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## THE ROLE OF THE PUBLIC SECTOR IN EXPORT FINANCING

*Marvin Solomon\**

For those of you who are not familiar with Eximbank, this organization is a very small U.S. government agency which is corporate in form and independent of other government agencies. It has the mandate to promote exports by providing financing. Financing is provided where there is reasonable assurance of a repayment. By our standards, reasonable assurance means that our economists and loan officers believe that there is a ninety-nine percent chance of repayment.

We also finance specific projects or purchases which we deem to be viable. But, we are not an aid agency; rather, we are an agency to provide financing for exports. Eximbank makes direct loans to foreign buyers and guarantees and insures export paper. In only one instance, do we allow loans to domestic parties — liquidity loans to U.S. commercial banks which are strapped for funds.

With regard to the Caribbean, the second Export-Import Bank of the United States was founded in 1936 to finance coinage for Cuba. (The first Eximbank folded after failure to reach its objective of trade with the

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\* Senior Attorney, Eximbank. The following presentation is a summary of the speech prepared for the Conference, transcribed from the tapes of the proceedings.

U.S.S.R.) Eximbank, as it is known today, was formed after merging the second Export-Import Bank with subsequent editions of the Bank.

Eximbank's principal role in the late '30s and '40s was to endeavor to have certain economies in Europe prepare for war. Hitler, however, moved too quickly, thus preventing the dispersal of funds. As a result, Eximbank became heavily involved in the Caribbean during World War II. This involvement was self-serving in the sense that the agency aided the U.S. war machine by obtaining raw materials, creating access to various bases and trying to provide funds for certain activities that had come traditionally from Europe.

After World War II, Eximbank operated more as a developmental assistance agency. At this time, AID did not exist nor was the Marshall Plan available to countries outside of Europe and the Far East. Assistance activities were limited principally in the project sector of power generation: this included steel mills, petrochemicals, labor facilities and certain other infrastructure projects.

In later years, the balance of payments situation worsened in the United States, and the role of Eximbank narrowed to the point where the exclusive role in the '60s was to provide export financing. Much of that activity, however, was not done in the Caribbean; that which was done concentrated upon the more affluent countries such as Mexico, Venezuela, Colombia and Trinidad and Tobago. The main reason is that Eximbank lends on a commercial basis, *i.e.*, at rates of interest that are not subsidized. These rates do bear some relationship to our own cost of borrowing. Additionally, these rates are on official export credit terms which are much shorter than those of development assistance terms. For instance, the recently formed "Gentlemen's Agreement," which is a so-called accord of the various official export agencies, is aimed at stabilizing interest rates in the middle 8.5% range for the more affluent countries. The objectives also include stabilization of repayment terms at six years or under for the very developed countries, eight and one-half years for the better developing countries and ten years for the poorer developing countries, with exceptions. Exceptions, however, are in the nuclear power and aircraft field.

Recently, Eximbank has been active in the Caribbean with regard to all types of projects. With the exception of power projects, we are involved in the infrastructure area which includes steel mills, petrochemical plants, hotels and aircraft. These are the particular areas which will be providing business in the future.

Eximbank is now observing several developments in the Caribbean. First, the governments in the area are scrutinizing our agreements more closely, making sure they are equitable. This may result in some difficulty since credit agreements are not only written by Eximbank, but also by

those banks participating in the agreement. Second, we are discovering that our competitors are very active in the Caribbean. Other countries are providing capital equipment and many types of commodities. Therefore, the United States no longer maintains a sales monopoly in the Caribbean. To increase sales to the Caribbean, U.S. goods must be priced reasonably and Eximbank and commercial banks must offer financial stability. Eximbank programs are not used extensively in the Caribbean but those which are utilized are the direct credits and the medium-term bank guarantee program.

Eximbank hopes to increase business this year in the Caribbean. Venezuela, the Dominican Republic and Trinidad and Tobago are borrowing more money from us in order to purchase U.S. exports. It is incumbent upon all of us to work together for better U.S. exports in the Caribbean. This end will be facilitated by providing the best possible terms and conditions in the shortest amount of time. In turn, U.S. exporters as well as commercial banks should actively solicit business.

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