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The Importance of Export Credit For the Brazilian Economy

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I - Globalization and Trade Policy

This paper aims to discuss one of the most important variables to the competitiveness of exporting products: that is, the export credit policy and its effects to Brazilian economy.

This issue is far important vis-à-vis the increasing internationalization of the world economy, known as globalization, that brought about an economic, technological and industrial integration of all countries in the world.

In fact, strategic alliances are being created daily as part of the process of moving to a single-market world, where it is getting harder to tell the nationality of a product or company. Milton Friedman recently made a point that it is now "possible to produce a product anywhere, using resources from anywhere, by a company located anywhere, to be sold anywhere"

This phenomenon has radically increased the interdependence of countries and leading the developed and developing countries to review their trade policy. Moreover, it implies in most cases far-reaching readjustments and greater needs for policy measures, in order to improve or even assure the countries access to international markets.

In fact, to be a successful player in international trade or a global trader requires competitiveness. To compete internationally, exporters must meet global standards of quality and price, for which

they need access to technology, capital, and intermediate inputs at world prices.

As matter of fact, globalization for developing countries, like Brazil, is being pursued at the cost of greater domestic adjustments at a time of fierce international competition.

Brazil has opened, step by step, its market to international trade since 1990, after a long period of import constraint. Although Brazil is itself involved in a continuing process of reform, adapting its policy instruments and institutions to achieve the objectives of continued growth, it has still adopted a fair trade policy.

By chance, most trade policies undertaken nowadays are more consistent with fair trade than free trade. Furthermore, some economists support fair trade as the most suitable means to achieve progressive competitiveness, without threatening national industries.

But this choice can bring about a significant number of protectionist practices, while it allows a country to protect its strategic sectors from unfair subsidies that other countries provide to their industries, it may distract national firms from increasing their own efficiency and competitiveness.

In effect, it is simply more attractive to produce in a market sheltered from competition than to expend the effort to reduce costs and increase efficiency. Moreover, history has proved that the protected sectors are always the less competitive ones.

In addition, the fair trade also brings other collateral effects on living standards. It reduces society's access to a new range of quality products at a lower price, making people pay for this protectionism.

On the other hand, the free trade policy seems to be the most suitable way to foster industries competitiveness. Once it requires the reduction or elimination of all tariff and nontariff barriers to improve global trade.

Free trade forces industries to achieve a higher level of technology in order to reduce costs and increase productivity to face foreign competitors. But as a country can not afford to be as good in all production or service sectors, the opportunity cost of free trade surely can have huge impacts on those economic sectors that will not be able to face such competitiveness.

In the case of Brazil, the sectors that are facing more competition of imported products are: electronics, capital goods, fertilizers, motorbikes and bicycles, resin and fibers, electric car parts, textiles and clothing, motors and autoparts. On the other hand, the following industries had their exports reduced: foodstuffs, textiles, fertilizers, candles, perfumes, soaps, plastic materials, liquors, cement and concrete.

But the Brazilian industries are adapting themselves to face foreign competition, so that the number of mergers and acquisitions increased 53% in 1996 with 328 transactions, of which 165 were done by multinational companies. In the last five years, mergers and acquisitions increased 465%, from 52 in 1992 up to 328 in the last year. They occurred in the following sectors: 38 in food, 31 in financial, 18 in chemical and petrochemical, 17 in metallurgy and steel industries and 16 in insurance companies.

Even though, the Brazilian Government is likely to maintain its fair trade policy until it has completed other reforms (fiscal reform and privatization program) and the stabilization plan - Real Plan - has definitely succeed.

Fortunately, there is no sign of back step in this process of trade liberalizing. One believes that this time is necessary to implement a export push program, aiming at improving the competitiveness of Brazilian industries to face global market.

II - Export Credit Policy

Export can be promoted by a variety of means that are consistent with developing economies' emerging obligation for market access and limited subsidies.

The export credit plays a very important role in the international trade system. In developed and developing countries, it has been a tool for pushing exports of manufactured and capital goods, as well as some specific services, such as big-ticket items that have high price and long pay-back period.

This study will not discuss the trade of primary products - commodities, not because of its volatile prices but because the elasticities of demand and supply are higher for manufactured and capital goods.

The trade of manufactured goods has been increasing both in amount and in importance all over the world. Having a greater aggregate value, manufactured goods are sold easier in a foreign market with an appropriated financing mechanism. In effect, payment facilities may soften some aspects concerning price and sometimes they are considered as a component of their prices.

