very complex problem had already been analysed. He said that, in assessing the actual and potential magnitude of the problem, some unexpected difficulties had arisen. An inquiry which was carried out by means of a questionnaire sent to several developing countries had produced unsatisfactory results. An attempt to supplement the available data with United Nations trade statistics and other information had also been disappointing. The Bank had now reverted to its original approach and was trying to obtain adequate information in a direct manner. Progress would depend on the results those steps would produce. He assured the participants that the Bank would take their comments and suggestions into account. He expressed the opinion that the suggested report could be available early in 1971.

123. The participants from Latin American countries informed the Seminar that great efforts had been made by the Inter-American Development Bank, for the last ten years, to facilitate refinancing of export credits granted by the Latin American countries.