For instance, if a company decides to buy a new machine to produce better merchandise, it will take time to get profit from this acquisition "in cash". In general, the company has to pay a partial amount in advance (downpayment) to assure its order. Simultaneously, it has to arrange or even build the local for installation of the new machine. It costs more money. So favorable conditions to pay this kind of investment are fundamental, otherwise companies would face cash flow problems or fail to improve their production factors, losing competitiveness and consequently marketshare.

As trade in manufactured goods and services speeds the transmission of knowledge and technology, many countries have established specific financing programs to foster the development of their strategic industries.

In this context, the banking system's financing programs have been a very useful tool to increase the country's exports, as well as to restore, update and expand the existing plants, strengthening industrial competitiveness.

Thus, this financial support has been one of the prerequisites for the creation of productive capacity in the economy. Since trade is a two-way street, inasmuch as a country can profit from its own export credit policy, it can also profit by others' export credit policies by importing capital goods under more favorable conditions.

The export credit has helped the construction of many big-ticket projects, power stations, water sanitation, transportation systems, telecommunications networks, and the installation of big companies, such as those automobile plants that are taking place nowadays in Brazil, e.g., Honda, Volkswagen Trucks, Mitsubishi and so on.

This kind of investment financing brings about multiple effects in the economy. Besides all gains in production and technology and jobs concerned directly with their own operation, these "new" industries will increase jobs in the industries servicing them, such as road construction and maintenance, filling stations, repair services, dealerships and in the strategic spare parts industries.

In the past few years of free-market liberalism, politicians' enthusiasm for promoting national exports has been growing. It is said in the USA that cold war geopolitics has been replaced by "geo-economics", a theory which holds that trade security matters as much as military security.

That is why countries started a new war - the trade war. They have done all efforts to promote exports and to attract investment. Some of them have created other incentives that linked with the export credit has been attracting foreign direct investment. They are tax breaks, grants, interest-rate subsidies and so forth. Governments argue that they are not unfair subsidies, since foreign investment is a way of reviving economically deprived regions and that is a fair way to create jobs. The cost to taxpayers can be up US\$ 254 thousands per job, especially if there is a bidding war (see table).

Auction-house frenzy

Incentives given by state and local governments to attract foreign investment

Location	Year	Plant	Per employee-US\$
Portugal	1991	Auto Europe, Ford, VOW	254.000
Alabama	1993	Mercedes-Benz	167.000
South Carolina	1994	BMW	108.000
Birmingham, UK	1995	Jaguar	129.000
Lorraine	1995	Mercedez-Benz, Swatch	57.000
South Wales	1996	LG Electronics	47.000

Sources: UNCTAD; press reports

These foreign direct investment auctions harm not only taxpayers, but also developing countries that do not have enough money to compete in this market. As above mentioned, depending on their development level and the importance of exports for their economic growth and balance of payment equilibrium, countries have adopted different export credit policies, as discussed in the next chapter.

III - International Practices concerning Export Credit

Governments have four main methods to promote exports: subsidize exporters, subsidize research and development, "tied aid" and "export credit guarantees".

The simplest method is to **subsidize exporters**, giving them direct subsidies to export. These measures are outlawed under the rules of World Trade Organization-WTO, which nearly all trading nations have promised to abide by. As WTO members whose industries are damaged by other countries industrial subsidies can also bring a case before the trade club's dispute-settlements system: the result may be an end to the subsidy or compensation.

But even so, countries have found a way to pump money for exporters. They can **subsidize research and development**. Under WTO rules, governments may pay up to 75% of a firm's industrial research costs, or half the cost of product development. It is a respectable economic argument to argue that a firm undertaking research may not secure all the benefits from it, but it may bring improvement in the form of better-educated scientists, in which governments are indeed interested. The problem is that in practice they are poor at picking good research projects; markets are rather better.

Governments can also offer "**tied aid**", in which the recipient promises to buy goods from companies in the donor country. This is often given for foreign policy as much as commercial reasons, and might be categorized as "aid" and not "trade". In December last year, the OECD adopted new guidelines on tied aid, aimed at ensuring that it is given only to projects that cannot be commercially financed. It happened after the British government muddled trade and aid when dealing with Malaysia over a large arms contract.

But governments can also finance exports through "**export credit guarantees**", which insure exporters against the risk of default by their customers. In the past, governments have used these to subsidize exporters by guaranteeing loans at below-market interest rates. As with tied aid, countries have signed a self-denying ordinance, intended to eliminate such "beggar-my-neighbor" subsidies on credits of two years or more.

Many European governments have also increased private-sector involvement in their short-term export credit operations, bringing market discipline to bear on them.

There are also other ways in which governments can boost exports. One of them is to manipulate the exchange rate. By devaluating its currency, a government makes exports cheaper in foreign-currency terms. This measure may help exporters in the short run, but not in the long. Devaluation raises import prices and, if workers maintain the purchasing power of their wages, labor costs rise, too. Then the initial gain disappears. On the other hand, many manufactured goods have imported components, so the gain may be matched at the end. Furthermore, a devaluation will impact technological growth, by making imported capital goods more expensive. So less investments, less growth, less markets!

Apart from direct government support, there are also special institutions like EXIMBANK-USA and EXIMBANK-Japan created to promote exports.

The Export-Import Bank of the United States is an independent agency of the federal government. Its mission is to help the private sector create and maintain American jobs by financing exports.

The EXIMBANK-USA offers a variety of programs designed to help exporters make sales when other sources of assistance are unavailable or inadequate. The Bank seeks to support transactions that would not be awarded to US companies without Bank assistance.

The EXIMBANK focuses on critical areas such as emphasizing exports to developing countries, by countering the export credit subsidies of other governments, stimulating small business transactions, and expanding project finance capabilities.

The EXIMBANK programs are offered under four broad categories of export credit financing, as follows:

- **Working Capital Guarantees** - are provided to lenders, so they can provide creditworthy small and medium sized exporters with working capital they need to buy, build, or assemble products for export sale. The program can be used to support a specific transaction or revolving lines of credit;
- **Export Credit Insurance** - protects the exporter against both the commercial and political risks of a foreign buyer defaulting on payment. There is a wide variety of policies: short- and medium-term, single- and multi-buyer and, to address special needs of smaller business, umbrella policies. Policies may be obtained for single or repetitive export sales and for leases;
- **Loan Guarantees** - encourage sales to creditworthy foreign buyers by having EXIMBANK assume all of the political and commercial risks of non-payment;
- **Direct Loans** - provide foreign buyers with competitive, fixed rate financing for their purchases from US exporters. Direct loans are made by EXIMBANK directly to foreign buyers.

Japan also has its own EXIMBANK that has almost the same commitments of EXIMBANK-USA, besides the governmental support by the Ministry of International Trade and Industry (MITI), whose main target has been "**export or die**". There are other agencies such as Japan External Trade Organization-JETRO, to encourage manufacturers to export even more.

The role of these agencies is so vital to the export performance of countries that the main developed countries have their own agency, with the purpose to promote and finance their exports. The main agencies are listed in the following table.

The Countries' Export Credit Agencies	
BELGIUM	OND - Office National du Dueroire
CANADA	EDL - Export Development Corporation
ENGLAND	ECGD - Export Credit Guarantee
FRANCE	

	COFACE - Compagnie Francaise d"Assurance pour le Commerce Exterieur
GERMANY	HERMES - CREDIT A.G.
ITALY	SACE - Sezione Per L'Assic Del Credito Allo Exportazione
JAPAN	EXIMBANK - Export - Import Bank of Japan
SPAIN	CESCE - Compania Espanola de Seguros de Credito a la Exportacion
SWEDE	EKN - Exportkreditnamnden - Commitee for Export Credit
SWITZERLAND	ERG - Exportriskogarantie-Garantee for Export Risk
USA	EXIMBANK - Export - Import Bank of the USA

The alternative funding resources for export credit varies from country to country, but there are always governmental funds involved. But the financial market has also developed many instruments to raise funds to finance exports. These resources vary from short to long term.

The *short-term credit export* is easily obtained by the financial system and derives from time deposits and savings from developing countries, or even by issuing bonds. The international banks have credit lines among them, as a reciprocal agreement to foster other transactions, such as services or other business transactions of their clients' interests.

The *long term credit* depends more on governmental support, but at a certain point, it can also be obtained through market instruments, such as long term or specific long term bonds.

It is important to emphasize that the funds obtained by market channels carry the borrower country risk, besides those concerning the issuer risks, e.g. banks, local governments, companies and so forth. So the funds raised by developing countries have a higher interest rate than others raised by developed countries. This is the opportunity cost of investing in a riskier market; the returns must be higher as well.

In fact, if all countries make use of the same tool to protect their exports from subsidies given by other country, the benefits of all parts will be offset at the end, despite all taxpayers' money spent. Otherwise, not having this financing support, it

is a half way to be out of market. This is one of the main problems that developing countries have been facing to compete in globalized market.

IV - The Brazilian Case

- BACKGROUND

The evolution of Brazilian Trade Policy displayed two basic features until the recent reform of the 1990s. First, despite tariff cuts implemented in the mid-60s there was a highly restrictive import regime based on discretionary import licensing and used in support of industrial policies.

The stringency with which these import controls were exerted varied depending upon the balance of payments position. It is reasonably accurate to say that, although there has been some relaxation on import restrictions over the past few years, the coverage of quantitative restrictions remained at 100 percent until the current liberalization in 1990.

The second major feature of Brazilian trade policy was its very active export promotion policy, including subsidies and import duty exemptions for inputs utilized in export products - drawback. The basic role of these export incentives was to offset the anti-export bias created by the restrictive import regime in specific industries.

The results of this trade policy affected the Brazilian industries competitiveness, since plants became obsolete, while other industries in the world were investing in technology to increase their product quality and productivity.

The export push program, in turn, helped to hide this inefficiency, by subsidizing the exports, creating the illusion of competitiveness.

But the 1990-91 Trade Policy Reform brought new challenges to the Brazilian economy. Since the inauguration of Mr. Fernando Collor de Mello in March 1990, Brazil started a sweeping trade liberalization experiment as part of wider changes simultaneously introduced in the traditional principles, objectives and instruments of industrial policy. These measures affected both import protection and export promotion instruments. There was a significant narrowing of a vast array of export promotion instruments.

The first cut was made in March 1990, abolishing fiscal incentives granted as income tax exemptions for export earnings along with several other subsidies and tax expenditures, except those under drawback arrangements, as part of a comprehensive fiscal package.

In June 1990, the Government announced a new export policy, confirming the reduction of subsidies to export credit lines for the financing of equipment exports (FINAMEX) created by BNDES.

Changes also took place in the import regime. The first step was to eliminate the bulk of import duty exemptions under special regimes and abolish the list of forbidden imports, established by CACEX and known as "Annex C". On the other hand, the government decided to lower the import tariffs, which would be put in effect at beginning of 1991. To accomplish this decision, the Brazilian Technical Tariff Committee (Coordenadoria Tecnica de Tarifas) classified 13,500 items, according to seven ranges of tariff percentage, varying from zero to 40%.

This trade liberalization affected some industrial sectors that were not ready to face foreign competitors, but improved others to review their industrial process. So Brazil lives a new period of industrial investment in order to face the foreign competitors. Unfortunately, the results are not so immediate, it will still take some time until Brazil can efficiently face its international rivals.

Apart from this issue, many adjustments have been taking place to control inflation, avoid industrial disruption, stabilize the domestic macroeconomic environment, reduce the balance of payments deficit and foster Brazilian competitiveness before international trade.

But one of the main Brazilian problems has been the fiscal imbalance of public sector.

To an extent, it is very important to restore fiscal balance not only because it will help to stabilize macroeconomic conditions, but because it can lessen the threats to trade liberalization, fostering the Brazilian growth.

- TRADE LIBERALIZATION AND TRADE BALANCE

The Brazilian trade balance had a deficit of US\$ 5.539 billion in 1996. Since last June, the Brazilian trade balance has been registering continuous monthly deficits (see following table). Moreover, in March/97 this deficit was US\$ 1,02 billion, totaling US 3 billion only in the three first months of 1997, half of the 1996 deficit.

The 1996 deficit resulted from import growth that achieved US 53,286 billion (US 49,664 in 95), whereas the exports reached only US\$ 47,747 billion (US\$ 46,506 billion in 95). These figures evidence a gap of 4.62% between imports-7.29% and exports-2.67%.

This trade deficit contributed for a deficit in the country's current account of 3.27% of the GNP (Gross National Product), that has been financed almost 40% by foreign direct investment. Brazil has foreign currency reserves of about US\$ 70 billion.

- the country's need to attract external loans to avoid a reduction of foreign currency reserves, a very relevant point if one considers that the most part of imports comes with foreign financing, implying absorption of external savings.

This import increase represents the investment in technology, since most of imports is concerned to capital goods, supposed to enhance the Brazilian industries competitiveness; the occurrence of a current account deficit of over 3% of GNP for a period of 2 or 3 years does not have to be a great problem, if the country is aware to undertake measures to have it under control.

Nevertheless, Brazilian government stated that the deficit of 3% of GNP in the current account balance can not be taken as high by any international standards. As above mentioned, 40% of this deficit has been financed by foreign direct investment in the Brazilian economy, which totaled US\$ 9,4 billion in 1996. This kind of capital is not volatile, nor short-term, it means a bet on Brazil.

Besides that, the cost of foreign direct investment is lower than other resources of financing.

In fact, Brazil was used to having an average annual trade surplus of US\$ 13 billion from 1984 to 1994. But at that time there was no option open to Brazil other than having a trade surplus, since it could not attract direct investments and had one of the highest inflation rates in the world.

Thus, the great challenge to Brazil, besides those already mentioned, is to foster its exports to reduce this deficit, enlarge its international marketshare and strengthen the competitiveness of its

industries to sustain its growth.

In this sense, Brazilian government has been reviewing its export push program and export credit mechanism.

- THE BRAZILIAN EXPORT CREDIT PROGRAM

The Brazilian government has been taking a number of important steps to foster exports. Some of these are:

- establishment of tax exemption on inputs and semi-manufactured goods,
- new export financing lines,
- significant approval of projects under Export Financing Project - PROEX,
- export credit insurance,
- reduction of Brazil cost (Custo Brasil), and
- dissemination of export credit lines all over the country through the Industrial Federations and Commercial Associations, since most of these lines are not known by beneficiaries.

The main reasons of the inefficient export performance of Brazilian products, according to some economists, is a consequence of the exchange rate regime adopted by the Real Plan (see Real Exchange Rate table). This regime leads to current devaluation in a lower rate than the inflation's. By overvaluing the Brazilian currency, the prices of export products rise as well, becoming them less competitive in the international market.

Although some economic sectors claim for a maxi-devaluation of the real between 15 and 30% to provide an immediate incentive to exports and inhibit the imports, the Brazilian government has assured that there will be no change in this field. In fact, as explained before, currency devaluation always offsets its initial gains at the end.

A recent research indicated that the main problem of Brazilian exports is concerned to products themselves. Only 6% of Brazilian exports represents products with high international demand. Brazil has exported products with lower international demand.

For instance, to import a 166 MHz computer that costs US\$ 4 thousand, Brazil has to export 200 ton of iron mineral, or 300 pair of shoes, or 15 ton of soy, or yet 15 ton of aluminium. Moreover, Brazil has only one product in a international range of 20 high demanded products.

Concerning to industrial productivity, the Brazilian government approved that, from January 1997, investment made by the companies will give them the right to discount all due tax on merchandise and services (a tax called ICMS). It also approved the exemption of tax on goods and services (ICMS) on inputs and semi-manufactures products, which in effect meant that these products would be subject to the same tax treatment as manufactured goods. In 1998, the same benefit will be granted to inputs bought by companies.

The impact of such a measure on the economy will be huge, it is expected a GNP growth of about US\$ 100 billion in the next four years, due to the multiplier effect of this exemption.

This exemption is equivalent to a 6.9% of current devaluation on average, on the export side. Furthermore, this exemption will cover an export array of about US\$ 18,1 billion in 1995. It means profitability gain of US\$ 1,2 billion.

Consequently, this exemption will stimulate investment in capital goods. For instance, if a company bought equipment valued at US\$ 20 million, it would have to pay 10% of this cost, or US\$ 2 million, as State tax (ICMS). So, this exemption will make possible a further investment of US\$ 2 million. Nevertheless, Brazilian industries have been improving their productivity, as displayed in the following table:

However the most important measure undertaken concerns export credit. In this sense, new lines of export credit were created and some of them were improved to promote exports.

In fact, at present, an exporter can obtain credit from the moment he makes a deal. There are special lines of credit to finance the pre-export. This line of credit is designed to finance the production of goods to be exported, as working capital.

The terms of this financing vary depending on the product, that is, in the case of commodities such as soy, orange juice, tobacco, fish, and sugar, the term may reach up to 360 days before shipment date. Although for other products, the maximum term is 180 days before shipment date.

The name of this line of credit is "**Adiantamento sobre Contrato de Cambio-ACC**" (**Advance Payment under Foreign Exchange Contract**). This credit line may be extended to the post-shipment period until its maturity date, since it does not exceed 180 days from shipment date.

The credit granted in the pre-shipment period is called **ACC - Advanced Payment under Foreign Exchange Contract**, whereas in the post-shipment period it is called **ACE - Advanced Payment under Export Documents**. The difference between them is that, in the **ACC** case, there is only a promise to export, whereas in the **ACE** case, the exporter has all documents to prove that the merchandise was shipped, so the export was accomplished.

The rules of this loan are established and controlled by the Brazilian Central Bank. It may be granted by any bank authorized to operate in foreign exchange. To apply for this loan, an exporter must have this credit limit pre-approved by the bank in which he or she intends to obtain the credit.

The exporter can have a limit approved in several banks. For the credit limit, the banks will apply their own internal rules, based in:

- the exporter's performance,
- products,
- the amount of credit already granted,
- financial statements of the last three years,

- forecast of import and export for the next six months,
- terms and countries involved in the transactions,
- financial information about the company's group or owners, and
- main buyers and sellers, among other information.

Normally a bank approves a credit limit less than 25% of the exporter's need, considering that he or she can also have limits in other banks.

Concerning collateral, banks may request the most suitable ones, or even none, since banks and exporters are responsible for carrying out the transaction before the Central Bank.

In case of exporter default, the rules establish the respective fines and conditions to cancel the transaction.

This is the most popular export credit line and the cheapest also, since its costs are based on foreign currency, normally American Dollars, varying from *libor* plus 1% to *libor* plus 4% per year, depending on the transaction risks. This loan may reach 100% of total exports.

For those exporters who have already experience in international markets and have had favorable performance, the access to such loan is easy, but for those who are just starting out in international trade, they may find some difficulties in accomplishing all of banks' requests.

There is also another line of credit called **pre-payment or payment in advance**. This line differs from the **ACC** since it implies the settlement of the foreign exchange contract, as the importer would have paid the total amount of transaction in advance, whereas in **ACC/ACE** the contract remains opened until the importer pays the transaction.

To obtain this loan, a exporter must have good performance in export or prove that he has signed the commercial contract to export the goods. Banks can advance partially or totally the export amount, depending on the case, charging interest in advance or at loan maturity date.

The interest rate depends on the term of the transaction, which may reach 360 days. Longer terms are possible once previously authorized by the Central Bank.

This transaction does not require only one importer, it may include several exports, for instance, different goods, countries/markets and terms, so that its settlement will depend on the export package submitted by the exporter. Depending on the shipments, the settlement may occur partially or only at the final maturity date.

The main benefit of this line is that an exporter can receive in advance a substantial part of its future export under just one foreign exchange contract, which reduces the administrative cost of the transaction.

The resources for this funding are obtained from international banks and Brazilian branches located overseas. These overseas branches or banks usually set aside part of their time deposit to this kind

of operation. On the other hand, these banks do not assume the transaction risk, they request guarantees from local banks in charge of the financing, by issuing a Refundment Bond to them.

Thus, the final cost for the importer depends highly on the interest paid to raise the funding and the cost of the Refundment Bond.

Once again only the traditional exporter access this credit line since, as shown above, he or she has to have good performance because the minimum amount for this transaction usually starts from US\$ 1 million. Otherwise, the administrative costs will make this financing unfeasible.

In the post-shipment period, there is another credit line to finance exports, is called ***Forfeit*** or ***Discount of drafts***, which should be accepted by importers or even guaranteed by a bank.

Once more, the maturity of these drafts can not exceed 180 days from shipment date. This discount may be granted with recourse, in the case of they are only accepted by importers, or without recourse, in the case that they are also guaranteed by a bank.

A more sophisticated instrument to finance export is ***Export Securitization***. The name of this operation is derived from the fact that most exports imply the issue of securities, guaranteed by export receivables. In this case, there is always an external finance contract guaranteeing the export receivables.

Export securitization implies raising foreign funds for a period over 361 days, with a collateral represented by export receivables of the borrower. All the receivables will stand bail for the settlement of the financing.

As above mentioned, this kind of financing is only applicable for large and traditional companies, since it is not worth doing it for small amounts of financing, because of its administrative cost.

Apart from those types, there are also specific export credit for long-term transactions. Some of them are provided under the **Export Financing Program-FINAMEX** of Banco Nacional de Desenvolvimento Economico e Social - BNDES (National Bank for Economic and Social Development), and under the **Export Financing Program - PROEX**, established by Brazilian Ministry of Finance.

Concerning the BNDES export credit lines, it is important to state that they were recently improved to foster Brazilian exports. BNDES started to finance 100 percent of the export total and no longer only 85 per cent as before. Interest rates were reduced from libor plus 2.5 percent to libor plus 2.0 per cent, lowering the loan cost.

BNDES will also grant financing to foreign importers of Brazilian goods, as Eximbank-USA does. Initially, buyers from Argentina, Mexico, Peru and Portugal will be financed. The intent is to finance a range of products such as capital goods, services, automobile spare parts, paper, fruits and meat. These are the sectors in which Brazil can compete in the international market if credit is available.

The BNDES credit lines aims at benefiting the small and medium enterprises (SME) that do not have access to the **ACC** line, provided mainly to large and traditional enterprises.

The terms of this financing line vary from 15 to 18 months, covering 100 per cent of goods to be exported, with an interest rate of about *libor* plus 3 or 4% per year.

A credit program for overseas investment of Brazilian exporters will also be created, related to the commercialization of their products. This is the case of firms that sell goods depending on technical assistance and distribution of spare parts, such as electric motors.

FINAMEX will also finance the export of services, such as turn-key projects and software.

Another important change is that BNDES will absorb the repayment risk of these transactions formerly assumed by the financial agents (banks) that run this line with their clients. So the exporters will be allowed to request the credit directly to the official bank. This measure will benefit especially the medium enterprises not financed by private banks.

In the case that the repayment risk is assumed by the financial agent, the cost of financing will be reduced from 2.5 to 1 percent plus *libor* per year. The terms vary from 24 to 30 months (see the following table).

FINAMEX Program	Terms		Financed Amount %	Spread (%ao ano)		Comission Fee
	Grace Period	Total		Interest Rate BNDES	Del Credere	
Credit Line						
Pré - Shipment						
BNDE's risk	30 months	30 months	100	Libor+1,0	3.00	
Agent Bank's risk	30 months	30 months	100	Libor+2,0		1,0 % flat
Fin. with exporter's guarantee						
BNDE's risk	6 months	30 months	100	Libor+1,0	3.00	
Agent Bank's risk	6 months	30 months	100	Libor+2,0		1,0 % flat
Discount Line						
Pós embarque						
BNDE's risk	6 months	8 years	100	Libor+1,0		
Agent Bank's risk	6 months	8 years	100	Libor+2,0		1,0 % flat
Pós-shipment						
BNDE's risk	24 months	12 years	100	Libor+1,0		
Agent Bank's risk	24 months	12 years	100	Libor+2,0		1,0 % flat

BNDES will also grant financing to importers of Brazilian products through overseas branches of Banco do Brasil that will operate the line with local banks, not only to increase its net, but also to evaluate the credit risk of borrowers and the market for Brazilian products. The repayment risk will be assumed by Banco do Brasil and the cost will vary from 1 to 2 per cent plus *libor* per year.

Nevertheless, BNDES has already established a credit limit under FINAMEX to 46 foreign banks in Europe, the USA, Asia and Latin America and two international institutions Cooperation Andina de Fomento (CAF), and Banco Latino-Americano. Meanwhile, BNDES is still evaluating new foreign institutions and banks to operate FINAMEX abroad.

BNDES forecasts FINAMEX disbursements of about US\$ 1 billion in 1997, double the results obtained in 1996.

On the other hand, the Brazilian Government also has its own **Export Financing Program - PROEX**, aimed at stimulating Brazilian sales abroad.

PROEX was established by the Government through Law nr. 8187, dated June 1, 1991. The program has supplied funds of about US\$ 550,9 million until last year.

The budge for 1997 comprises US\$ 1 billion, being US\$ 311,9 million for financing and US\$ 693,6 million for equalization. It is an expressive amount compared to the total financed by the program.

Financing can be operated in the form of supplier's or buyer's credit, with funding raised abroad or in national currency from Government budget, and exclusively for the post-shipment period.

PROEX comprises two kinds of export credit financing, namely:

1. **Financing of goods and services exports:** this implies direct financing to exporters or importers of Brazilian goods and services, with National Treasury funding. Under this option, one can only finance goods included in the Ministry of Industry, Commerce and Tourism- MICT Edict nr. 15, dated January 12, 1996, and services including research, technical projects and performance, as well as turn-key projects. The Program may finance up to 85% of the export amount. The principal capital must be repaid in equal amounts, consecutive and either in quarterly or semi-annual basis installments, with the first payment falling due 3 (three) or 6 (six) months after each shipment, as the case may be. The terms may vary from 1 (one) year to 10 (ten) years.

2. **The Interest Rates Equalization System:** this implies the payment to the financing banks of the difference between the interest rates agreed upon by exporters and importers and those actually paid for the funding. Thus, the funding is not provided by the Government, The financing banks have to raise funds in the market. The Banco Central do Brasil (the Brazilian Central Bank) establishes the percentage to be equalized, according to market conditions and the terms of the transactions. Longer terms, higher percentage to be equalized. The authorized banks are paid in currency-indexed and non-interest bearing National Treasury Bonds - Series I - NTN-I, issued in nominal and non-transferable form, and redeemable on the respective interest payment dates of the financing. The eligible goods are established in MICT Edict nr. 368, dated December 5, 1995, but services, including research, technical or turn-key projects and performance may be financed as well. It is possible to finance up to 100 per cent of the export amount. The principal financed must be repaid in equal, consecutive and either in quarterly or semi-annual basis installments, with the first payment falling due 3 (three) or 6 (six) months after each shipment, as the case may be. The value to be equalized may go up to 85% of the export amount. The terms may vary from 1(One) year to 10(ten) years, under other conditions established by the MICT. Once established the percentage to be equalized, it is fixed for the entire transaction period.

Even though there are enough funds to finance exports, some problems and requirements have avoided exporters to make total use of these financings. The financed volume is less than expected, as displayed in the following table:

PROEX- US\$million	FINANCING		EQUALIZATION		TOTAL	
	1996	1997*	1996	1997*	1996	1997*

Budget	184,7	311,9	312,7	693,6	497,4	1,005,5
Disbursements	45,8	12,0	139,6	53,9	185,5	65,9
Amount applied	44,0	180,7	149,9	380,2	193,9	560,9

* Data up to April 1997.

First of all, the main problem is that the program is unknown for a great number of enterprises. Other exporters critique its bureaucratic rules and the long time to have their financing authorized. The requirement for collateral such as bank's guarantees has offset its benefits in terms of cost.

On the other hand, the Interest Rate Equalization System has not attracted the attention of the banking system, since the spreads to be equalized cannot cover the actual difference between the external funding cost and the financing cost to the importer.

In fact, the spreads established by the Brazilian Central Bank remain the same since the beginning of the program. Instead of this, they should have been updated according to the market conditions. Finally, the system may have been paying too much to BNDES/FINAMEX and too little for the banking system, discouraging the latter from operating this line. BNDES raises its funds from a kind of a national workers pension fund (FAT-Fundo de Apoio ao Trabalhador) that has a lower financial cost than funds raised in the international market by the banking system.

Another concern is the high administrative costs to follow up a so long operation, reducing the banks' gain.

But, at present, all these problems have been analyzed by government. Many lectures about the program have been done for exporters all over the country. The guarantees requirements are being reviewed. Moreover, Banco do Brasil is now in power to authorize operations up to US\$ 5 million, in order to speed the transactions. The cost of international funds are lowering, while the supply of funds are increasing.

After all, the program has been considered by the government and exporters associations as the main Brazilian tool to foster exports. So, there is a consensus that all efforts have to be done to restore a trade balance equilibrium.

If PROEX and FINAMEX programs achieve their goals in a crucial moment like that, Brazil will be able to keep on importing machinery to equip industries with modern technology to compete abroad.

But boosting sluggish exports requires as big an effort by business as by government. Officials argue that this will happen gradually, as liberalization links Brazil more closely to the world economy. Brazilian firms will have to be more aggressive than before in seeking out new markets with the support of these financing programs.

The problem is that Brazil has a large domestic market that has been attracting more firms' concern than international trade, where risks are unknown. This behavior may mislead Brazilian firms, avoiding them to improve their efficiency and competitiveness in the long run.

As a matter of fact, it is the opportunity for Brazil to create its own Eximbank that more than finance exports, it will be committed to providing superior customer services to exporters, aiming at helping more Brazilian companies export more, as EXIMBANK-USA does.

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